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Introduction

Supplier diversity programs bring plenty of incredible, worthwhile goals to the table: offering opportunities to businesses that aren’t otherwise given a chance, financial benefits, operational efficiency, a true commitment to diversity, and more. However, simply declaring these ideals isn’t enough; supplier diversity programs must have a strong plan to back up these goals. And unfortunately, many organizations struggle to meet the challenge.

In CVM Solutions’ 2018 State of Supplier Diversity report, 32 percent of responding supplier diversity professionals reported that their programs are very effective. That’s almost a third of organizations that are increasing their diversity and reaping the benefits of their programs. But what about the other two-thirds of programs? Although our survey found that 40 percent considered their efforts somewhat effective, “somewhat effective” leaves plenty of room for improvement. (And, for the record, just 12 percent thought their programs were somewhat ineffective or very ineffective.)

Supplier diversity program success depends on vision, commitment, top-notch software partners, and strategy. Great programs follow best practices to achieve their goals. This guide outlines three critical steps for finding—and building upon—supplier diversity success.

3 Steps to Supplier Diversity Success

- Step 1: Establish an accurate diverse baseline.
- Step 2: Set program benchmarks and goals.
- Step 3: Identify program growth opportunities and proven diverse suppliers.
Step 1: Establish an Accurate Diverse Baseline

The first step in building a top-notch supplier diversity program is to establish a performance baseline identifying:

1. The number of diverse suppliers you’re already leveraging, and
2. Your spend with each of those suppliers

The best way to set this performance baseline is to run the supplier file through a third-party supplier data enrichment service. A data enrichment provider runs your organization's vendor file against its own comprehensive master database, returning to you refined supplier data, including correct contact information, diversity status and certification, and more. By combining the diversity category information with actual spend dollars per supplier, data enrichment gives an understanding of the current state of your organization's supplier diversity program. Because supplier data, such as diversity category certification, can change over time, running a third-party data enrichment process on a regular basis is imperative to monitoring changes in your supplier base and maintaining the integrity of your program. Two important decisions must be made when establishing this baseline. The first is to determine which diversity categories your program will focus on. Nearly all successful diversity programs baseline against minority- and woman-owned businesses. The decision to include additional categories is often driven by the external reporting requirements of your customers—for example, firms that have significant relationships with the federal government are generally required to report a variety of federal categories, including small business, veteran-owned business, and others. Many large organizations commonly require Tier 2 (the vendors your partners contract) reporting of certain segments as well.

Tier 2 Suppliers are the vendors your partners contract—think of this as your supplier’s suppliers
The second decision is to determine what types of certifications your program will accept as part of your baseline and ongoing reporting, including either third-party-certified segments and/or self-reported segments.

Third-party private agencies, such as NMSDC and WBENC, manage a certification process in which qualified firms must complete a series of steps prior to being granted a diversity certification. These steps include an application process, required written documentation, and participation in an interview or site visit. Various government entities also certify firms through a similar process, primarily focusing on small, minority-owned, and woman-owned firms.

A self-reported or self-classified firm is one that has indicated to your company or a non-certifying third party that it qualifies for a diverse designation. There is no vetting process involved for self-reported firms, and you must consider the risk of overreporting diversity spend due to a lack of verification. A third-party supplier screening service can ensure accuracy by verifying self-reported diverse suppliers are indeed diverse, and is therefore considered best practice.
Step 2: Set Benchmarks and Goals

Setting your strategic benchmarking targets is your first big challenge. Step 2 involves two key questions:

- Why should we benchmark?
- Whom should we benchmark against?

The “why” is the less complicated of the two questions, and answering it involves addressing several straightforward benchmarking goals. If your benchmarking effort is successful, it will help you identify weak areas that need improvement, challenge the status quo, confirm the need for change, and discourage complacency. If done correctly and rolled out at the appropriate time, benchmarks can also provide strong motivation for change and ensure that staffers across the organization are engaged in the program and driven to participate in making it a success.

Deciding the “whom” is often the greater challenge. Modern benchmarking began in manufacturing, where analyzing the number of widgets produced per hour on an assembly line is a straightforward process, but for supplier diversity metrics and best-in-class benchmarking, finding the appropriate companies to benchmark against can be difficult.
Finding the Common Ground for Comparison: Establishing the Right Metrics

In supplier diversity management, “excludes” present a benchmarking metrics challenge. Exclusions are company expenditures that are removed from total spend calculations because there aren’t opportunities to do business with diverse vendors in those cost categories. Examples of common exclusions are expenses for taxes, mortgages, charitable contributions, and jet fuel (if you are in the airline industry).

