

Why Supplier Diversity? The Business Case

Some corporations have asked, "Why do we need a supplier diversity program?" The answer to this question has several dimensions. Let's look at some facts.

First, the Census Bureau estimates that minorities, both arriving from abroad and born here in the United States, will account for nearly 90% of the total growth in the U.S. population through 2050.

Secondly, minority-owned business enterprises (MBEs) in the U.S. are among the fastest-growing business segments.

And third, the total U. S. minority market is estimated at over \$1 trillion in expendable income.



How do these facts affect business?

An assumption is often made that a supplier diversity program is just an excuse for small businesses and MBEs to gain an unfair advantage and to satisfy a "quota". The opposite is true. Because dealing with large corporations can be challenging, MBEs often operate with a built-in disadvantage. Corporations tend to utilize the same suppliers repeatedly, unintentionally creating a "good old boy" system that is hard to get past. Companies often avoid taking calls from suppliers they don't know because of limited procurement resources. This often gives established suppliers an unfair advantage.

- A diverse supplier base adds value through a broadened reserve of experience, perspective and talent. New ideas are generated for diverse products and services, resulting in better business solutions and an ever-increasing customer base.

- A supplier diversity program creates a stronger, more competitive supply chain, and adds value by encouraging competition.

- A supplier diversity program gives all corporations a larger supplier base from which to draw. From 1992 to 1997, the number of minority-owned firms and their sales volumes grew by 30% and 60% respectively, while the number of all U.S. firms and their sales volumes grew by only 7% and 40% respectively. Corporations who limit themselves to established supplier bases may be missing opportunities and new ideas which MBEs often bring to the table.

- Many primary suppliers use a variety of minority subcontractors. Historically, MBEs often have a lower overhead structure and more competitive pricing. By including MBEs in the primary supplier pool rather than asking them to become subcontractors of other suppliers, incumbents are forced to be more competitive, thereby realizing greater savings by driving down costs while increasing value.

- Using minority suppliers gives corporations a competitive edge in the market. If 90% of the population's growth is minority, this implies that minorities make up an increased percentage of their customer base. Today a successful company often creates a supply base that reflects the markets and communities it serves.

- Many corporations have customers that encourage supplier diversity programs and require an accounting of dollars spent with diverse suppliers. Meeting customer requirements is a top priority. Thus, increasing spend with diverse suppliers makes good business sense from a customer satisfaction perspective.

- Corporations can offer proactive support of minority-owned businesses by integrating them into their supply chain. Sometimes one MBE may not be able to fully meet their needs, but by partnering with one or more other MBEs, corporations can create a successful team. This will help position MBEs to sustain and grow themselves over the long term and result in a stronger supplier base.



The face of our country and our community is changing rapidly, and we face new challenges daily. As corporations grow, they must change and adapt to a changing market place. Commitment to supplier diversity is one of the simplest and most economically profitable ways to gain a competitive edge, lower costs and respond to customer needs.

HOUSTON MINORITY BUSINESS COUNCIL