



ADVERTISING, ENTERTAINMENT,  
MEDIA & SPORTS  
INDUSTRY GROUP

# Supplier Diversity Professional's Guidebook

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# PURPOSE OF THIS GUIDEBOOK



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Success and/or career development of today's and the next generation of supplier diversity professionals is contingent upon availability and accessibility to information, methods, systems, organizations and other support tools, mechanisms and more importantly, peer-to-peer collaboration specific to this profession.

That said, the purpose of this guidebook is to share best practices on how to develop a robust and global supplier diversity program. It will also serve as a reference too and conduit to procedures, processes, structures and methodologies to assist those professionals seeking this career path.

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## THE NEXT GENERATION OF SUPPLIER DIVERSITY:

After 50+ years, supplier diversity programs have changed and matured to become fertile ground for supplier development and growth, as well as hotbeds of innovation and creativity. The next generation of supplier diversity programs are challenged to continue growing to include more diverse suppliers, to embrace a new demographic reality, and to use the power of success to break down the remaining barriers to business equity and inclusion.

“The future of Supplier Diversity is all about delivering results. With the demographics of this country changing so rapidly, the fate of our nation’s economy rests on the growth of minority businesses. Minority businesses represent the biggest potential growth sector in our economy. We need to be able to create, build and sustain minority businesses. And more than ever before, we need to accurately report our impact to win public support for what we do.”

*—Louis Green, former interim president,  
National Minority Supplier Development Council*

# SUPPLIER DIVERSITY PROFESSIONAL

## WHAT IS A SUPPLIER DIVERSITY PROFESSIONAL?



A Supplier Diversity Professional is a diversity conscious practitioner specially focused on advancing supplier diversity and inclusion within and throughout the corporate procurement ecosystem.

This individual partners with stakeholders and decision-makers across enterprises and organizations to efficiently and effectively discover, identify, interact and develop contract opportunities with diverse business concerns including but not limited to minority, women, LGBTQ, veteran, disabled and small business enterprises that match their capabilities and competences.



Tony Pashigian | <http://www.tonypashigian.com/blog/-45-characteristics-of-a-successful-purchasing-professional>, 12/3/2013

**Tony Pashigian:** Leadership expert with emphasis on results, profit, excellence, efficiency and smooth new product launches. Pashigian is a highly competent and talented colleague with executive experience leading transformation in Purchasing, Engineering, Program Management and Sales.

The business of Purchasing/Supplier Diversity relies heavily on people skills and mastery of behavior. You have to know what type of image you want to have and what conduct will allow you to sleep at night. So, you'll see that the list, below, contains many of what might be considered soft skills.

There is no single most important attribute that makes a Purchasing/Supplier Diversity professional perform at a benchmark level. It is a combination of many traits, skills and behaviors. However, there are likely many different combinations of those listed below that will achieve optimal results on a more regular basis. The list of characteristics and skills, in no particular order, includes:

**Integrity:** Integrity is made up of character and morality. It defines whether you are solid, trustworthy and reliable. Say what you mean and mean what you say. Do what you commit to do. Keep your word. Do not over-commit, because you will, likely, under-deliver. Be honest. Every transaction requires certain flexibility but never compromise your integrity for the sake of a transaction. It could be your last.

**Morality:** Not doing what is wrong.

**Character:** This means you do what is right. It's one thing to have the morality to not do what is wrong, but it often, takes great courage to do what is right. What you do speaks so loudly that what you say I cannot hear. Character is following through on a commitment long after the mood in which the commitment was made is gone. This is non-negotiable.

**Knowledge and organization:** Mastery of data is a key ingredient in the secret sauce of Purchasing/Supplier Diversity. You have to know more about what you are buying than the person selling it. You have to know how supplier's prices compare to the lowest possible cost to manufacture it and what other suppliers are willing to sell it for. Finally, you need to be able to recall all of this immediately to assist in negotiations and planning. Note: you don't have to be an expert. That's what experts are for. Seek their counsel, if required. It's not a sign of weakness, but a sign of intelligence.

**Forecasting:** How many of what will you need? Where? What are the market trends? What are your customer's consumption habits telling you? Your ability to buy at an optimal level depends heavily on this knowledge.

**Entrepreneurial mindset:** Are you working like it's your own company? Don't sit and wait, like a clerk, for "the businesspeople" to think of the smart questions for you. What is needed? Why? How many? How often? Is there a better mousetrap? Are the businesspeople asking the wrong questions? This is "You Incorporated." Now get to work.

**Anticipation:** What can go wrong? What opportunities exist? Is your commodity high risk? Is this a new product? Is this a new supplier? Does your program team not have a clue? This is, likely, the single most important skill to have engaged at all times. This skill is essential to get out of the reactive way of doing business and behaving proactively. How many times do we encounter people, departments or companies that spend all of their time whining about all the firefighting they have to do? An ounce of anticipation can go a long way to prevent this way of doing business. You need to kick off a supplier by January 7 to meet program timing. Engineering has committed to get you drawings by December 7. However, if you wait until December 7 to check on them, you will almost certainly be disappointed. You can dwell on how it's not your fault, but you still end up fighting a fire. On November 7 you should be asking for partial information and validating that drawing creation is on schedule.

**Behavior:** Conduct. Anybody can do the task, but not everybody makes everybody else miserable when they do it. Conduct becoming an officer. Are you hiding in your silo or are you a part of the team? This is the key differentiator between a procurement/supplier diversity team that needs help and one that is looked at as a positive influence on the organization.

**Relationship builder:** Companies don't buy from companies. People buy from people. Build relationships with suppliers and with the members of your organization for whom you are doing the buying. Visit your suppliers.

**Negotiation:** What can you not live without? What can your supplier not live without? What would you like to have? What would your supplier like to have? Look for the common ground and adjust. This is a complete oversimplification, but "negotiation" had to make the list. Too often individuals go into a negotiating situation ill prepared and think they can talk their way into an agreement with no preparation. My advice is to learn as much as possible about your commodity or service before going to the table. Tools like Porter's Five Forces Model can help you understand where your range for negotiating.

**Communication:** Internally & externally. Clear communication with all functional groups is essential. You aren't running a hot dog stand waiting for customers. To be truly successful, you need to have traits of a general manager or a program manager and jump into the fray. Look for the big picture and then fill in the gaps between company silos with transparent communication. Having a line of communication with suppliers is obvious, but, creating strong lines of communication with your internal customers and stakeholders can bring significant results. If your team sees, and believes that you are working for them, they are happy to work toward your objectives.

**Resilience and agility:** Not everything is going to go well all the time. How we, as Procurement/Supplier Diversity Professionals, react and adapt to situations will maximize our value and contribution to our company.

**Concern for Quality:** Yes, knowledge of the product is important. Of course, the pricing has to be fair and reasonable (you're in Purchasing/Supplier Diversity, after all). However, you need to work very closely with the Supplier Quality organization to ensure suppliers are doing what they said they would do. Your internal stakeholders are depending on receiving the right products or service at the right time.

**Understand scale:** Too few suppliers, and your Operations can be held hostage or suspended because of a supplier's failure to perform. Too many suppliers, and you aren't important enough to any of them for them to care about you or your emergencies. Also, there isn't enough of you to go around to manage an unnecessarily large supply base.

**Thick skin:** If it goes wrong at a supplier, it will: A) be an emergency for you, or B) be your fault, in the eyes of poor leadership. Either way, the way you recover is to recover. If B), however, start looking for a new job. You don't have a boss worth working for.

**Sense of urgency:** Don't panic, but don't dawdle. Be logical. Use solid problem solving and decision making skills, like those taught by Kepner-Tregoe. Just get the job done on time.

**Interpersonal skills:** You are not in the job suited for an introvert. You have to be able to speak to people in a way that makes them pleased that you are engaged if you are in Purchasing/Supplier Diversity.

**Peacekeeper:** Supply chain/supplier diversity professionals work with, or directly affect, every department within a company. They are also the main contact for most entities outside of the company. There will be disagreements and misunderstandings. Do not be the source of them. Be the solution.

**A balance of quantitative and qualitative analytical skills:** This is a must. You think your job is to buy stuff. However, you will have to make decisions with partial data and have to solve problems that seem unsolvable. Shainin Red X or Kepner-Tregoe are examples of formal training.

**Sense of humor:** You are dealing with people. Everybody makes mistakes. You are dealing with products. If you've ever witnessed a birth or a funeral, you know what's really important. So, don't overreact. Focus on solutions and results. There's no need to be nasty. Tough situations do not need to be miserable. Also, the day-to-day doesn't have to be so boring. A little levity can make mundane tasks more palatable.

**Avoid conflict of interest:** You are making 3rd party purchases. That is, you are buying products and services that you will not, personally, consume with money that is not yours. Be careful not to base decisions, on behalf of the company, on factors that result in your personal gain. Your objective has to be the best interest of the company. In these hyper political times, even the appearance of impropriety can be damaging to a career or reputation.

**Reciprocity:** There is give-and-take in any healthy relationship. It is crucial to have the win-win big picture in mind for all transactions. Any imbalance in benefit will surface, at some point, as a commercial issue. There will be times when suppliers will need a favor from the customer and vice versa. Favors are more difficult to achieve in a one-sided relationship.

**Strategic:** You have to have a long-term plan for success. Executing a plan of action enables you to assess progress toward a particular goal. It's about shaping the future instead of just letting commerce happen to you. You have to secure the desired ends with the available means.

**Supply chain thinker:** You have to think about every aspect of the creation of the product or service that you seek to buy as well as its delivery to your doorstep. It's more than the lowest price quote. Your company doesn't need to pay you good Buyer wages when any clerk can pick the lowest quote. You need to be thinking about things like vertical integration, manufacturing footprint and supplier proximity to it, freight and packaging. If a supplier stamps a part for you and another supplier paints it, wouldn't it be better to find a supplier that stamps and paints? It would save the second supplier's markup for Selling, General and Administrative Expenses (SG&A) and profit on the SG&A and profit of the first supplier, at a minimum.

**Patience:** Your internal processes will take too long. Your supplier will quote too high of a price or too long of a lead-time. The program team will give you unreasonable cost and timing expectations. You will wonder where your management team has been when you realize how little they know about the circumstances of your job. There. Now that you expect it, just focus on creating and executing a credible plan to achieve your objectives. If the objectives are impossible, speak with data instead of emotion and calmly lower the stakeholder's expectations so you can exceed them.

**Attention to detail:** The devil is in the details. When you ask for a presentation and the file is emailed to you, do not just forward it. The person that sent it either didn't get the assignment right or attached the wrong file. When you're handed a form to get your bosses signature on, be sure to proofread it. Because, when he asks questions, you need to know the answers. By paying attention to detail, you establish credibility because the accuracy of your output is reliably high.

**Go to Genba** (the actual place): Have you visited your suppliers? When is the last time? Get up from behind your desk and get to the business end of the business. When there was an issue, did you call and ask for an 8D or did you go to the source of the problem to see it for yourself? Of course, you'll have to prioritize. You can't be everywhere at once. However, you need to develop the habit of going to where the action is when prudence suggests it based on risk scale or probability.

**Creative solutions:** “Outside the box thinking.” The more you know about the details of a situation, the more creative you can be. The most direct approach might not be something you can sell but stringing together a series of one-thing-leads-to-the-other actions can have a domino effect that gets you the result you need.

**Risk management:** You will have at least 3 different categories of risk: operational, commercial and legal. The more you document agreements on mutually beneficial contracts, the less likely you will be of encountering risk. However, if it sounds too good to be true, then it probably is and you are introducing risk. For example, if a supplier offers to sell you a widget for \$1 when the lowest price you’ve ever paid is \$1.30, a red flag should go up. Did the supplier have a new innovation that lowered the cost and, subsequently, the price or are they buying the business? What if it costs \$1.05 to make the widget? Awarding the business to them introduces risk because they can’t lose money forever.

**Time Management:** The Purchasing/Supplier Diversity professional is always working against the clock. You have annual budgetary expectations. You have new projects launching that will require diverse suppliers, services and parts. This is similar to “sense of urgency” but it’s more about how you structure your day. Are you constantly distracted by your email and smart phone and so you get less done than you wanted to in a day? You will have countless people coming to your cubicle asking about things and you have to manage your priorities. What needs to be done right now? What needs to be done tomorrow? What are B or C priority items that can probably wait forever?

**Willing to learn new things (Curiosity):** Supply Chain/Supplier Diversity work takes you into new areas all the time. You have to be able to adapt, quantify and have the desire to get to work. The entrepreneurial Purchasing/Supplier Diversity professional doesn’t let “it’s not my job” prevent him or her from getting results.

**Influencing skills:** The ability to sell. The first time you introduce an idea, it will be received poorly. The second time it will sound familiar, but not desirable, to the person you are trying to sell. By the third time they will have internalized it and might even think they came up with it. Understand their needs and try to create a win-win. Know the politics of the organization, without contributing to them, to understand how to influence your peers to meet your objectives.

**Collaboration:** You have a big job to do. Work with the people that are involved in the project to divide and conquer.

**The ability to decide:** The inability to decide is frustrating to all who are counting on you to get your job done so they can do theirs. You will always only have partial information. Study Kepner-Tregoe decision-making training. Analysis paralysis only causes delays.

**Technological advancements:** A better mousetrap. Be looking for improvements at one supplier that are not present at other suppliers. Read trade publications and attend industry conferences. You are not a clerk. You are an entrepreneur that your company is counting on to make a difference. You need to be cognizant of 3 different categories of the way to get things done: 1) current practices, 2) best practices and 3) next practices. The first one to answer the question “what’s next?” wins.

**Motivation:** The business world is tired of purchasers/supplier diversity people functioning as clerks. A strong initiative to continually seek out new opportunities in both savings potential and supply chain options is essential in your role. Act like a clerk and you will be treated like a clerk. Make a strategic contribution and you will be looked at as a provider of solutions.

**Learn from mistakes:** You’re going to make them. A good management team will not punish someone that makes mistakes, but you have to learn from them. If your recent mistake helped you learn another facet to the concept of anticipation for the future, you have just become more valuable to your organization.

**Business acumen:** Ask yourself “why would they do that?” when a supplier agrees to something. What’s in it for them? “Business” is an understanding of finance, accounting and operations of your company. “Acumen” is the ability to make good judgments and quick decisions. Put the two together and start learning.

**Continuous learning:** You need to learn how your company does things. Then you need to learn the essence of the role of the function that you were hired to perform. They are rarely the same. Lean thinking is the optimization of the combination of the two. You need to know how to use the tools of your trade while constantly striving to eliminate waste. Too many people think this means they should create more processes and policies to add to their systems until the system is as complex as the IRS tax code. On the contrary, strive to stop doing wasteful things and only take the shortest distance between your current status and the objective. Just never stop learning.