When exclusions are removed from total spend, you are left with influenceable spend, or dollars that could potentially be spent with diverse suppliers. Typical supplier diversity metrics examine the percentage of diversity spend relative to total influenceable spend. Some companies consider all spend influenceable and don’t remove any commodity categories when calculating total spend. Others remove commodity categories that they determine do not have opportunities for diverse suppliers for any number of reasons. For example, some companies will exclude spend with a non-diverse supplier in a commodity category that is tied up in a long-term contract—even if there are diverse suppliers available in the category. As a result of this inconsistency, benchmarking percentages can be challenging.

Comparing the dollar amount of spend isn’t effective, either, because companies have vastly different purchasing budgets. Companies in the Fortune 250–500 range won’t gain anything by comparing their spend dollars to a Fortune 10 company.

Further compounding the benchmarking challenge, companies in the same industry can have differing purchasing profiles because of varying business models. Companies in the same industry group also might have different levels of access to diverse suppliers based on geography or program goals.

Keeping these cautions in mind, the best place to start the benchmarking process is by working with a diversity organization, such as WBENC, or a supplier diversity consultancy that has experience working with Fortune 500 programs. A more time-consuming, but free, approach is to utilize the power of search engines. For example, try searching “[Your Industry] + supplier diversity” or “[Similar Company] + supplier diversity.”
The results usually pull relevant supplier diversity program pages; find a few that best align with your organization and reach out to them via email or LinkedIn. State that you, too, have a supplier diversity program and would appreciate any advice, best practice suggestions, or benchmarking statistics they can provide. Remember: supplier diversity is about helping diverse suppliers, not competing against other programs, so the worst you should encounter is, “Apologies! I’m too busy, but good luck!” (at which point you may need to revert to option 1).

Because of the challenges of finding the right companies to benchmark against, you should complement this process with your own research based on your specific purchasing needs and geographic footprint. This kind of research is called an opportunity analysis, and we’ll discuss its mechanics later in this guide. If you are in an industry that doesn’t have a well-established roundtable, taking the independent research approach to goal setting can be an effective or even superior substitute for benchmarking.
Benchmarking Tips and Suggestions

- Benchmarks are not guarantees, but rather assumptions based on past performances—and performances change.
- There likely are material differences that can make the best-in-class company a poor choice for a model.
- Benchmarking shouldn’t be your primary way of setting goals for your organization.
- Use benchmarking to determine best processes rather than just metric scores.
- Don’t use the results to justify inaction. If there are few diverse suppliers in a commodity area that is important for your organization, that reality represents a development opportunity.
Best-in-Class Benchmarking: Identifying Winning Processes

Many types of benchmarking best practices exist, including process, financial, product, strategic, functional, and operational. Program leaders are often interested in best-in-class benchmarking, which involves studying companies that best carry out the specific functions you want to optimize. Because these leaders are interested in improving a functional area (i.e., supplier diversity), they will be well served to look beyond their industry to evaluate the processes utilized by leaders in other industries. Bringing in techniques from other industries can launch you ahead of industry peers on key program metrics.

Focusing benchmarks on finding the “number”—the score needed to achieve goals when measuring program performance—will prevent your program from reaping the real rewards of a benchmarking exercise. Benchmarking shouldn’t just be about figuring out what the target number should be; it should also help determine what processes are utilized by the programs that are able to achieve those results. Your primary concern should be what the best-in-class company is doing differently from a process standpoint in order to achieve the target number.

Use the information gathered during the benchmarking exercise to identify what you can address to achieve best-in-class results.

Don’t measure your program against benchmarking best practices too soon—you don’t want to diminish enthusiasm for the program before you get started. Instead, use benchmarking as a way to give your program a boost at some critical point.

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Strategic Goal Setting

There are several things to remember as you undertake the process of strategic—and realistic—goal setting. Strategic goals should be:

- **SMART**: Specific, measurable, achievable, results-oriented, and time-bound.

- **Measured frequently**: Monthly data collection is optimal.

- **Communicated often**: Effective internal communications, preferably as part of the overall company communications plan, is critical to program success. Using KPIs (key performance indicators) and dashboards, make sure goals and progress are easily visible to anyone in your organization with a stake in program results. Visibility in an online application, along with inclusion of results in quarterly newsletters, is the optimal scenario.