**Critical thinking:** Look at, and consider, the data. Observe, classify, measure, sequence, infer, predict and communicate. You are a highly skilled professional. Don’t just accept what is presented. Look for logical relationships between propositions. Put generalizations, conclusions, hypotheses and assertions to the test.

**Contract management:** Read the contract. It’s yours. Read the terms and conditions. Look for pitfalls. Look at the big picture. There are a lot of moving parts. You have to understand the cause and effect of all of them. You have to be firm, but fair. How many professionals, when asked about some contractual agreement, start searching through their emails for the answers? Scope and commitments belong in unambiguous contracts. You will write many versions before the final product is complete. Know that before you get started and you won’t wait for perfection before you begin.

**Attitude:** You are in a “people” role. You deal with people. Would you want to work with you? Get a relentless commitment to the objective and drive your tasks, with a positive attitude, to the conclusion. Your way of saying and doing things will directly affect people’s desire to work with you toward the objective.

**Tenacity:** Know your deliverables. Circumstances, and less focused people, will constantly be attempting to throw you off the scent of the critical path. You have to subordinate the functional metrics for those of the overall program or organization, but you do not have to waste time activity that will not result in accomplishment. The wisdom to separate important from urgent and the tenacity to get the important stuff done before it becomes urgent is a key skill in the professional world.

**Cross training:** Knowledge of what it takes to perform the other functions in your organization will help you see how you fit and how others rely on your contribution. Getting cross-functional training helps with perspective.

**Total cost of ownership:** Is best-landed cost a meaningful metric for a Purchasing/Supplier Diversity organization? The answer is a resounding: maybe. After all, you could get lucky. What about total cost of ownership? What about value? What about warranty costs? What about the cost of production interruptions while you have manufacturing operators standing around waiting for parts or production teams put on standby? By focusing only on best-landed cost, your organization can achieve a very short-term benefit of buying something as inexpensive as possible. However, this myopic Purchasing/Supplier Diversity practice can be very expensive in the long term. There is a difference between value and pricing.

Awareness about ourselves, and the roles we are attempting to fill, improves the odds of success. The above characteristics were offered to dissect the essence of a good Purchasing/Supplier Diversity professional and break it down into components with the least common denominator. By being aware of these attributes and mastering the combination with which you are most comfortable, you can raise your raise your game past benchmark performance and start targeting an entrepreneurial world class Purchasing/Supplier Diversity organization.

# VALUE PROPOSITION



The term **Supplier Diversity** refers to the proactive business program that promotes the Purchasing and/or Supplying of goods and services from previously underrepresented communities. These suppliers may include minority-owned, women owned, veteran owned, LGBT-owned, service-disabled veteran owned, disabled-owned, and Small Business Administration (SBA)-defined small business concerns. The purpose of the business strategy is to help diversify specific corporate supply chains and help to reflect the demographics of the community in which a company is located in.



## THE VALUE PROPOSITION FOR SUPPLIER DIVERSITY

### WHY IS SUPPLIER DIVERSITY IMPORTANT?

Since most diverse businesses are small business concerns, they aid in the economic vitality and sustainability of our communities. Supplier Diversity is essential in procurement ecosystem and supply chains because it provides corporations access to emerging consumer markets by bringing the uniqueness and innovativeness diverse companies products and services.

Collaborating with businesses owned by diverse suppliers provides corporations with competitive goods and services that create a cross-cultural competency that only comes from multiple perspectives which drives the overall economic growth, value and well-being of the communities in which we live and work. When supplier diversity is baked into your industry or company's culture, the result is relevance, originality and impact (ROI).

Supplier Diversity is the next horizon. This underutilized business strategy unlocks innovation, drives competitiveness and enhances a company's reputation.

Achieving diversity in the supply chain is possible via a minority-owned Tier I (direct contractor) procurement and/or a minority-owned Tier II (subcontractor) procurement.

Many of the top companies for Diversity and Inclusion understand that Supplier Diversity is key piece of the equation as well as a positive ROI that boosts socially conscious reputation that will push supplier diversity to the forefront of business strategy.

Additionally, a good supplier diversity program is responsive to its intended audience. Through intentional interaction, education and opportunity development between small business and large corporations, economic value and good will can be created that will ultimately benefit all entities.

“We should be appreciative of diversity of thought because that’s what drives innovation. ... If you have different thoughts in the room somebody will come up with an idea that everyone can build off of ... and that only happens when you have different cultures, lifestyles and backgrounds in the room and all that comes into play when creating innovation, efficiency and awesome ideas—building businesses. If every organization really embraces and utilizes diversity of thought in their overall infrastructure and operations, I think we are doing a great thing.”

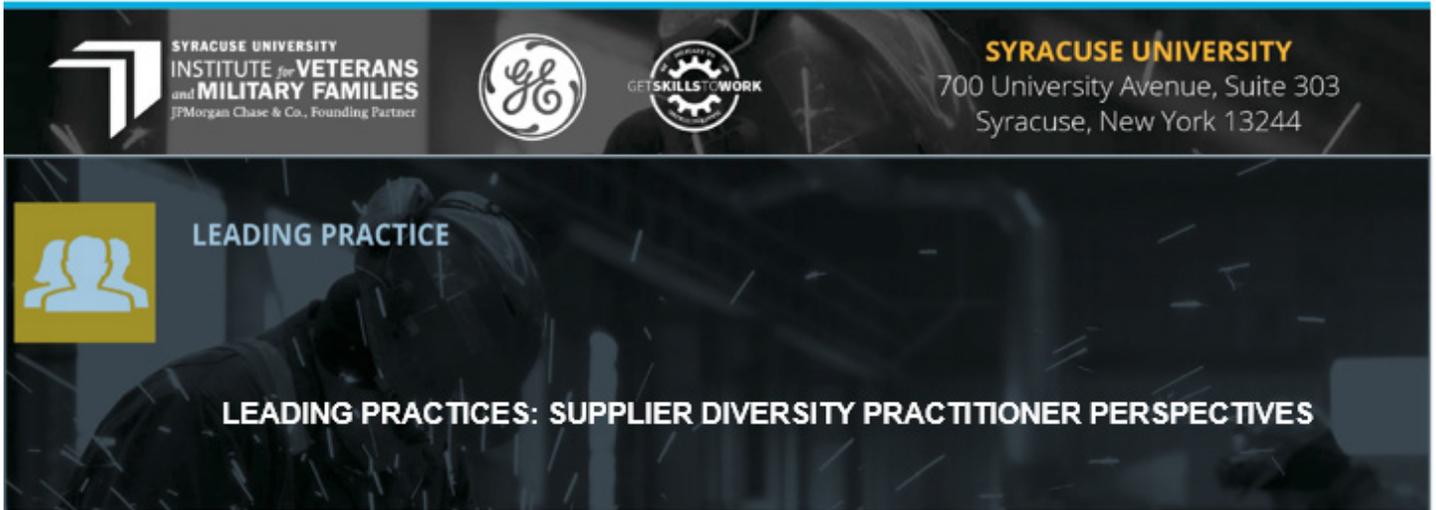
—*Corey Smith, senior director,  
supplier diversity, Major League Baseball*

## WHAT ARE THE BENEFITS OF A COMMITMENT TO SUPPLIER DIVERSITY?

A **Supplier Diversity** commitment benefits a company because it:

- Promotes innovation through the entrance of new products, services, and solutions.
- Provides multiple channels from which to procure goods and services.
- Drives competition (on price and service levels) between the company’s existing and potential vendors.

# BEST PRACTICES



The Institute for Veterans and Military Families at Syracuse University (IVMF) and General Electric (GE) partner to empower employers with the tools, strategies, and peer resources to adopt collaborative and strategic approaches to best-in-class practices, processes, resources and programs.

- 1) Use procurement process to search for diverse suppliers who can help your company deliver exceptional service to its clients and ensure its overall success to promote a diverse population.
- 2) Strive to form strong bonds with their surrounding communities and to help diversity-owned businesses thrive whenever and wherever they can. By guaranteeing that contracting opportunities are presented to certified diverse businesses, sharing your company’s commitment to excellence, integrity, and service generates mutually beneficial alliances that ultimately contribute to customer satisfaction and shareholder equity.
- 3) Seek to create sustainable, mutually beneficial relationships with diverse suppliers. To do this, your company must establish annual procurement goals for goods and services from small, disability, minority-, women- and veteran-owned businesses. Invoke a policy to provide the maximum practical opportunities to diverse suppliers to provide goods and services as a part of your company’s corporate procurement process.

Communicate that the use of diverse suppliers is an integral part of your company’s Purchasing/Supplier Diversity procedures, just as equal opportunity employment is central to its personnel policies and procedures.

Recognize that Supplier Diversity creates a competitive advantage for the company and has a positive impact on the global community. Merck believes that the success of your company and society depends on enabling diverse businesses to share and grow in the global market.

- 4) Create mutually beneficial business relationships with minorities, women, disabled veterans, LGBTQ and others with disabilities.

Recognize that working with a wide range of diverse professionals, suppliers, and consultants strengthens the communities that the company serves, while creating value for its shareholders.

The driving force of your company's program and sourcing areas should provide maximum opportunity to diverse suppliers and consultants who satisfy your company's Purchasing/Supplier Diversity and contractual standards to participate in the competitive contracting and procurement processes.

- 5) Look for opportunities to work with diversity suppliers in all aspects of your company's business—from advertising to central office engineering, computers, outside plant construction, network provisioning, etc.
- 6) Increase your company's competitive advantage by tapping into suppliers who reflect the demographics of your company's marketplace makes great business sense for everyone—customers, suppliers, and your firm.
- 7) Invite third-party certified minority- or woman-owned business enterprises (MWBE) and veteran-owned firms interested in doing business with your company to register in your supplier portal.
- 8) Develop a pool of diverse suppliers, reflective of the overall customers, associates, and communities that the company serves, by identifying procurement opportunities and maximizing participation of approved suppliers including but not limited to MBEs, WBEs, Small Business Enterprises (SBEs), LGBT, and Disability-Owned Business Enterprises.
- 9) Helping diverse businesses grow through sourcing opportunities spurs economic growth in the communities that the company serves and allows your company to grow at the same time.
- 10) Your company's Supplier Diversity program should aim to expand and advance its current pool of diverse suppliers through education and mentoring. The ongoing goal is to support capacity building for minority- and woman-owned businesses and aspire to create prosperity through empowerment.
- 11) A successful Supplier Diversity program establishes a diverse and growing supplier portfolio that reflects the diverse customer base of your company. In turn, such a program helps to further develop new markets in the changing global environment.
- 12) If your company is a federal government contractor, require your small and diverse vendors to provide annual representations and certifications of their company's status. This will enable your company to report to the federal government satisfaction of its small business contracting and retention goals and ensure that federal funds are spent in accordance with federal law.
- 13) Excellence in supplier diversity can result in superiority in supply chain management, leading to growth for all.
- 14) Working with these diverse firms not only fosters strategic and business relationships, but also stimulates economic development and strengthens the communities where they work. Your company's goal is to ensure access to the highest quality products and services, at the best possible price.

A diverse vendor base not only strengthens competition and the potential for cost savings, but it also provides a means for building the economic base of the communities in which your company operates.

Continue to develop and strengthen your diverse supplier pool in order to ensure that your company's hallmarks of quality, innovation and integrity remain paramount.

Ultimately, a supplier diversity professional must understand that diversity is an opportunity, not an obligation.



## The 3 C's of Supplier Diversity

Posted by [Brian Tippens](#), 16 September 2011

Brian Tippens is an accomplished public speaker and thought leader in the field of Supplier Diversity and Small Business Development. Proven business acumen, with a capability for planning and executing short- and long-term business strategies.

### THE 3 C's OF SUPPLIER DIVERSITY

There is no global supplier diversity program “cookie cutter-method” for implementation. It is a mistake for companies to believe they can be successful by simply adopting a “copy exactly” approach and transporting the companies’ U.S. supplier diversity tools, processes, and policies into non-U.S. locations. While some process and policy consistency is required, supplier diversity programs must be adapted to reflect the cultural and societal norms of the geographies in which they are implemented.

Despite differences in implementation, the business case for supplier diversity is consistent in the context of what is referred to as “**the three C's**” of supplier diversity.

### COMPLIANCE

In the United States, many companies’ supplier diversity programs are built around a compliance core. These programs are designed to help ensure that the company meets compliance requirements mandated by its public-sector customers. The U.S. federal government requires that any company that provides goods and services to it, above a certain mandated minimum level, meets aggressive goals of subcontracting spend with a list of enumerated categories of underrepresented small businesses. These categories include ethnic-minority-owned, woman-owned, and veteran-owned businesses.

These compliance requirements have become pervasive over the past 50 years as many states, municipalities, school districts, and other public sector entities have developed supplier diversity mandates that mirror or closely reflect the U.S. federal requirements. Even companies that don’t source directly to the public sector may be required to adhere to these types of requirements, if they source to other private sector companies which themselves are public sector suppliers and are required to “flow down” requirements also known as Tier 2 reporting.

With limited exceptions, outside of the United States there are no similar legislative mandates requiring that companies subcontract with diverse businesses. While no other countries have identical mandates to the United States for minority business inclusion, two countries have enacted their own legislative framework to ensure inclusion of minorities or disadvantaged people.

**First**, there is the case of South Africa and their Broad Based Black Economic Empowerment (B-BEE) legislation. **Second**, more recently, is Australia, which has implemented requirements for including indigenous aboriginal-owned businesses in certain contracts. In addition, while visible minorities in Canada are not included in any government scheme for protected status, they do have a government set aside for Aboriginals based on self-certification. However, absent extensive compelling mandates, supplier diversity performance has been slow to expand outside of the United States.

Those companies that have chosen to expand their global supplier diversity programs outside of the United States for compliance reasons, have done so with an aim to:

- Address existing or developing supplier diversity mandates that currently exist in regions where those companies do business outside of the United States (for example, to meet the requirements of Australia’s Indigenous Opportunities Program (IOP) or the South African Broad Based Black Economic Empowerment code requirements); or
- Remain “ahead of the legislative curve” by designing and implementing robust supplier diversity procurement policies ahead of government mandates in regions that appear to be evaluating the adoption of such mandates.

## CORPORATE SOCIAL RESPONSIBILITY (CSR)

These policies are seen to function as built-in, self-regulating mechanisms whereby businesses monitor and ensure active compliance with the spirit of the law, ethical standards, and international norms. Many companies position their supplier diversity programs as supporting CSR pillars, by:

1. Enhancing the company image and brand by demonstrating commitment to high ethical standard of inclusion.
2. Working to ensure that the diversity of the company’s supplier base reflects that of its employee base and customer mix.
3. Supporting the CSR requirements of its customer in the marketplace.

These CSR drivers are not at all unique to U.S. supplier diversity programs. It can truly be said that, with these drivers in mind, *...if ensuring an inclusive supply chain is ‘the right thing to do’ in the United States, it is ‘the right thing to do’ everywhere that the Company does business ...*

## COMPETITIVE ADVANTAGE

Among the most successful of U.S. - based supplier diversity programs are those hosted by companies that position the programs as a business imperative, a revenue enabler, a competitive advantage.

By working to meet contractual - and compliance-driven diversity subcontracting requirements of its customers, a company with a business-to-business (B2B) sales model can leverage its supplier diversity performance to win in the marketplace. Similarly, a company with a business-to-consumer (B2C) business model can weave its supplier diversity investments in diverse communities into its marketing and advertising and help it to create a competitive advantage across a diverse consumer base.

Collectively, these elements combine to form the business case—a set of compelling drivers for global supplier diversity expansion. Note that not every company will find each of the three important to the same degree, if at all.

## CREATING A SUPPLIER DIVERSITY PROGRAM?

Key elements should look at a company's strategic sourcing process and establish actions at each stage that enable the identification and inclusion of underrepresented businesses:

- Understand your organization's internal spend and external markets.
- Develop an online database that contains diverse supplier portfolios.



### Design a Global Supplier Diversity Program in Six Easy Steps

Posted by Brian Tippens, 22 April 2012

Brian Tippens has proven ability to plan and lead global strategic initiatives. Exceptional capability for engaging and cultivating relationships with vendors, suppliers and outsourced manufacturers.

Once a decision has been made to implement a global supplier diversity program, a company may look to any one of several existing step by step models for designing and implementing a program. The model described below was adapted from a system originally developed by sourcing professionals among the membership of the organization *Minority Supplier Development UK* (<https://www.msduk.org.uk>).

This six step process is a roadmap to help companies on the journey towards establishing an effective supplier diversity program. It is for companies that have identified the business case and need for diverse suppliers and are looking for practical guidance on how to engage them within supply chains.

There is no global supplier diversity "cookie cutter-method" for implementation. It is a mistake for companies to believe they can be successful by simply adopting a "copy exactly" approach and transporting the companies' U.S. supplier diversity tools, processes, and policies into non-U.S. locations. While some process and policy consistency is required, supplier diversity programs must be adapted to reflect the cultural and societal norms of the geographies in which they are implemented.

Despite these regional differences in implementation, the business case for global supplier diversity is consistent.

Following six steps can help guide program implementation, once a company has moved past the business case and determined that it will institute a global program:

#### **STEP ONE – DEVELOP GLOBAL SUPPLIER DIVERSITY GUIDING PRINCIPLES & POLICIES**

When building out a global supplier diversity program, a company must develop a set a guiding principles and polices specific to global expansion. Companies with a mature US-based program will likely already have a defined set of core policies and principles, however–these may not sufficiently address the nuances of a program that is global in scope. It may not be enough to simply dust off a company's existing policy and changing a few words.

Before embarking on a global supplier diversity program journey, it is essential to develop a succinct corporate-level policy which defines the primary objectives and benefits of this program for the company, the employees, company shareholders, and for the communities in which the company operates.

This statement should be endorsed by a senior figure within the company, for example CEO, Chairman or Chief Procurement Officer (CPO), as a demonstration of senior level commitment to the global supplier diversity program.

Without top-level support it can be very difficult to convey a call to action down through the company.

While drafting a supplier diversity policy statement that strategically aligns with corporate plans and policies, communicates the right message to different stakeholders and drives results, the following points need to be considered:

Who are the Target Beneficiaries?

- Ethnic minority-owned businesses
- Women-owned businesses
- Disabled-owned businesses
- Lesbian, Gay, Bisexual, Transsexual-owned businesses
- other specific under-represented groups
- Why should these groups be considered? Reasons for their under-representation
- How does the company aim to assist these businesses?
- Explain process of reaching out to these businesses with potential business opportunities, training and mentoring program, financial and technical assistance
- What are the benefits for the company, its shareholders and the community?
- How does this align with other company policies?

## **STEP TWO – DEVELOP A GLOBAL SUPPLIER DIVERSITY ACTION PLAN**

CEO support and senior management commitment is the first step towards developing a sustainable program; however, it is equally important to develop a robust action plan that is cross departmental and cross functional. The Global Supplier Diversity action plan acts as a means of ensuring that there is a corporate-wide commitment to Global Supplier Diversity and everyone across the organization shares common processes and measurements in implementing.

A model Global Supplier Diversity action plan should act as a guide for any department within a company to embed the process within its function. Key elements should look at the company's strategic sourcing process and establish actions at each stage that enable the identification and inclusion of underrepresented businesses:

- Understand the internal spend and external market
- Develop a minority supplier portfolio
- Communicate supplier diversity goals internally and externally
- Work with 1st and 2nd tier suppliers
- Develop learning and training opportunities for underrepresented businesses
- Monitor and track program performance

### **STEP THREE – ESTABLISH AN INTERNAL AND EXTERNAL COMMUNICATIONS STRATEGY**

Once a commitment to Global Supplier Diversity has been made and an action plan has been developed to support its implementation, it is of absolutely no use unless it is communicated effectively. This communication needs to target two key sets of stakeholders, those that are internal to the organization and those that are external. Of course, accurate and timely communication in itself underpins every section of the Toolkit and should be considered as a continuous process throughout the program implementation.

**Internal Communication** – Most companies have well established methods of communication with its people. Company intranets, team meetings, newsletters, notice boards, internal networks are some of the most common tools used to communicate. As a first step these existing tools can be used to promote the ethos of supplier diversity and why the company has embarked on this initiative.

The aim is to not only create a sense of understanding but to also engender confidence in the program and in the overall approach. It will be difficult to encourage staff to do things differently but allowing them an opportunity to ask questions and engage in debate can be fundamental to motivating behavior change.

**External Communication** – Consider your target audience and tailor your messages accordingly. Some companies may opt to begin a program based on demands from clients in which case there is a clear need to articulate and communicate perhaps within bid or tender documents. Non-diverse existing and new suppliers may also need to be reassured that they will not be losing business as a result of the global supplier diversity program but that it will be used to ensure more inclusivity amongst a wider supplier base.

External communication will also need to address issues and questions such as:

- Why has the company embarked on this initiative at this time?
- What does it hope to achieve?
- Who is it designed to benefit?
- How will it measure this benefit?
- How can I get involved?
- How does it intend to make it successful?

Some ways of communicating messages externally are through company web sites, this can be particularly helpful as it allows external stakeholders to get answers to most of these frequently asked questions. Company/Annual reports are another useful way of communicating program activities and successes with clients and customers as well as through any external newsletters / e-communications that may be produced.

### **STEP FOUR – INCREASE OPPORTUNITIES FOR DIVERSE BUSINESSES**

In an increasingly diverse marketplace, making every effort to include minority businesses among suppliers, always on the basis of merit, makes good business sense. In a way this is the essence of any good supplier diversity program and the one that will most impact the reputation of the company amongst suppliers. Companies that have embraced diverse suppliers identify a number of advantages including a dedicated and more responsive customer service, and innovation in products and services and cost savings.

For success in any supplier diversity program it is important to identify and offer opportunities to under-represented businesses so that they can compete for business. Key steps in identifying and increasing opportunities for under-represented suppliers:

- Provide leadership and clearly defined strategy and process
- Communicate success stories to demonstrate the positive contribution that minority suppliers are making to supply chain
- Forecast and communicate future sourcing requirements
- Educate and train buyers and suppliers to achieve greater success

## **STEP FIVE – ESTABLISH MINORITY SUPPLIER DEVELOPMENT PROCESSES**

Under-represented development and capacity building are an important element of a company’s supplier diversity efforts. Research and evidence suggest that the majority of under-represented businesses tend to be small in size and capacity and any large company that is encouraging diversity in its supply chain needs to have processes and programs in place which help and assist minority businesses to develop and grow. It is for each company to establish the appropriate supplier development goals and objectives for their program and to develop appropriate initiatives within those parameters.

Before investing resources on developing under-represented supplier development program, research should be conducted to:

- Identify training and mentoring programs, tools and resources that already exist
- Identify various training, procurement training programs delivered by the Government or through other industry partners
- Identify resources to fund and deliver these programs
- Different supplier development program options

A model under-represented supplier development program should aim to look at various aspects of training and business growth needs. A company can choose all or any aspect of supplier mentoring and development. We can look at these training programs in three different stages of supplier engagement:

- Preliminary / supplier introduction stage
- Bidding stage
- Post-delivery stage – to prepare suppliers for growth

Here are some examples of different types of training, development and mentoring that can be provided at different stages of a supplier’s engagement with a company:

- Seminars on future supply chain trends
- Training on softer business skills e.g. improving presentation skills
- Training on different e-procurement tools like e-tender, reverse auction
- Training on quality, health & safety policies
- Capacity building training e.g. raising finance, venture capital, acquisition and mergers, workforce development
- Technical assistance e.g. business process restructuring, managing growth, executive development

## **STEP SIX – TRACK AND MEASURE PROGRESS**

As with any program, setting objectives and suitable benchmarks for supplier diversity is crucial. Developing targets both strengthens commitments and helps assess progress, providing accountability and recognition throughout the organization. However, without first assessing and understanding your baseline starting position, measuring and tracking effectively becomes very difficult.

Program measurement – Position the supplier diversity metrics to track the effectiveness of the supplier diversity program and link to company objectives by:

Defining how, when and what is to be measured; some example metrics include:

- Measuring the number of under-represented suppliers at the outset of the program and then on annual basis
- Measuring the spend with under-represented suppliers at the outset of the program and then on annual basis
- Measuring the overall value of opportunities offered to under-represented suppliers over a set time period
- Measuring the number of under-represented suppliers included in the RFP/RFI stage of tenders offered
- Measuring the number of under-represented suppliers who go through the full tender process and are shortlisted
- Reviewing and implementing a tool to capture activity through different parts of the business (through mandatory fields for example) and provide an audit to demonstrate compliance and by which companies can be audited by customers/suppliers
- Increase the number and variety of means used to reach under-represented suppliers and create a deadline for setting up mentoring programs, for example via Meet the Buyer events and company website etc.
- Capture feedback from under-represented suppliers that did not apply after making inquiries, or who did not submit tenders when invited to do so.



## **NMSDC BEST PRACTICES IN MINORITY SUPPLIER DEVELOPMENT**

The National Minority Supplier Development Council Inc ® (NMSDC®) is one of the country's leading corporate membership organizations. Whether you're a small minority-owned organization or a billion dollar powerhouse, they're committed to helping you solve the growing need for supplier diversity through proven best practices.

### **1 Best Practice: ESTABLISH CORPORATE POLICY AND TOP CORPORATE MANAGEMENT SUPPORT**

Corporate executive management defines and documents its diverse supplier policy, including annual performance goals, accountability, and reporting of diverse supplier utilization, and its commitment to increasing diverse supplier utilization.

#### **Measures of Success**

- The corporate governance body has established a diverse supplier development program as a policy of the corporation
- The CEO has issued a diverse supplier development policy that articulates the rationale supporting the initiative. The CEO ensures that this policy is communicated to staff and implemented.
- The CEO has appointed appropriate full-time staff and resources for diverse supplier development.
- There is an executive advisory council/committee composed of key stakeholders to drive the program's progress.
- All levels of management are accountable for diverse supplier development.
- Management directs that supplier diversity be incorporated into the business planning cycle.
- Belongs in Procurement for most companies and business models, but in all cases, it should be a part of the corporation's umbrella Diversity Strategy.
- There is a written supplier diversity corporate policy that clearly defines executive management commitment and measures success.
- Diverse business utilization/metrics are included in annual performance goals for the corporation and for each business unit/division of the firm.
- A diverse supplier development strategy emanates from a business strategy and is not a "social" policy statement.

**2 Best Practice: DEVELOPMENT A CORPORATE DIVERSE SUPPLIER DEVELOPMENT PLAN**

The corporate diverse supplier development plan acts as a means of ensuring that there is corporate-wide commitment to supplier diversity. This includes establishing diverse supplier development improvement plans with internal customers and cross-functional organizations.

**Measures of Success**

- The policy is supported by a clearly-stated diverse supplier development business case based on value to the corporation.
- Employee reviews (of stakeholders, budget holders, et.) are tied to performance in developing diverse suppliers cross-functionally.
- Corporation has an effective, active cross-functional supplier diversity steering committee.
- The diverse supplier development program promotes the inclusion of NMSDC/WBENC certified diverse suppliers in all aspects of corporate procurement.
- The corporate plan is reviewed by senior executive management on a regular basis.
- Controls, processes, materials, personnel and resources needed to achieve program performance are identified and/or acquired.

- Plan should include methodology to identify and develop diverse suppliers.
- Diverse supplier development is integrated into all aspects of corporate business planning and is part of the “corporate DNA.”
- Input from diverse supplier groups is included in the diverse supplier development process.
- Develop language/tool kit regarding diverse supplier development for salespeople to use in developing and negotiating contracts.
- Supplier diversity management has a good understanding of the company’s core operations.

**3 Best Practice: ESTABLISH COMPREHENSIVE INTERNAL AND EXTERNAL COMMUNICATIONS**

The procurement staff has established and maintains methods for communications about diverse supplier development planning, execution and accomplishments.

**Measures of Success**

- Company-wide awareness of initiative is promoted via multiple vehicles, for example, annual report, brochures, newsletters, prominent Web site placements, etc.
- Diverse supplier development information disseminated to internal customers on a regular basis.
- Diverse supplier development education is included in new employee orientation.
- On-going and specialized diverse supplier development education is provided to all procurement personnel.
- On-going and specialized supplier development training is provided to other business units.
- Company encourages diverse suppliers to seek certification and external training.
- Supplier selection criteria are explained to diverse suppliers.
- Diverse suppliers who are not successful in winning bids are debriefed so that they can be more competitive.
- The largest diverse suppliers are well versed on corporate and procurement goals and objectives.
- The corporation has an effective process to respond to prospective suppliers.
- Articles and advertisements are placed in business media to help identify potential diverse suppliers.
- Participation in trade fairs, etc., including regional participation and support, with objectives and a method to measure outcomes.
- Supplier diversity results are published in the corporate annual report and/or corporate sustainability report.

#### **4 Best Practice: IDENTIFY OPPORTUNITIES FOR DIVERSE SUPPLIERS IN STRATEGIC SOURCING AND SUPPLY CHAIN MANAGEMENT**

Analysis of total corporate spend (by business unit/department) to determine opportunities is critical to the success of the corporate diverse supplier development process. Supplier diversity staff has established and maintains methods for soliciting diverse suppliers and considering business units and first tier suppliers. Supplier diversity staff has established and maintains methods for identifying, recruiting and developing diverse suppliers.