- **Reviewed and recalibrated**: Quarterly reporting and analysis are ideal to ensure that your goals remain relevant and achievable for a sustainable program. If key stakeholders in your program's success view the goals as unachievable, your program will likely lose internal support.

- **Tied to compensation and performance review**: The ultimate objective when putting goals in place is to have them tied to stakeholder compensation plans and performance reviews. This can occur after you establish credibility for your goal-setting methodology and targets.
Other things to consider when determining which goals are appropriate for a supplier diversity program include:

- **“What gets measured gets done”:** An early step in the goal-setting process is deciding what you want to achieve. Tracking the wrong metrics can lead to actions that don’t support the objectives of the program. Are you more interested in maximizing your company’s diverse spend by finding companies that you can have large amounts of spend with? Or are you more interested in impacting more companies, which may lead to smaller contract amounts and lower individual spend amounts?

- **Don’t set yourself up to fail:** Measure what you can influence and control. Supplier diversity programs that rely heavily on diverse spend to measure program performance can inadvertently be on the path to failure—particularly if a large percentage of your spend goes to a few suppliers. You have no control over how long those companies are going to remain diverse. Measuring total diverse supplier count, economic impact, or organizational cost savings creates a holistic approach to supplier diversity that benefits the most diverse suppliers and is set up for success. More on this in the next section.

- **Don’t create an administrative nightmare for yourself:** Have systems in place that allow you to easily gather data at the same level of granularity as the data that you used to set goals.

- **Incorporate a bottom-up approach as a reality check, even if you choose to use benchmarking to establish your goals:** Work with your supply chain team to identify specific projects or other approved buying opportunities that are on the horizon. You can often engage with your supply chain team at a deeper level by incorporating this approach into your goal-setting process.
Taking time to set goals correctly is important. Successful programs need ongoing support from across the organization, which will only happen with achievable, realistic goals. Therefore, measure and report results for a period of time before establishing goals. You don’t want to come out of the gate with people feeling that they are failing.

Make Your Goals Resonate

Just as supplier diversity programs evolve as they move from the start-up phase and become more mature, the concept or objective of supplier diversity as a whole is also evolving. In the last few years, it has moved from being measured and evaluated solely on achieving spend goals to being measured by the program’s impact on the entire organization and even the program’s impact on the economy. This changing view requires new metrics to support new objectives. Moving beyond typical metrics in order to make goals meaningful to the larger organization requires linking program goals to business strategy in bottom-line terms.

Successful programs need ongoing support from across the organization, which will only happen with achievable, realistic goals.
Linking Program Goals to Business Strategy

- Cost savings generated by diverse suppliers
- New revenue attributed to diverse suppliers
- Number of sales deals won that include supplier diversity requirements
- Number of deals lost due to not meeting supplier diversity requirements
- Risk mitigation resulting from having an active supplier diversity program that boosts your company’s perception in the community
- Increased market share/market penetration in diverse markets
- Improved corporate image
You should also link your goals to broader objectives that drive social and economic benefits in diverse communities, also called economic impact. Examples include the number of diverse suppliers used, the number of jobs created, the increase in tax contributions, and the diversity of the team that handles your account in your suppliers’ organizations.
Step 3: Identify Opportunities and Proven Diverse Suppliers

As already mentioned, the first step in building a successful supplier diversity program is to run your supplier file through the third-party data enrichment process to identify diverse suppliers you are currently doing business with. Increasing the amount of spend with your current roster of suppliers is often key to achieving program results. However, bringing new diverse suppliers into the fold remains necessary—and challenging.

Finding the Opportunities: Purchasing Calendar

There are two ways to determine where there will be or should be opportunities for diverse suppliers in your supplier base. The first approach is fairly straightforward: Work with your procurement team to get visibility into when current contracts are expiring and new sourcing opportunities are arising. Armed with this list, your next step is to identify qualified suppliers—usually done through a supplier locator tool—for the procurement team to include in the RFP process.

Finding the Opportunities: Opportunity Analysis

The second way to determine opportunities for diverse suppliers in your supply chain is to conduct an opportunity analysis. This can seem complex at first, but it only requires a few steps.

First, you need to identify the commodity category (or NAICS code) for each supplier your company is currently doing business with. This can be achieved by running your supplier file through the aforementioned third-party supplier data enrichment process.