##### **Measures of Success**

- Diverse supplier development is formally integrated into the corporation's strategic sourcing process.
- There is one or more strategic "big hits" with a diverse supplier currently in place in each planning cycle.
- Diverse suppliers are significantly integrated in all product/service/commodity areas of spend, including non-traditional areas of spend.
- Process is in place to review the expiration dates of all existing contracts with diverse suppliers to maintain continuity and to find new opportunities for diverse suppliers.
- Supplier diversity has targeted long-term, big hit opportunity areas.
- Corporation has a process in place, which the supplier diversity team is aware of, for setting minimum targets for as well as tracking new RFPs/RFIs/RFQs, to insure the inclusion of diverse businesses in the development process.
- RFPs/RFIs/RFQs have standard language in place to identify diverse suppliers and the supplier selection process sets minimum targets for diverse suppliers.
- A process exists that will review the outcomes of the RFP/RFI/RFQ process, for monitoring inclusion and utilization of diverse suppliers.
- Process exists to incorporate diverse supplier development into formal procurement policy with accountability.
- Corporation cooperates with other corporations to share top performing suppliers via the NMSDC/WBENC networks, such as industry groups.
- Diverse suppliers are developed for potential utilization in underutilized product/service/commodity areas.
- The diverse supplier development team ensures that screening process is fair and within acceptable guidelines.
- The diverse supplier development team will clearly define and communicate the registration process throughout the corporation's business units as well as to diverse supplier groups.

**5 Best Practice: ESTABLISH COMPREHENSIVE DIVERSE SUPPLIER DEVELOPMENT PROCESS**

Procurement has established, maintains, and continuously improves methods for preparing diverse suppliers for global competitiveness and sourcing trends such as supplier rationalization, through assistance in all aspects of capacity building.

**Measures of Success**

- Mentor program established and active: Relationship building for sustainability and ongoing the strengthening of mutual trust.
- Mentor program established and active: One-to-one coaching, executive relationships with similar functions, finance to finance, etc.
- Mentor programs established and active: Business process improvement and redesign, using learn thinking and lean manufacturing processes.
- Training of all types provided to diverse suppliers: Supplier training on corporate objectives, culture and supply chain trends.
- Training of all types provided to diverse suppliers: “Universities” or formal learning programs.
- Training of all types provided to diverse suppliers: Internal training for all suppliers (Six Sigma, quality, safety, effective communications, negotiations, etc.)
- Training of all types provided to diverse suppliers: Support of diverse supplier training at regional levels.
- Training of all types provided to diverse suppliers: Provide Kellogg/Tuck or other scholarships to diverse suppliers.
- Capacity building activities such as: Business Consortium Fund and other finance options.
- Capacity building activities such as: Establish joint ventures, and valid strategic partnerships.
- Capacity building activities such as: Facilitate mergers and acquisitions.
- Capacity building activities such as: Technical assistance provided, e.g., marketing, management, accounting, international trade operations, production, financial.

**6 Best Practice: ESTABLISH TRACKING, REPORTING AND GOAL-SETTING MECHANISMS**

The establishment of aggressive goals for diverse business spending, tracking those goals, and communicating results and goal achievement provides accountability and recognition throughout the organization. These payment dollars flow from Accounts Payable.

### Measures of Success

- There is an established diverse supplier tracking system to enable results reporting (ability to track diverse supplier spend by business unit/department, buyer, commodity, geographic area, ethnicity, gender, cost reduction dollars, etc.)
- Track diverse supplier cost savings/cost reduction contribution.
- Diverse supplier utilization records are prepared to identify current diverse suppliers in the supply chain.
- There are clearly stated diverse supplier development performance goals (for example, year over year % increase, \$ and % spend and utilization, etc.). Performance results are measured against these established goals. Diverse supplier development performance goals are reviewed and re-calibrated on a regular basis. There is a person responsible for reporting diverse supplier development results.
- Supplier diversity key metrics are reviewed regularly by senior corporate management team, chief executive officer, chief financial officer, etc.
- Scorecards are created to measure performance.
- Achievement of goal is tied to performance reviews.
- Quality reporting systems provide accurate spending on at least a quarterly basis.
- Tying diverse spending and goal achievement to market access, revenue generation and customer and consumer satisfaction ensures continued support for the program horizontally and vertically throughout the organization.

### 7 Best Practice: ESTABLISH A CONTINUOUS IMPROVEMENT PLAN

The corporate diverse supplier development program needs to be fine-tuned on a regular basis to follow changes in corporate objectives and growth (including growth by acquisition and mergers).

### Measures of Success

- The corporation has established and maintains documented procedures for planning and implementing internal supplier development audits to verify whether activities and related results comply with the plan.
- Surveys are conducted with key stakeholders internally to ensure diverse supplier development is exceeding customer expectations.
- A process exists for ongoing communication between the corporation and diverse suppliers to determine areas for continuous improvement.
- Participate in benchmarking with other corporations to identify best practices and then plan for their systematic adoption by the organization.

- Develop overall supplier diversity strategy, including multi-year plans tied to corporation values and aligned with overall corporate strategy and functional department strategies, especially procure strategies
- Participate in “next practices” exercises to envision innovative strategies well in advance of the need for those practices.

## **8 Best Practice: ESTABLISH A SECOND TIER PROGRAM**

A comprehensive Second Tier program creates a significant multiplier effect, by encouraging the continual establishment of new supplier diversity programs, which in turn create incremental opportunities for diverse businesses.

### **Measures of Success**

- Corporation has established a Second Tier program that includes leadership commitment, resources, contract language, goal setting, selection of initial group of First Tier suppliers and commodities, training, reporting and audit, consequences for not meeting goals, incentives for goal attainment and recognition.
- The goals are reviewed with the First Tier suppliers.
- There is a formal system in place to measure the performance of these suppliers against goals.
- There are sanctions and/or remedial action plans if First Tier suppliers fall short of expectations.
- Goals should be reasonable, challenging, tailored by industry and subject to continuous improvement.
- There are alternative activities, such as developing an diverse supplier, for departments and individuals who do not meet their goals.
- Corporate processes mirror NMSDC guidelines.

## **9 Best Practice: UNDERSTANDING PUBLIC SECTOR SUPPLIER DIVERSITY**

Corporation has established a supplier diversity initiative to support government regulations that includes leadership commitment, resources, contract language, goal setting, training, reporting and audit, consequences for not meeting goals, incentives for goal attainment and recognition.

### **Measures of Success**

- Corporate processes mirror NMSDC guidelines.
- Corporation maintains a database of the principal products and services to be purchased/subcontracted and an identification of the types of subcontractors to be used (SB, HZSB, SDB, WOSB, VOSB, SDVOSB and LARGE).

- Corporation can describe its methods used to develop subcontracting goals for SB, HZSB, SDB, WOSB, VOSB and SDVOSB concerns.
- Corporation can describe how products/services to be purchased/subcontracted were determined and the types of small businesses to be used.
- Corporation has a way to determine the capabilities of the SB, HZSB, SDB, WOSB, VOSB and SDVOSB concerns.
- Corporation has a specific individual that is the program administrator.
- Corporation participates in public sector trade fairs, etc., including regional participation and support, with objectives and a method to measure outcomes.

**10 Best Practice: INTEGRATING SUPPLIER INTO SUSTAINABILITY INITIATIVES**

Corporation has established a supplier diversity initiative to support sustainability indexes that includes leadership commitment, resources, contract language goal setting, training, reporting and audit, consequences for not meeting goals, incentives for goal attainment and recognition.

**Measures of Success**

- Corporate process mirror NMSDC guidelines.
- Corporation maintains a database of the principal products and services to be purchased/subcontracted and an identification of the types of historically underutilized population.
- Corporation can describe its methods used to develop Purchasing/Supplier Diversity /subcontracting goals that support sustainability initiatives i.e. economic prosperity, community engagement, environmental stewardship.
- Corporation has a way to determine the capabilities of the historically-underutilized population groups that would support sustainability initiatives i.e. economic prosperity, community engagement, environmental stewardship.
- Corporation has a specific individual that is the program administrator.
- Corporation reports its supplier diversity performance externally to sustainability indexes in terms of economic prosperity, community engagement, environmental stewardship.

**11 Best Practice: ENGAGING HISTORICALLY BLACK COLLEGES & UNIVERSITIES (HBCUs)**

Corporation has established a supplier diversity initiative that supports HBCUs that includes leadership commitment, resources, contract language, goal setting, training, reporting and audit, consequences for not meeting goals, incentives for goal attainment and recognition.

### **Measures of Success**

- Corporation maintains a database of the principal products and services to be purchased/subcontracted from HBCUs.
- Corporation can describe its methods used to develop Purchasing/Supplier Diversity /subcontracting goals that support HBCUs.
- Corporation has a way to determine the capabilities of HBCUs.
- Corporation has a specific individual that is the program administrator.
- Corporation participates in recruiting career fairs at HBCUs, including regional participation and support, with objectives and a method to measure outcomes.

### **12 Best Practice: INTERNATIONAL SUPPLIER DIVERSITY**

Corporation has established an international supplier diversity initiative that supports historically underutilized population groups around the world that includes leadership commitment, resources, contract language, goal setting, training, reporting and audit, consequences for not meeting goals, incentives for goal attainment and recognition.

### **Measures of Success**

- Corporation has a way to determine which regions of the world have historically-underutilized population groups that can participate in the corporation's value chain (supply chain and go-to-market chain).
- Corporation has joined a non-government organization (NGO) that certifies local firms that are owned, operated and controlled by historically underutilized population group members.
- Corporation has a specific individual that is a program administrator.
- Corporation tracks purchases from firms owned, operated and controlled by historically underutilized population group members.

# REPORTING CHECKLIST

 **Diversity Best Practices**

## Reporting on Supplier Diversity – A Sample Checklist

Diversity Best Practices, a division of Working Mother Media, is the preeminent organization for organizational diversity thought leaders to share best practices and develop innovative solutions for culture change.

### 1) Total Dollars Per Year

- Dollars spent last year
- Percentage of total procurement

### 2) Executive Support

- CEO
- Executive Diversity Council
- Board of Directors

### 3) Structure and Staffing

- Provide the staff leadership
- Provide the structural support

### 4) Communicate the Goals and Results

- Publish the goals and results
- Use internal and external publications as well as the Internet
- Highlight some of your suppliers

### 5) Ensure Accountability for Meeting or Exceeding the Supplier Diversity Goals

- Measure results
- Award performance
- Penalize deficiencies and goals not reached
- Link to performance evaluations
- Provide periodic reports

### 6) Encourage Special Programs

- Matchmaking
- Mentoring



## RGMA 5 Levels of Supplier Diversity

Ralph G. Moore Founder and President

Ralph G. Moore | O 312.419.7250 | M 312.543.7048 | [ralphmoore@rgma.com](mailto:ralphmoore@rgma.com) | [www.rgma.com](http://www.rgma.com)

Ralph G. Moore is one of the foremost thought leaders in supplier and business diversity.

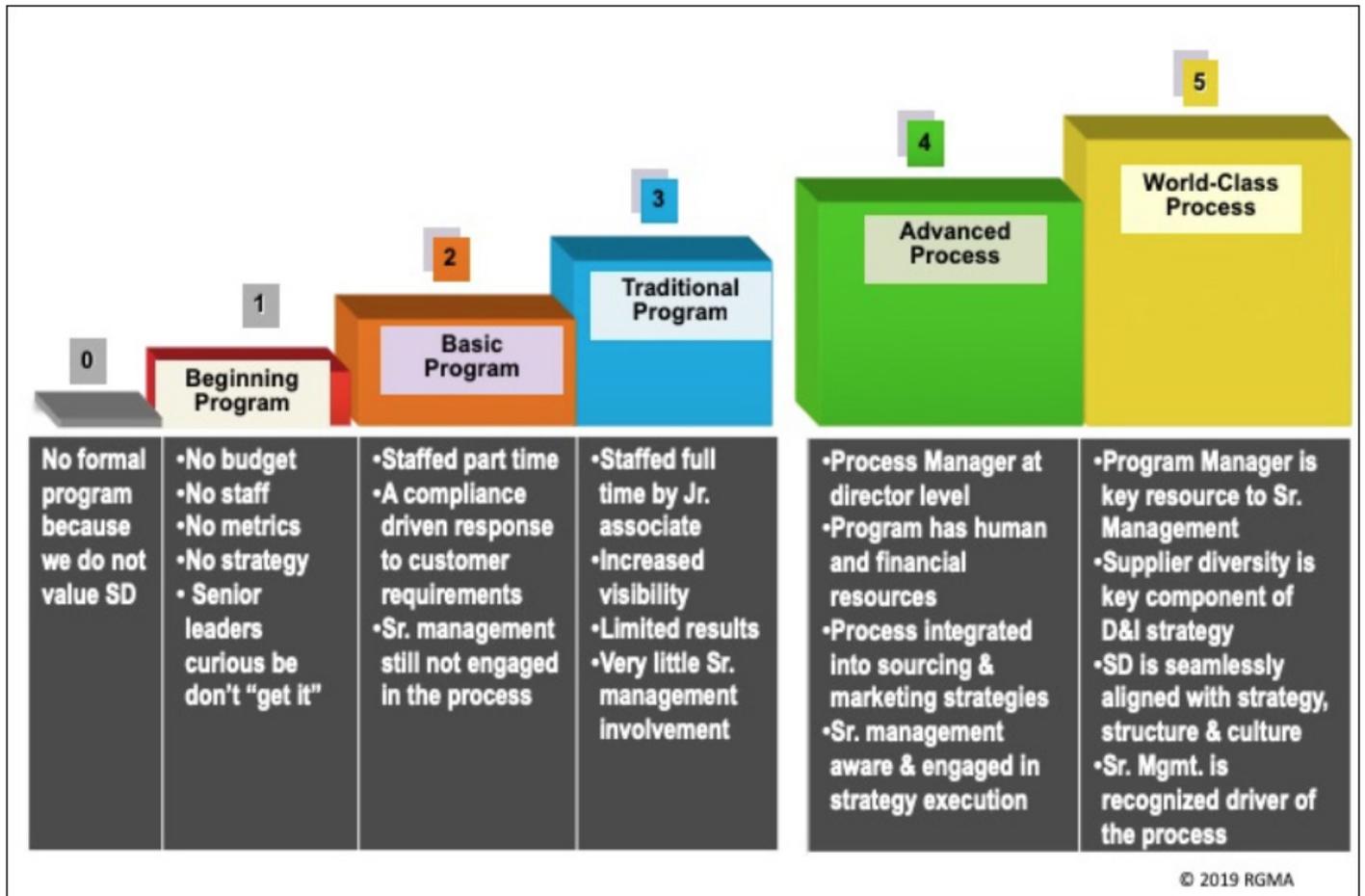
Moore founded Ralph G. Moore & Associates (RGMA).

RGMA is one of the premier consulting firms for helping employers to diversify their suppliers.

Moore was the lead trainer for the National Minority Supplier Development Council for over 20 years. In addition, RGMA consults government agencies on the development and implementation of Affirmative Action programs and help entrepreneurs raise capital.

As the creator of the RGMA 5 Levels of Supplier Diversity, Ralph is regarded as an industry expert in creating holistic and sustainable value.

# LEVELS OF MATURITY



# SUPPLIER DEVELOPMENT



## What Is Supplier Development?

Supplier development is about generating a new capability or competency in suppliers. It is often linked to, although distinct from, performance improvement. By developing suppliers, organizations can generate competitive advantage. This can manifest itself in a new product for sale, a new streamlined process or the implementation of a new standard.

Suppliers are an enormous—and often untapped—pool for innovation, continuous improvement and cost reduction. By enabling this potential, companies can enjoy an enormous impact on the bottom-line.

Incentivizing your procurement team to properly develop suppliers should be the number one priority.

This can be achieved by replacing your team’s “supplier” mindset with a “supply partner” mentality, emphasizing the importance of total cost of ownership, supplier performance, and growing and nurturing supplier relationships. Reward your team for how many suppliers they develop, not just for finding the most inexpensive sourcing option.



John Suarez | Marketing Manager | [john.suarez@cvmsolutions.com](mailto:john.suarez@cvmsolutions.com) | 708.236.2000

**CVM’s purpose is to support every supplier diversity program coast-to-coast and beyond.**

Supplier development is the process of working with suppliers to improve performance and expand their business capabilities to the benefit of the buying organization.

Supplier development is employed by many top-tier corporate [supplier diversity](#) programs because of the benefits:

- Improved transparency between the buying organization and the supplier
- Improved collaboration between organization and supplier
- Streamlined and reduced sourcing activities and lead times
- Improved quality, manufacturability, and reliability for new designs
- Increased supplier responsiveness
- Increased customer satisfaction

- Increased awareness of supplier diversity
- Increased visibility of full supply base to procurement, quality, and management departments



Quality Systems Enhancement (QSE) is a premier service provider for management systems, preparation and operational excellence.

Supplier Development is a program aimed at making suppliers performance better by providing them with what they need to be successful in the supply chain. Specifically developed to provide information about expected sales growth and products of the company or business. Supplier development trains in the application of quality and lean tools. By utilizing supplier development effectively, you should be able to increase product quality and profitability by providing the suppliers with more information about the entire supply chain.

#### **Who Should Pursue?**

- Companies that intend to reduce costs and streamline their operations while minimizing their defective products.
- Companies that would like to have a positive impact on an organization's business.
- Companies that are interested in partnering with their suppliers to help them achieve tremendous benefits in the local as well as global marketplace.
- Companies not afraid to share knowledge and improve their collaboration across the extended enterprise.
- Many companies and businesses find it a risky affair to collaborate with their suppliers especially in giving proprietary information about their company or business, whilst it is in taking these risks they may catapult their business profits and create a positive impact in the global marketplace. Companies that are willing to take these risks should pursue the supplier development program.

#### **Benefits of Supplier Development**

- Improved knowledge and collaboration sharing throughout the extended enterprise.
- Increased responsiveness to customer needs and market dynamics.
- Establishing and manufacturing of new designs, improved quality and reliability of products will be achieved.
- Inventory costs can be reduced between 25-50 percent.

- Time for sourcing of information is reduced by 25-30 percent
- Time to market a company's products is reduced by up to 20 percent.

### **Business Impact**

- Increase profits margins as a result of reduced costs of production.
- Program will help the company to reduce costs in various areas including: Inventory, purchasing and supply, investments, marketing costs, etc.
- Minimized defective products leading to reduced investments costs.
- Helps companies to achieve streamlined business operations.
- Enhances the positive impact of the business in the marketplace.
- Reduce its inventory costs to a minimum.
- Due to increased customer responsiveness, the company or business can increase its market share in the marketplace.
- Creates positive impact of the company or business in the global marketplace as a result of its partnership with the suppliers, which helps in the production of quality products and improved operations.
- Ultimately contributes to the continuous improvements of the company's projects.



## **Supplier Development**

**John Suarez | Marketing Manager | [john.suarez@cvmsolutions.com](mailto:john.suarez@cvmsolutions.com) | 708.236.2000**

**CVM Solutions is a premier provider of supplier diversity data, software, and management solutions.**

Supplier development is defined by the Chartered Institute of Procurement & Supply as “the process of working with certain suppliers on a one-to-one basis to improve their performance and expand capabilities for the benefit of the buying organization.”

As supplier diversity and procurement professionals interact with diverse suppliers, they are often teaching, guiding, and offering mentoring and development as well as other resources to help foster growth. The idea of supplier development is to help diverse suppliers become more sustainable in service to corporations and the marketplace as a whole.

## WHY INVEST IN SUPPLIER DEVELOPMENT

The supplier diversity industry offers many success stories of why investing in supplier development is essential for supplier diversity programs. Through focusing on supplier development, organizations are able to generate many mutually beneficial opportunities, including:

- Expanding the competitive landscape (pricing, service levels, and offerings) between the organization's existing and potential vendors
- Promoting innovation and “out-of-the-box” thought leadership through the entrance of new products, services, and solutions in the business
- Growing the sources and channels from which to procure products and services
- Creating a collaborative environment between suppliers that may see themselves as competitors, when in fact their solutions may be complementary, allowing them to team up on business opportunities on which they could not normally bid
- Showcasing the organization's commitment to the economic growth of the communities in which they operate
- Driving job creation
- Building the capacity of diverse businesses to not only serve the organization more effectively but also increasing their sustainability in the entire marketplace
- Increasing the organization's customer satisfaction, whether it be B2B or B2C Integrating supplier diversity into the strategic sourcing process, which will drive corporate-supplier-diversity goal achievement
- Increasing visibility and awareness of executive management to key diverse suppliers
- Fostering engagement of management executives across all parts of the organization, not just Procurement

## WHAT IS REQUIRED FOR SUCCESS?

Fortune 500 companies offer a wealth of ideas and best practices for succeeding in diverse supplier development. One such company says it “seeks to build capabilities and capacity of diverse suppliers to enhance their competitiveness” while supporting growth in local communities.

This company's primary focus is on training and development so that its diverse suppliers will not only be positioned to meet its needs but also those in the global marketplace.

As a starting point, this company seeks these qualities in suppliers it develops:

- “Certified diverse suppliers that deliver supply chain solutions.”
- “A track record of offering quality products and services at market-competitive pricing.”
- “Maintain a business plan and be financially solvent and positioned for growth.”

Some benefits that Fortune 500 companies offer to diverse suppliers under their development umbrella are an analysis of current business practices; market strategy and financial position; creation of an individual development plan that outlines supplier objectives; analysis of product or service offerings; and a wide range of resources and support, including executive education, operational coaches, and mentoring by industry leaders.

## GETTING STARTED

In crafting a supplier development program, supplier diversity professionals should think about the scope and scale of what makes sense for their program and overall for the organization.

Here are some considerations:

- Start a supplier development program first with a pilot group of five to 10 suppliers.
- Determine procedures for candidate selection and whether to include only current suppliers or invite potential new suppliers.
- Focus on major purchasing categories that are likely to increase the success of both the corporation and suppliers.
- Decide on a budget. How much the organization can afford to expend will determine whether the program is deemed formal or informal.
- What existing organizational resources will be proposed, such as internal or external training or access to organizational business leads.
- Develop a feedback system for suppliers in your program.

# SUPPLIER CATEGORIZATION

## Linnæus University **SUPPLIER DEVELOPMENT CATEGORIZATION** Sweden

Supplier development is considered as activities that create and maintain a network of competitive and efficient suppliers in order to improving firm's productivity and competitiveness.

Supplier development practices are differentiated into three general groups (basic, moderate, advance) in accordance with the level of firm's involvement and execution complexity.

Basic, is viewed as a supplier development practice to impose limited firm engagement and less investment of buying firm's resources that are known as personnel, time and capital. Hence, in order to enhance supplier(s) performance and capabilities, buying firms are willing to implement such practices.

Moderate, considers as mediate level of your company's involvement and execution complexity in the supplier development practices. As can be clearly seen from the meaning of moderate, it is obvious that it allocates for more resources (personnel, time and capital) by a company than the basic practice.

Advance, considers high level engagement of your company's involvement with its supplier(s), thus requires significant utilization of the company's resources. In this regard, cooperation between buyer-supplier is of a great importance that can be achieved through exchange of information.

### SUPPLIER DEVELOPMENT CATEGORIZATION

Basic Supplier Development	Moderate Supplier Development	Advance Supplier Development
Evaluation of suppliers	Visiting suppliers' plants	Training to suppliers
Performance and feedback to suppliers	Awards and approval of supplier's performance improvements	Collaboration with suppliers
Sourcing from a limited number of suppliers	Collaboration with suppliers in materials improvement.	Involvement of suppliers in the buyer's new product process.
Parts Standardization	Supplier certification	Intensive information exchange with suppliers
Supplier qualification		

# PERFORMANCE MEASURES

No	Elements	Level of importance				
		1= No Importance			5= High Importance	
1	Quality	1	2	3	4	5
2	Price	1	2	3	4	5
3	Delivery	1	2	3	4	5
4	Flexibility	1	2	3	4	5
5	Lead-time	1	2	3	4	5
6	Reliability	1	2	3	4	5
7	Responsiveness	1	2	3	4	5
8	Communication	1	2	3	4	5
9	Customer relationship	1	2	3	4	5
10	Supplier certification	1	2	3	4	5
11	Continuous improvement	1	2	3	4	5
12	Warranty	1	2	3	4	5
13	Supplier's location	1	2	3	4	5

# SMALL BUSINESS ADMINISTRATION



U.S. Small Business  
Administration

## UNDERSTANDING THE SMALL BUSINESS ADMINISTRATION

The **Small Business Administration (SBA)** is an autonomous U.S. government agency established in 1953 to bolster and promote the economy in general by aiding **small businesses**. One of the largest functions of the **SBA** is the provision of counseling to aid individuals trying to start and grow **businesses**.

The Small Business Administration offers substantial educational information with a specific focus on assisting small business startup and growth. In addition to educational events offered on the SBA's website, local offices also provide more personalized special events for small business owners.

SBA provides the following services to small businesses:

- **Access to capital:** The agency offers a variety of financial resources for small businesses including microlending, or small loans that are issued to those who wouldn't otherwise qualify for financing.
- **Entrepreneurial development:** This is driven by counseling services and low-cost training provided by the SBA. This is available to both new and existing business owners.
- **Contracting:** The SBA reserves 23% in government contracting dollars for small businesses with the help of other federal departments and agencies.
- **Advocacy:** The agency acts as an advocate by reviewing legislation and protecting the interests of small business owners across the country.



## REQUIRED ELEMENTS OF A SUBCONTRACTING PLAN

FAR52.219-9(d) The Offeror's subcontracting plan shall include the following:

(1) Separate goals, expressed in terms of total dollars subcontracted, and as a percentage of total planned subcontracting dollars, for the use of small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, and women-owned small business concerns as subcontractors. For individual subcontracting plans, and if required by the Contracting Officer, goals shall also be expressed in terms of percentage of total contract dollars, in addition to the goals expressed as a percentage of total subcontract dollars. The Offeror shall include all subcontracts that contribute to contract performance and may include a proportionate share of products and services that are normally allocated as indirect costs. In accordance with 43 U.S.C. 1626—

(i) Subcontracts awarded to an ANC or Indian tribe shall be counted towards the subcontracting goals for small business and small disadvantaged business concerns, regardless of the size or Small Business Administration certification status of the ANC or Indian tribe; and

(ii) Where one or more subcontractors are in the subcontract tier between the prime Contractor and the ANC or Indian tribe, the ANC or Indian tribe shall designate the appropriate Contractor(s) to count the subcontract towards its small business and small disadvantaged business subcontracting goals.

(A) In most cases, the appropriate Contractor is the Contractor that awarded the subcontract to the ANC or Indian tribe.

(B) If the ANC or Indian tribe designates more than one Contractor to count the subcontract toward its goals, the ANC or Indian tribe shall designate only a portion of the total subcontract award to each Contractor. The sum of the amounts designated to various Contractors cannot exceed the total value of the subcontract.

(C) The ANC or Indian tribe shall give a copy of the written designation to the Contracting Officer, the prime Contractor, and the subcontractors in between the prime Contractor and the ANC or Indian tribe within 30 days of the date of the subcontract award.

(D) If the Contracting Officer does not receive a copy of the ANC's or the Indian tribe's written designation within 30 days of the subcontract award, the Contractor that awarded the subcontract to the ANC or Indian tribe will be considered the designated Contractor.=

(2) A statement of—

(i) Total dollars planned to be subcontracted for an individual subcontracting plan; or the Offeror's total projected sales, expressed in dollars, and the total value of projected subcontracts to support the sales for a commercial plan;

(ii) Total dollars planned to be subcontracted to small business concerns (including ANC and Indian tribes);

(iii) Total dollars planned to be subcontracted to veteran-owned small business concerns;

(iv) Total dollars planned to be subcontracted to service-disabled veteran-owned small business;

(v) Total dollars planned to be subcontracted to HUBZone small business concerns;

(vi) Total dollars planned to be subcontracted to small disadvantaged business concerns (including ANCs and Indian tribes); and

(vii) Total dollars planned to be subcontracted to women-owned small business concerns.

(3) A description of the principal types of supplies and services to be subcontracted, and an identification of the types planned for subcontracting to—

(i) Small business concerns;

(ii) Veteran-owned small business concerns;

(iii) Service-disabled veteran-owned small business concerns;

(iv) HUBZone small business concerns;

(v) Small disadvantaged business concerns; and

(vi) Women-owned small business concerns.

(4) A description of the method used to develop the subcontracting goals in paragraph (d)(1) of this clause.

(5) A description of the method used to identify potential sources for solicitation purposes (e.g., existing company source lists, SAM, veterans service organizations, the National Minority Purchasing Council Vendor Information Service, the Research and Information Division of the Minority Business Development Agency in the Department of Commerce, or small, HUBZone, small disadvantaged, and women-owned small business trade associations). A firm may rely on the information contained in SAM as an accurate representation of a concern's size and ownership characteristics for the purposes of maintaining a small, veteran-owned small, service-disabled veteran-owned small, HUBZone small, small disadvantaged, and women-owned small business source list. Use of SAM as its source list does not relieve a firm of its responsibilities (e.g., outreach, assistance, counseling, or publicizing subcontracting opportunities) in this clause.

(6) A statement as to whether or not the Offeror included indirect costs in establishing subcontracting goals, and a description of the method used to determine the proportionate share of indirect costs to be incurred with—

(i) Small business concerns (including ANC and Indian tribes);

(ii) Veteran-owned small business concerns;

(iii) Service-disabled veteran-owned small business concerns;

(iv) HUBZone small business concerns;

(v) Small disadvantaged business concerns (including ANC and Indian tribes); and

(vi) Women-owned small business concerns.