Increasing the amount of spend with your current roster of suppliers is often key to achieving program results.
Second, for each category or NAICS code, calculate the percentage of your current spend on diverse businesses (your data enrichment provider can usually do this for you if asked). Once you have these percentages, work with either a certification agency or third-party database to learn the availability of diverse suppliers by industry category and location. To summarize, your goal is to identify categories that have:

- Low utilization of diverse suppliers by your company
- A high concentration of diverse suppliers per the certification agencies/third-party database

Armed with this information, you will be ready to talk to your procurement team about potentially replacing some of the incumbent non-diverse suppliers when their contracts expire or bringing in diverse suppliers for new opportunities. Bringing a group of highly qualified, proven prospects to the table is critical when you meet with your procurement team. If you don’t, procurement will view your program as counterproductive to its objectives and resist supporting your objectives. Additionally, offering the procurement team access to a supplier locator/registration tool can facilitate greater communication and ease of supplier onboarding.

**Finding Proven Suppliers: Using a Supplier Locator Tool**

As discussed above, the first source of proven suppliers should be the diverse companies you are currently doing business with. When you have maximized opportunities for those businesses, the next strategy is to utilize a supplier locator tool that sits on top of a large and accurate database with detailed diverse supplier information. This locator tool should allow you to search for suppliers based on any parameter through an internet portal. It should help your internal teams, or even your prime suppliers, easily locate proven MBE, WBE, LGBTQ, SDB, 8(a), HUBZone, veteran, service-disabled veteran, and small-business suppliers from one platform.

Using a supplier locator is particularly effective if it supplements basic supplier information with insight on whether a vendor has been utilized by one or more Fortune 1000 companies. Access to this data dramatically reduces the due diligence required to determine if a firm has the capacity to meet your needs and be included in an RFP.
Finding Proven Suppliers: Supplier Management Portals

Purchasing or building your own supplier management/registration portal can also help you find qualified partners to introduce to your supply chain. Diverse firms will register in your online portal on a “walk-up” basis and provide details about their businesses. Promoting on a consistent and ongoing basis the fact that you have a registration portal for diverse suppliers will be crucial. Also, the portal should be linked to the procurement section of your company’s website.

Furthermore, as part of the registration process, portals can require suppliers to complete commodity-specific questionnaires to determine if they are qualified to do business with your company. This functionality allows you to automate a portion of the supplier qualification process, thus leaving you and your team free to work on more strategic endeavors. An invite option linked to your registration portal can deliver even more efficiency. If you are able to get email addresses from your database of choice of diverse suppliers that you are interested in vetting, you can directly invite those suppliers to register in your portal.
A Case Study in Success

Recently, a Fortune 500 company’s supplier diversity team was challenged to expedite the process of locating, qualifying, and registering suppliers that could meet its specific requirements. The critical need was to cut time and costs by forging a more effective communications link with prospective suppliers to ensure they had the scope and scale to do business with a company of its size.

This company’s solution was to implement a supplier registration portal to facilitate the selection process. The registration portal utilizes commodity-specific surveys, designed by the procurement team, that ask suppliers to answer prequalification questions specific to the product or service they provide. The survey functionality incorporates scoring and automatically notifies the appropriate buyer if a registering supplier has a score above the pre-established threshold. By implementing this system, the procurement team—which has direct access to the registration portal—only reviews company profiles for suppliers that meet their business requirements. The company now reports a much tighter integration between its buyers and suppliers, as well as with its supplier diversity team.
Simplify and Streamline

Take a best practice from hundreds of Fortune 1000 companies: An effective supplier diversity management program provides cost reduction and improved competitiveness, and it can also result in a simplified and streamlined ability to find and manage new—and better—suppliers.

By automating the process of gathering accurate information on suppliers and providing direct access to this information via software, your supplier diversity team can enable procurement to quickly deliver dramatic efficiencies and bottom-line results.
Conclusion

Establishing a high-impact supplier diversity program is a journey involving multiple steps. Putting mechanisms in place to support efficient collaboration with suppliers and procurement is also an important component of the journey. By leveraging the best practices, tools, and a network of peers, you can build a dynamic program that impacts the diverse business community and your firm's key strategic objectives.

CVM Solutions offers tools, including data enrichment, supplier locator and management tools, economic impact analysis, and guidance that helps you achieve goals and unlock your supplier diversity program's full potential.

Get in touch with us at cvmsolutions.com or call us at 708-236-2000 to learn more.