(7) The name of the individual employed by the Offeror who will administer the Offeror's subcontracting program, and a description of the duties of the individual.

(8) A description of the efforts the Offeror will make to assure that small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, and women-owned small business concerns have an equitable opportunity to compete for subcontracts.

(9) Assurances that the Offeror will include the clause of this contract entitled "Utilization of Small Business Concerns" in all subcontracts that offer further subcontracting opportunities, and that the Offeror will require all subcontractors (except small business concerns) that receive subcontracts in excess of \$700,000 (\$1.5 million for construction of any public facility) with further subcontracting possibilities to adopt a subcontracting plan that complies with the requirements of this clause.

(10) Assurances that the Offeror will—

(i) Cooperate in any studies or surveys as may be required;

(ii) Submit periodic reports so that the Government can determine the extent of compliance by the Offeror with the subcontracting plan;

(iii) After November 30, 2017, include subcontracting data for each order when reporting subcontracting achievements for indefinite-delivery, indefinite-quantity contracts with individual subcontracting plans where the contract is intended for use by multiple agencies;

(iv) Submit the Individual Subcontract Report (ISR) and/or the Summary Subcontract Report (SSR), in accordance with paragraph (I) of this clause using the Electronic Subcontracting Reporting System (eSRS) at <http://www.esrs.gov>. The reports shall provide information on subcontract awards to small business concerns (including ANCs and Indian tribes that are not small businesses), veteran-owned small business concerns, service-disabled veteran-owned small business concerns, HUBZone small business concerns, small disadvantaged business concerns (including ANCs and Indian tribes that have not been certified by SBA as small disadvantaged businesses), women-owned small business concerns, and for NASA only, Historically Black Colleges and Universities and Minority Institutions. Reporting shall be in accordance with this clause, or as provided in agency regulations;

(v) Ensure that its subcontractors with subcontracting plans agree to submit the ISR and/or the SSR using eSRS;

(vi) Provide its prime contract number, its unique entity identifier, and the email address of the Offeror's official responsible for acknowledging receipt of or rejecting the ISRs, to all first-tier subcontractors with subcontracting plans so they can enter this information into the eSRS when submitting their ISRs; and

(vii) Require that each subcontractor with a subcontracting plan provide the prime contract number, its own unique entity identifier, and the email address of the subcontractor's official responsible for acknowledging receipt of or rejecting the ISRs, to its subcontractors with subcontracting plans.

(11) A description of the types of records that will be maintained concerning procedures that have been adopted to comply with the requirements and goals in the plan, including establishing source lists; and a description of the offeror's efforts to locate small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, and women-owned small business concerns and award subcontracts to them. The records shall include at least the following (on a plant-wide or company-wide basis, unless otherwise indicated):

(i) Source lists (e.g., SAM), guides, and other data that identify small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, and women-owned small business concerns.

(ii) Organizations contacted in an attempt to locate sources that are small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, or women-owned small business concerns.

(iii) Records on each subcontract solicitation resulting in an award of more than \$150,000, indicating—

(A) Whether small business concerns were solicited and, if not, why not;

(B) Whether veteran-owned small business concerns were solicited and, if not, why not;

(C) Whether service-disabled veteran-owned small business concerns were solicited and, if not, why not;

(D) Whether HUBZone small business concerns were solicited and, if not, why not;

(E) Whether small disadvantaged business concerns were solicited and, if not, why not;

(F) Whether women-owned small business concerns were solicited and, if not, why not; and

(G) If applicable, the reason award was not made to a small business concern.

(iv) Records of any outreach efforts to contact—

(A) Trade associations;

(B) Business development organizations;

(C) Conferences and trade fairs to locate small, HUBZone small, small disadvantaged, service-disabled veteran-owned, and women-owned small business sources; and

(D) Veterans service organizations.

(v) Records of internal guidance and encouragement provided to buyers through—

(A) Workshops, seminars, training, etc.; and

(B) Monitoring performance to evaluate compliance with the program's requirements.

(vi) On a contract-by-contract basis, records to support award data submitted by the offeror to the Government, including the name, address, and business size of each subcontractor. Contractors having commercial plans need not comply with this requirement.

(12) Assurances that the Offeror will make a good faith effort to acquire articles, equipment, supplies, services, or materials, or obtain the performance of construction work from the small business concerns that it used in preparing the bid or proposal, in the same or greater scope, amount, and quality used in preparing and submitting the bid or proposal. Responding to a request for a quote does not constitute use in preparing a bid or proposal. The Offeror used a small business concern in preparing the bid or proposal if—

(i) The Offeror identifies the small business concern as a subcontractor in the bid or proposal or associated small business subcontracting plan, to furnish certain supplies or perform a portion of the subcontract; or

(ii) The Offeror used the small business concern's pricing or cost information or technical expertise in preparing the bid or proposal, where there is written evidence of an intent or understanding that the small business concern will be awarded a subcontract for the related work if the Offeror is awarded the contract.

(13) Assurances that the Contractor will provide the Contracting Officer with a written explanation if the Contractor fails to acquire articles, equipment, supplies, services or materials or obtain the performance of construction work as described in (d)(12) of this clause. This written explanation must be submitted to the Contracting Officer within 30 days of contract completion.

(14) Assurances that the Contractor will not prohibit a subcontractor from discussing with the Contracting Officer any material matter pertaining to payment to or utilization of a subcontractor.

(15) Assurances that the offeror will pay its small business subcontractors on time and in accordance with the terms and conditions of the underlying subcontract and notify the contracting officer when the prime contractor makes either a reduced or an untimely payment to a small business subcontractor (see 52.242-5).

**Important:** The Small Business Administration has at least one office in every state.

# DEFINITIONS

## WHAT IS DIVERSITY?

It means understanding that everyone is unique and recognizing our individual differences. These can be along the dimensions of race, ethnicity, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs or other ideologies.

## WHAT IS A MINORITY SUPPLIER?

### Definition I

As defined by the NMSDC, a minority-owned business (MBE) is a for-profit enterprise, regardless of size, physically located in the United States or its trust territories, which is owned, operated and controlled by minority group members. “Minority group members” are United States citizens who are Asian, Black, Hispanic and Native American. Ownership by minority individuals means the business is at least 51 percent owned by such individuals or, in the case of a publicly-owned business, at least 51 percent of the stock is owned by one or more such individuals. Further, the management and daily operations are controlled by those minority group members.

For purposes of NMSDC’s program, a minority group member is an individual who is a U.S. citizen with at least 1/4 or 25 percent minimum (documentation to support claim of 25 percent required from applicant) of the following:

- **Asian-Indian:** A U.S. citizen whose origins are from India, Pakistan and Bangladesh.
- **Asian-Pacific:** A U.S. citizen whose origins are from Japan, China, Indonesia, Malaysia, Taiwan, Korea, Vietnam, Laos, Cambodia, the Philippines, Thailand, Samoa, Guam, the U.S. Trust Territories of the Pacific or the Northern Marianas.
- **Black:** A U.S. citizen having origins in any of the Black racial groups of Africa.
- **Hispanic:** A U.S. citizen of true-born Hispanic heritage, from any of the Spanish-speaking areas of the following regions: Mexico, Central America, South America and the Caribbean Basin only. Brazilians shall be listed under Hispanic designation for review and certification purposes.
- **Native American:** A person who is an American Indian, Eskimo, Aleut or Native Hawaiian, and regarded as such by the community of which the person claims to be a part. Native Americans must be documented members of a North American tribe, band or otherwise organized group of native people who are indigenous to the continental United States and proof can be provided through a Native American Blood Degree Certificate (i.e., tribal registry letter, tribal roll register number).

## Definition II

As defined by the NMSDC a minority business may be certified as a minority “controlled” enterprise if the minority owners own at least 30 percent of the economic equity of the firm. This occurs when non-minority institutional investors contribute a majority of the firm’s risk capital (equity). Under this special circumstance, a business may be certified as a minority “controlled” firm if the following criteria are met:

- Minority management/owners control the day-to-day operations of the firm.
- Minority management/owners retain a majority (no less than 51 percent) of the firm’s “voting equity”.
- Minority owner/s operationally control the board of directors (i.e., must appoint a majority of the board of directors).

## Definition III

For federal government reference, a diverse supplier is a business establishment which meets one or more of the following criteria: (a) a small business, as defined in Title 15, Section 632 of the United States Code and related regulations; (b) a small business owned and controlled by socially disadvantaged individuals (at least fifty-one percent (51) percent of the business is owned and controlled by one or more socially and economically disadvantaged individuals and the management and daily business operations are controlled by one or more such individuals); (c) a business that is at least fifty-one percent (51) percent owned by a woman or women who also control and operate the business; (d) a small business that obtains HUBZone (Historically Underutilized Business Zone) certification (maintains a principal office in a HUBZone, at least fifty-one percent (51) percent of the business is owned and controlled by one or more U.S. citizens, and at least thirty-five percent (35%) of its employees reside in a HUBZone); (e) a business that is at least fifty-one percent (51) percent owned by a service-disabled veteran (an individual who has served in the U.S. armed forces and has received an honorable discharge documented by DD Form 214, Certificate of Release of Discharge from Active Duty) or veterans who also control and operate the business; (f) a business that is at least fifty-one percent (51) percent owned by a veteran or veterans who also control and operate the business.



## BUSINESS DEFINITIONS

Jaymie White | Diversity Reporting Solutions | President and CEO | [jaymie.white@supliertynews.com](mailto:jaymie.white@supliertynews.com)

**Suplierty News is a boutique news organization that looks to inform audiences about opportunities in supplier diversity, small business, and social procurement.**

**Acquisition:**

The acquiring of supplies or services by the federal government with appropriated funds through purchase or lease.

**Affiliates:**

Business concerns, organizations, or individuals that control each other or that are controlled by a third party. Control may include shared management or ownership; common use of facilities, equipment, and employees; or family interest.

**Asian-Indian American:**

A U.S. citizen whose origins are from India, Pakistan and Bangladesh.

**Asian-Pacific Americans:**

A U.S. citizen whose origins are from Japan, China, Taiwan, Korea, Vietnam, Laos, Cambodia, the Philippines, Samoa, Guam, the U.S. Trust Territories of the Pacific or the Northern Marianas.

**Best and Final Offer:**

For negotiated procurements, a contractor's final offer following the conclusion of discussions.

**Black-American:**

A U.S. citizen having origins in any of the Black racial groups of Africa.

**Business Information Centers (BICs):**

One-stop locations for information, education, and training designed to help entrepreneurs start, operate, and grow their businesses. The centers provide free on-site counseling, training courses, and workshops and have resources for addressing a broad variety of business startup and development issues.

**California-Based Disabled Veteran:**

California-Based Disabled Veteran means veteran of the military, naval, or air service of the United States with a service-connected disability who is a resident of the State of California.

**Certificate of Competency:**

A certificate issued by the Small Business Administration (SBA) stating that the holder is “responsible” (in terms of capability, competency, capacity, credit, integrity, perseverance, and tenacity) for the purpose of receiving and performing a specific government contract.

**Certified 8(a) Firm:**

A firm owned and operated by socially and economically disadvantaged individuals and eligible to receive federal contracts under the Small Business Administration’s 8(a) Business Development Program.

**Concern:**

Concern means any business entity organized for profit (even if its ownership is in the hands of a nonprofit entity) with a place of business located in the United States and which makes a significant contribution to the U.S. economy through payment of taxes and/ or use of American products, material and/or labor, etc. Concern includes but is not limited to an individual, partnership, corporation, joint venture, association, or cooperative. For the purpose of making affiliation findings (see FAR 19.101) any business entity, whether organized for profit or not, and any foreign business entity; i.e., any entity located outside the United States, shall be included.

**Contract:**

A mutually binding legal relationship obligating the seller to furnish supplies or services (including construction) and the buyer to pay for them.

**Contracting:**

Purchasing/Supplier Diversity , renting, leasing, or otherwise obtaining supplies or services from nonfederal sources. Contracting includes the description of supplies and services required, the selection and solicitation of sources, the preparation and award of contracts, and all phases of contract administration. It does not include grants or cooperative agreements.

**Contracting Officer:**

A person with the authority to enter into, administer, and/or terminate contracts and make related determinations and findings.

**Contractor Team Arrangement:**

An arrangement in which (a) two or more companies form a partnership or joint venture to act as potential prime contractor; or (b) an agreement by a potential prime contractor with one or more other companies to have them act as its subcontractors under a specified government contract or acquisition program.

**Defense Acquisition Regulatory Council (DARC):**

A group composed of representatives from each Military department, the Defense Logistics Agency, and the National Aeronautics and Space Administration and that oversees the Federal Acquisition Regulation (FAR) on a joint basis with the Civilian Agency Acquisition Council (CAAC).

**Defense Contractor:**

Any person who enters into a contract with the United States for the production of material or for the performance of services for the national defense.

**Disabled Veteran Business Enterprise:**

Disabled Veteran Business Enterprise means a business concern certified by the administering agency as meeting all of the following requirements: [1] It is a sole proprietorship at least 51% owned by one or more disabled veterans or, in the case of a publicly owned business, at least 51% of its stock is owned by one or more disabled veterans; a subsidiary which is wholly owned by a parent corporation, but only if at least 51% of the voting stock of the parent corporation is owned by one or more disabled veterans; or a joint venture in which at least 51% of the joint venture's management and control and earnings are held by one or more disabled veterans. [2] The management and control of the daily business operations are by one or more disabled veterans. The disabled veterans who exercise management and control are not required to be the same disabled veterans as the owners of the business concern. [3] It is a sole proprietorship, corporation, or partnership with its home office located in the United States, which is not a branch or subsidiary of a foreign corporation, foreign firm, or other foreign-based business.

**Diversity-Owned Business:**

A diversity-owned business is a for-profit enterprise, regardless of size, physically located in the United States or its trust territories, which is owned, operated and controlled by diversity group members. "Diversity group members" are United States citizens who are Asian, Black, Hispanic and Native American. Ownership by diversity individuals means the business is at least 51% owned by such individuals or, in the case of a publicly-owned business, at least 51% of the stock is owned by one or more such individuals. Further, the management and daily operations are controlled by those diversity group members.

**Economically Disadvantaged Individuals:**

Economically Disadvantaged Individuals means socially disadvantaged individuals whose ability to compete in the free enterprise system is impaired due to diminished opportunities to obtain capital and credit as compared to others in the same line of business who are not socially disadvantaged. Individuals who certify that they are members of named groups (Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, and Subcontinent-Asian Americans) are to be considered socially and economically disadvantaged.

**Emerging Small Business:**

A small business concern whose size is no greater than 50 percent of the numerical size standard applicable to the Standard Industrial Classification code assigned to a contracting opportunity.

**Equity:**

An accounting term used to describe the net investment of owners or stockholders in a business. Under the accounting equation, equity also represents the result of assets less liabilities.

**Fair and Reasonable Price:**

A price that is fair to both parties, considering the agreed-upon conditions, promised quality, and timeliness of contract performance. "Fair and reasonable" price is subject to statutory and regulatory limitations.

**Federal Acquisition Regulation (FAR):**

The body of regulations which is the primary source of authority governing the government procurement process. The FAR, which is published as Chapter 1 of Title 48 of the Code of Federal Regulations, is prepared, issued, and maintained under the joint auspices of the Secretary of Defense, the Administrator of General Services Administration, and the Administrator of the National Aeronautics and Space Administration. Actual responsibility for maintenance and revision of the FAR is vested jointly in the Defense Acquisition Regulatory Council (DARC) and the Civilian Agency Acquisition Council (CAAC).

**Full and Open Competition:**

With respect to a contract action, "full and open" competition means that all responsible sources are permitted to compete.

**Handicapped Individual:**

A handicapped individual means a person who has a physical, mental or emotional impairment, defect, ailment, disease or disability of a permanent nature which in any way limits the selection of the type of employment for which the person would otherwise be qualified or qualifiable.

**Hispanic-American:**

A U.S. citizen of true-born Hispanic heritage, from any of the Spanish-speaking areas of Latin America or the following regions: Mexico, Central America, South America and the Caribbean Basin only.

**Indian Tribe:**

Indian Tribe means any Indian tribe, band, nation, or other organized group of community of Indians, including any Alaska Native Corporation as defined in 13 CFR 124.100 which is recognized as eligible for the special programs and services provided by the U.S. to Indians because of their status as Indians, or which is recognized as such by the State in which such tribe, band, nation, group, or community resides.

**Intermediary Organization:**

Organizations that play a fundamental role in encouraging, promoting, and facilitating business-to-business linkages and mentor-protégé partnerships. These can include both nonprofit and for-profit organizations: chambers of commerce; trade associations; local, civic, and community groups; state and local governments; academic institutions; and private corporations.

**Joint Venture:**

In the SBA Mentor-Protégé Program, an agreement between a certified 8(a) firm and a mentor firm to perform a specific federal contract.

**Labor surplus area:**

Labor surplus area means a geographical area identified by the Department of Labor in accordance with 20 CFR Part 654, Subpart A, as an area of concentrated unemployment or underemployment or an area of labor surplus.

**Labor surplus area concern:**

Labor surplus area concern means a concern that together with its first-tier sub-contractors will perform substantially in labor surplus areas. Performance is substantially in labor surplus areas if the costs incurred under the contract on account of manufacturing, production, or performance of appropriate services in labor surplus areas exceed 50 per cent.

**Native Americans:**

A person who is an American Indian, Eskimo, Aleut or Native Hawaiian, and regarded as such by the community of which the person claims to be a part. Native Americans must be documented members of a North American tribe, band or otherwise organized group of native people who are indigenous to the continental United States and proof can be provided through a Native American Blood Degree Certificate (i.e., tribal registry letter, tribal roll register number).

**Native Hawaiian Organization:**

Native Hawaiian Organization means any community service organization serving Native Hawaiians in, and chartered as a not-for-profit organization by, the State of Hawaii, which is controlled by Native Hawaiians, and whose business activities will principally benefit such Native Hawaiians.

**Negotiation:**

Contracting through the use of either competitive or other-than-competitive proposals and discussions. Any contract awarded without using sealed bidding procedures is a negotiated contract.

**NSSDP:**

National Standardized Supplier Diversity Profile Form

**One-Stop Capital Shops (OSCS):**

OSCSs are the SBA's contribution to the Empowerment Zones/Enterprise Communities Program, an interagency initiative that provides resources to economically distressed communities. The shops provide a full range of SBA lending and technical assistance programs.

**Partnering:**

A mutually beneficial business-to-business relationship based on trust and commitment and that enhances the capabilities of both parties.

**Prime Contract:**

A contract awarded directly by the Federal government.

**Dynamic Small Business Search (DSBS):**

SBA's Procurement Marketing Access Network is a "virtual" one-stop procurement shop. The database offers an electronic search engine for contracting officers and serves as a marketing tool for small businesses that register with the system. It contains the profiles of thousands of small firms.

**Protégé:**

A firm in a developmental stage that aspires to increasing its capabilities through a mutually beneficial business-to-business relationship.

**Public or private organization for the handicapped:**

Public or private organization for the handicapped means one which (a) is organized under the laws of the United States or of any State, operated in the interest of handicapped individuals, the net income of which does not inure in whole or in part the benefit of any shareholder or other individual; (b) complies with any applicable occupational health and safety standard prescribed by the Secretary of Labor; and (c) employs in the production of commodities and in the provision of services, handicapped individuals for not less than 75 percent of the direct labor required for the production or provision of the commodities or services.

**Request for Proposal (RFP):**

A document outlining a government agency's requirements and the criteria for the evaluation of offers.

**SCORE:**

The Service Corps of Retired Executives (SCORE) is a 12,400-member volunteer association sponsored by the SBA. SCORE matches volunteer business-management counselors with present prospective small business owners in need of expert advice.

**Small Business Concern:**

Means a concern, including its affiliates, that is independently owned and operated and is not dominant in the field of operation for which it is bidding on government contracts, and qualified as a small business under the criteria and size standards in 13 CFR part 121 (see FAR 19.102). Such a concern is not dominant in its field of operation when it does not exercise a controlling or major influence on a national basis in a kind of business activity in which a number of business concerns are primarily engaged. Past three year average revenue less than: Building maintenance services \$12M Computer maintenance & repair \$18M Computer programming \$18M Equipment rental & leasing \$ 6M Security systems services \$ 9M Special trade contractors \$ 7M (plumbing, HVAC, oleo., flooring, etc.) Temporary help services \$ 5m Computer rental & leasing \$18M Employs less than: Computer peripheral equipment 1,000 Electronic components 500 Fabricated metal products 500 Furniture & fixtures 500

**Small Business Development Centers (SBDC):**

SBDCs offer a broad spectrum of business information and guidance as well as assistance in preparing loan applications.

**Small Business Innovative Research (SBIR) Contract:**

A type of contract designed to foster technological innovation by small businesses with 500 or fewer employees. The SBIR contract program provides for a three-phased approach to research and development projects: technological feasibility and concept development; the primary research effort; and the conversion of the technology to a commercial application.

**Small Disadvantaged Business concern:**

Small Disadvantaged Business concern means a small business concern that is at least 51 percent unconditionally owned by one or more individuals who are both socially and economically disadvantaged, or a publicly owned business that has at least 51 percent of its stock unconditionally owned by one or more socially and economically disadvantaged individuals and that has its management and daily business controlled by one or more such individuals. This term also means a small business concern that is at least 51 percent unconditionally owned by an economically disadvantaged Indian tribe or Native Hawaiian Organization, or a publicly owned business that has at least 51 percent of its stock unconditionally owned by one of these entities, that has its management and daily business controlled by members of an economically disadvantaged Indian tribe or Native Hawaiian Organization, and that meets the requirements of 13 CFR part 124.

**Socially Disadvantaged Individuals:**

Socially Disadvantaged Individuals means individuals who have been subject to racial or ethnic prejudice or cultural bias because of their identify as a member of a group without regard to their qualities as individuals.

**Standard Industrial Classification (SIC) Code:**

A code representing a category within the Standard Industrial Classification System administered by the Statistical Policy Division of the U.S. Office of Management and Budget. The system was established to classify all industries in the US economy. A two-digit code designates each major industry group, which is coupled with a second two-digit code representing subcategories

**Subcontinent Asian Americans:**

Subcontinent Asian Americans means United States citizens whose origins are in India, Pakistan, Bangladesh, Sri Lanka, Bhutan and Nepal.

**Subcontract:**

A contract between a prime contractor and a subcontractor to furnish supplies or services for the performance of a prime contract or subcontract.

**Women-owned Small Business:**

Women-owned Small Business means a small business concerns (a Which is at least 51 percent owned by one or more women or, in the case of any publicly owned business, at least 51 percent of the stock of which is owned by one or more women) Whose management and daily business operations are controlled by one or more women.

## **8(a) Business Development Program**

The 8(a) Business Development Program is a Small Business Administration (SBA) business assistance program that aids in the development of small businesses that are majority (51%) owned and operated by socially and economically disadvantaged persons. The program is a nine year endeavor broken into two phases (four year development stage and five year transition stage). According to the SBA 8(a) program website, “Participants can receive sole-source contracts, up to a ceiling of \$4 million for goods and services and \$6.5 million for manufacturing.” In addition, 8(a) businesses are also allowed to connect on contract bids in the form of joint ventures. A limit can include a total dollar value of sole-source contracts where participants can only receive \$100 million or five times the value of its primary NAICS code while in the 9 year program.

### **Certification**

Certification refers to the confirmation or authentication of certain requirements by an external organization.

Within Supplier Diversity and Small Business, certifications point to the verification of certain business aspects including

- the ethnicity and / or gender of the majority owner(s)
- Day to day operational control
- Location
- Business function (products and services offered)
- and more

Certifications are produced from a federal, state, or city department or a nationally recognized third party certifying organization (e.g. National Minority Supplier Development Council). These Certifying Agencies handle the authentication process of a business which may take up to 90 days to complete. This may include an application where the external organization will collect business information, fin

### **Certifying Agency (Council)**

Within the Supplier Diversity and Small Business industries, a Certifying Agency or Council is an external organization that verifies the ownership and operational status of a company. To do this, a Certifying Agency handles the Certification authentication process for the business including the business, financial, and ownership review. Certifying Agencies may also complete site visits and interviews depending on the organization performing the business verification.

Certifying Agencies may be federal, state, or city departments as well as nationally recognized third party certifying organizations.

**Well known federal and third party Certifying Agencies include (does not include city and state government certifications):**

**Disabled-Owned Business - Disability:IN**

[US Business Leadership Network Disability Supplier Diversity Program](#)

**Global**

[Canadian Aboriginal and Minority Supplier Council](#)

[Minority Supplier Development in China](#)

[MSDUK](#)

[Supply Nation \(Australia\)](#)

[The South African Supplier Development Council](#)

**LGBT-Owned Business**

[National Gay & Lesbian Chamber of Commerce](#)

**Minority-Owned Business**

[Alaska Native Corporations](#)

[National Minority Supplier Development Council](#)

**Veteran-Owned Business**

[National Veteran Business Development Council](#)

[National Women Business Owners Corporation – Veteran Businesses](#)

[Veteran-Owned Small Business Program](#)

**Service-Disabled Veteran-Owned Business**

[Service-Disabled Veteran-Owned Small Business Concern Program](#)

[US Business Leadership Network Disability Supplier Diversity Program](#)

**Small Business**

[Small Business Administration](#)

[8\(a\) Business Development Program](#)

[HUBZone – Historically Underutilized Business Zones Program](#)

**Woman-Owned Business**

[National Women Business Owners Corporation](#)

[WeConnect International](#)

[Women’s Business Enterprise National Council](#)

[Women-Owned Small Business](#)

## Classification

Classification is the action of classifying one or more items or properties according to shared characteristics. Within Supplier Diversity, the difference between classification and commodity is that classification is an industry standard whereas commodity is based on an organization's internal setup.

The term Classification within the field of Supplier Diversity highlights the multiple types of Diverse Suppliers prevalent in the industry today. Diversity classifications are general and may deal with both certified and non-certified suppliers. Classifications within the Supplier Diversity industry include the following:

- Disabled-Owned Business
- LGBT-Owned Business
- Minority-Owned Business
- Small Business
- Veteran-Owned Business
- Service-Disabled Veteran-Owned Business
- Woman-Owned Business

## Commodity List

A Commodity List refers to a company's internal index that described goods and services the corporation purchases. A commodity list is different than a company's Purchasing/Supplier Diversity group as it is usually much bigger and includes can include specific product types.

Commodity lists are unique to each corporation and usually differ when highlighting terms or descriptions of goods and services.

## Data Enrichment (Supplier Diversity)

Data enrichment is the process in which an organization's raw supplier data is enhanced and improved upon. The focus of data enrichment within supplier diversity is to provide visibility of certified diverse suppliers within an organization's supply base. Enrichment practices can take anywhere from one week to a few months depending on a company's active supply base.

Data Enrichment is usually done to discover new diverse suppliers within an organization's supply base or update information on current diverse suppliers on an annual basis. This information is then used for internal reports to department heads or external Tier II and government reports.

## Direct Spend (Purchases)

Direct spend refers to a type of Tier II Reporting spend where a Tier I Prime Supplier's Diverse Spend can be directly attributed to a specific Customer or contract. An example of this is if a Corporate pays a Tier I Prime Supplier \$1 million for a tire contract, and the Tier I Prime Supplier purchases rubber from a small or diverse vendor for the purpose of fulfilling the \$1 million contract.

The product or service can include anything from manufacturing to logistics to IT to janitorial services just as long as it can be directly tied to a Customer or contract.

Please note that 100% of the spend that is directly used for a contract or Customer may be reported as Direct Spend for said Customer or contract.

If Diverse Spend cannot be directly attributed to a Customer or contract, it is known as Indirect Spend.

### **Disabled-Owned Business**

A Disabled-Owned Business or a Disability Owned Business Enterprise is a company that is majority owned (51 percent) and operated by a person(s) with a disability. This may include a person or people with a physical disability or are service-disabled veterans who are either U.S. citizens or lawful permanent residents.

The default certification agency for disabled businesses is the US Business Leadership Network, which can be visited at <http://www.usbln.org>

### **Diverse Supplier**

A Diverse Supplier, also known as a Diverse Business or Diverse Vendor is an organization that is majority owned and operated (>50) by a person or persons who are socially and economically disadvantaged as defined by the corresponding country of residence or corporation. This may include identified minority groups, women, members of the LGBTQ community, military veterans, people located in rural areas, small businesses, and physically disabled persons.

### **Diverse Spend**

Diverse Spend is the Purchasing/Supplier Diversity dollars spent with Diverse Suppliers within an organization. Diverse spend is usually tracked and promoted internally by an organization's Supplier Diversity department or policy.

### **HUBZone Program**

The HUBZone program is a United States Small Business Administration (SBA) program for small businesses that conducts business in Historically Underutilized Business Zones (HUBZones). Government agencies are required by law (HUBZone Empowerment Act) to contract with HUBZone certified businesses for more than 3% of their budget on an annual basis. There is no limit to the length of time an organization can maintain its HUBZone status as long as it meets the following criteria (per wiki)

1. The firm must be a small business based on the [North American Industry Classification System](#) (NAICS)<sup>[2]</sup> for size standards.
2. The business must be at least 51% owned and controlled by U.S. citizens, or a Community Development Corporation, an agricultural cooperative, or an Indian tribe (including Alaska Native Corporations).<sup>[3]</sup>

3. The firm's principal office (the location where the greatest number of employees perform their work, excluding contract sites) must be in a HUBZone.
4. 35% of the firm's total workforce must reside in a HUBZone

To learn more about the HUBZone program [CLICK HERE](#)

To view the top government agencies that purchase from Small Businesses [CLICK HERE](#)

### **Indirect Spend (Purchases)**

Indirect spend refers to a type of Tier II Reporting spend where a Tier I Prime Supplier's Diverse Spend cannot be attributed to any specific Customer or contract. Indirect Spend is the most common form of spend and can be attributed to multiple customers versus Direct Spend which is attributed to a specific contract or Customer.

Indirect Spend is calculated by taking a Tier I Prime Supplier's Customer Sales and dividing it by Total North American Sales. This Indirect Spend percentage can then be used to determine the amount of Diverse Spend that is attributed to a Customer.

An example of Indirect Spend allocation is shown below:

Tier I Prime Supplier (Prime A) has 3 Customers. Customer sales are provided in the example below

Prime A

- Customer A Sales: \$10,000,000.00
- Customer B Sales: \$20,000,000.00
- Customer C Sales: \$10,000,000.00

Prime A also completes the amount of Total North American Sales it has achieved for the reporting period

- Total North American Sales: \$100,000,000.00

In addition, Prime A also submits the amount of Total Indirect Spend

- Total Diverse Indirect Spend: \$20,000,000.00

To figure out how much Diverse Indirect Spend is attributable to each Customer, the Indirect Spend Percentage must be calculated on a customer to customer basis. As noted previously, Indirect Spend is calculated by taking a Tier I Prime Supplier's Customer Sales and dividing it by Total North American Sales.

Customer A Sales (\$10M) / Total North American Sales (\$100M) = Indirect Spend % (10%)

Customer B Sales (\$20M) / Total North American Sales (\$100M) = Indirect Spend % (20%)

Customer C Sales (\$10M) / Total North American Sales (\$100M) = Indirect Spend % (10%)

Once calculated, to discover the dollar amount that is attributable to each Customer, Prime A will use the Indirect Spend % and multiply it by the Total Diverse Indirect Spend.

*Customer A Indirect Spend % (10%) X Total Diverse Indirect Spend (\$20M) = Customer A Allocated Diverse Indirect Spend (\$2,000,000.00 or \$2M)*

*Customer B Indirect Spend % (20%) X Total Diverse Indirect Spend (\$20M) = Customer B Allocated Diverse Indirect Spend (\$4,000,000.00 or \$4M)*

*Customer C Indirect Spend % (10%) X Total Diverse Indirect Spend (\$20M) = Customer C Allocated Diverse Indirect Spend (\$2,000,000.00 or \$2M)*

Total Indirect Spend refers to the total amount of Indirect Spend a Prime has completed with its suppliers while Allocated Indirect Spend refers to spend that is specific to a Customer based on the Indirect Spend percentage.

The product or service can include anything from manufacturing to logistics to IT to janitorial services just as long as it can be directly tied to a Customer or contract.

## **LGBTQ-Owned Business**

A LGBT-owned business or LGBT Business Enterprise (LGBTBE) is a company that is at least 51% owned and operated by a single or group of LGBT citizens. LGBTBEs are certified by the third party organization known as the [\*National Gay & Lesbian Chamber of Commerce \(NGLCC\)\*](#). Since its inception the NGLCC has expanded to cover bi-sexual, transsexual and queer individuals.

Please keep in mind that not every LGBTBE is also a small business and vice versa.

According to the NGLCC, a LGBTBE must meet the below criteria to become a certified business:

- *Majority (at least 51%) owned, operated, managed, and controlled by an LGBT person or persons who are either U.S. citizens or lawful permanent residents*
- *Exercises independence from any non-LGBT business enterprise*
- *Has its principal place of business (headquarters) in the United States?*
- *Has been formed as a legal entity in the United States*

For more information on the certification process, please visit the NGLCC website [\*HERE\*](#)

## **Minority-Owned Business**

A Minority-Owned Business (or Minority Business Enterprise aka MBE) is a for profit company that is owned, operated, and controlled by a person or people representing a previously identified minority group. Identified minority groups vary from country to country and range from American minority groups including black, Asian, Hispanic, and Native American people to China's up to 56 minority ethnic groups (the largest being the Han Chinese).

In general, a minority-owned business must be at least 51% owned by the recognized minority group or, if public, having at least 51% of stock ownership. In most countries with robust diversity programs, the following ethnic groups are recognized as minorities:

- Black or African Descendants
- Asian Descendants (includes West Asian (India, etc.) and East Asian (Japan, Korea, etc.)
- Hispanic – Persons with origins from Latin America, South America, Portugal and Spain.
- Native Peoples (e.g. Native American & Alaska Native (United States), Aboriginals (Canada), Indigenous (Australia), etc.)

In addition to government certifying bodies, established third party certifying agencies for minority-owned businesses include the following:

### **United States**

[\*Alaska Native Corporations\*](#)

[\*National Minority Supplier Development Council\*](#)

### **Global**

[\*Canadian Aboriginal and Minority Supplier Council\*](#)

[\*Minority Supplier Development in China\*](#)

[\*MSDUK\*](#)

[\*Supply Nation \(Australia\)\*](#)

[\*The South African Supplier Development Council\*](#)

### **NAICS Code**

The North American Industry Classification System or NAICS is the standard used by the public and private sectors of Canada, Mexico, and the United States for the purpose of collecting, classifying, analyzing, and publishing statistical data relevant to the business economy. It was created for the purpose of replacing the older Standard Industrial Classification (SIC) system (too much success), however some government departments still use SIC codes.

The NAICS numbering system employs a five or six-digit code covering the following industry levels:

- The first two digits describes the largest business sector
- The third digit describes its subsector
- The fourth digit describes the industry group
- The fifth digit describes the NAICS code appointed industry or industries
- The sixth digit describes the national industry or industries

To search for a specific NAICS code (NAICS Code 2017 List), please visit <https://www.naics.com/search/>

## North American Sales

Primarily used by Tier I Prime Suppliers to complete their Customer Tier II report(s), North American Sales refers to the total amount of money a business receives from the selling of its products and services within North America. This can include sales within the United States, Canada, and / or Mexico depending on the Customer requesting the information.

### Tier II Reporting

Within a Tier II report, a Tier I Prime Supplier's North American Sales can be used along with its Customer Sales to produce the indirect allocation for its Customers. Please view the below example for clarification.

Customer A Sales / North American Sales = Customer A Indirect Allocation Percentage

Customer B Sales / North American Sales = Customer B Indirect Allocation Percentage

## North American Purchases

Primarily used by Tier I Prime Suppliers to complete their Customer Tier II report(s), North American Purchases refers to the total amount of money spent on products and services within North America. This can include purchases within the United States, Canada, and / or Mexico depending on the Customer requesting the information.

### Tier II Reporting

Within a Tier II report, a Tier I Prime Supplier's North American Purchases can be used to determine the percentage of Diverse Spend attributed to a Tier I Prime Supplier. For some Customers, Diverse Spend goals are determined as follows:

Total Customer Diverse Spend / North American Purchases = Customer Diverse Spend Percentage

## Tier I Prime Supplier

A Tier I Prime supplier is a company that has been awarded a contract from an organization to provide a product or service for an agreed upon period of time. Tier II diverse spend refers to the Purchasing/Supplier Diversity dollars a Tier I Prime Supplier spends with diverse companies for the purpose of fulfilling said contract either in a direct or indirect way.

The term Tier I Prime Supplier is usually used within the Tier II Diversity Reporting Process to describe a subcontracting corporation that has been awarded a contract and must report Diverse Spend to meet certain private or public sector requirements. A Tier I Prime Supplier can be a diverse or non-diverse corporation and may be asked to report their diverse spend on a monthly, quarterly, bi-annual, or annual basis.

Organizations whether public, private, or nonprofit that ask Tier I Prime Suppliers to report their Tier II diverse spend usually select corporations that have been awarded a certain amount in contracting dollars and is uncommon for organizations to mandate Tier II diverse spend on all of their Tier I Prime Suppliers.

## Service-Disabled Veteran-Owned Businesses

A Service Disabled Veteran-Owned Business (or Service Disabled Veteran Business Enterprise aka SDVBE) refers to any company that is 51% majority owned and operated by a person who served in the active military, naval, or air service, and received an injury or disability “in line of duty in the active military, naval, or air service. An injury or disease incurred during military service will be deemed to have been incurred in the line of duty” and can range from 0 to 100% disability rating. Veteran-owned businesses may be small, medium, or large firms.

The following agencies certify service disabled veterans looking to be identified as service disabled veteran-owned businesses:

- Department of Veterans Affairs (VA – Veteran Owned Small Business (VOSB))
- National Veteran Business Development Council – <http://nvbdc.org/>
- National Veteran Owned Business Association – <https://navoba.org/>
- US Business Leadership Network – <http://www.usbln.org>

For resources from the Small Business Administration on starting a business as a veteran, [CLICK HERE](https://en.wikipedia.org/wiki/Service-Disabled_Veteran-Owned_Small_Business)  
[https://en.wikipedia.org/wiki/Service-Disabled\\_Veteran-Owned\\_Small\\_Business](https://en.wikipedia.org/wiki/Service-Disabled_Veteran-Owned_Small_Business)

## SIC Code

The Standard Industrial Classification SIC was created in 1937 as a way for United States government agencies to classify industries using a four digit code. While the SIC system is currently used in other countries such as the United Kingdom, in America, the code has largely been replaced by the six digit North American Industry Classification System (NAICS code), which was released in 1997. Agencies such as the US Securities and Exchange Commission (SEC), still use the SIC codes

The SIC Code is structured in the following way:

- The first two digits describe the major industry sector an organization falls under.
- The third and fourth digits describe the industry group’s sub classification and specialization

To search via SIC Code, please click on the link [HERE](#)

## Small Business

A Small Business is a privately owned company that is defined as “small” by various government standard. Small businesses can be corporations, partnerships, or a sole proprietorship. According to Wikipedia, “Small businesses range from fifteen employees under the Australian Fair Work Act 2009, fifty employees according to the definition used by the European Union, and fewer than five thousand employees, to qualify for many U.S. Small Business Administration programs.”

There is no set standard for a small business with qualifications including employee size, annual revenue and assets. These qualifying factors can change from industry to industry and country to country. The most widely used measure for small business qualification is number of employees, but even that is not always standard, particularly, for those companies earning large amounts of sales.

Small business certifications also vary widely between industries with some small businesses, such as a home accounting, only requiring a business license while others such as restaurants requiring inspection and certification from various government authorities.

Small businesses are generally advocated for by a national government entity, such as the Small Business Administration (SBA) for the United States. These government organizations set the rules and regulations for all small firms operating within the country and can be contacted to learn more about small business qualifications based on industry.

If you're curious about small business standards for the United States, check out the [Table of Small Business Size Standards](https://en.wikipedia.org/wiki/Small_business_size_standards) - [https://en.wikipedia.org/wiki/Small\\_business\\_size\\_standards](https://en.wikipedia.org/wiki/Small_business_size_standards)

## Supplier Diversity

The term Supplier Diversity refers to the proactive business program that promotes the Purchasing/Supplier Diversity of goods and services from previously underrepresented communities. These suppliers may include minority-owned, women owned, veteran owned, LGBT-owned, service disabled veteran owned, disabled-owned, and Small Business Administration (SBA)-defined small business concerns.

The purpose of the business strategy is to help diversify specific corporate supply chains and help to reflect the demographics of the community in which a company is located in.

The belief is that the more a corporation buys from its local suppliers the more money is pumped into the local economy to help increase employment opportunities.

Supplier Diversity is especially key for the future of countries like America where, according to the [US Census](#), minorities will be the majority population for US children by 2020.

## Social Procurement

Social procurement involves using procurement strategies and processes to generate positive outcomes in addition to the delivery of efficient goods, services and works. Social procurement connects a governments social, economic, and business goals to expand opportunities to targeted areas and groups. It is a federal policy currently used in the of Canadian and Australian governments.

With focus on local areas, keep in mind that a social procurement policy in Texas for example would be different then a social procurement program in New York or California. Yes, small and diverse businesses would encompass the core of these initiatives, but it would also cover processes like employing local workers, Purchasing/Supplier Diversity fair trade products from domestic or foreign countries, and ethical supply chain support.

## **Tier II Goal Methodology**

Tier II Goal Methodology refers to the calculation of Tier II Reporting goals within Supplier Diversity. The purpose of a Tier II Report is to ensure Tier I Prime Suppliers are utilizing diverse suppliers to complete customer contracts. To understand the percentage of Diverse Spend attributed to a Tier I Prime Supplier, goal methodologies are required.

Within the field of Supplier Diversity, the main goal methodology used to determine a Tier I Prime Supplier's Diverse Spend is known as Percent of Sales. This methodology is used by the majority of organizations and uses a Tier I Prime Supplier's corporate sales to determine its diverse spend percentage.

To learn more about the different types of Goal Methodologies, click on one of the methods below:

### **Tier II Goal Methodology (Percent of APV / Payments Received)**

Tier II Goal Methodology – Percent of APV / Payments Received is a type of goal calculation that determines the percent of Diverse Spend attributed to a Tier I Prime Supplier within a Supplier Diversity Tier II Report. Percent of APV / Payments Received refers to the sales that have been received from a customer by the reporting Tier I Prime Supplier.

To correctly calculate a Tier I Prime Supplier's Percent of APV, a Prime Supplier must report the following information:

- Total North American Payments Received
- Corporate D Payments Received
- Diverse Spend (can include Indirect and / or Direct Spend)

For this Tier II Report, Customers require Tier I Prime Suppliers report their Customer's APV along with Diverse Spend. Once revealed, Total Customer Allocated Diverse Spend divided by a Tier I Prime Supplier's Customer Payments Received dictates the Tier I Prime Supplier's percent of Diverse Spend for the Customer.

Below is an example of the work:

<b>Total North American Payments Received</b>	\$	100,000,000.00
Total North American Purchases	\$	55,000,000.00

<b>Corporate D</b>		
<b>Corporate D Payments Received</b>	\$	20,000,000.00
Corporate D Purchases	\$	15,000,000.00
<b>Indirect Spend %</b>		
Total Diverse Indirect Spend	\$	2,500,000.00
Corporate D Direct Diverse Spend	\$	500,000.00
<b>Total Corporate D Allocated Diverse Spend</b>	\$	3,000,000.00
<b>Percent of APV / Payments Received</b>		<b>15.0%</b>

When looking at the example above the following data points are entered by the Tier I Prime Supplier to start (with Corporate D representing the Customer).

- Total North American Payments Received
- Total North American Purchases
- Corporate D Payments Received
- Corporate D Purchases

As we move forward the *Indirect Spend %* displayed is calculated based on *Corporate D Payments Received* (\$25 million) divided by *Total North American Payments Received* (\$100 million). This gives us the 25% shown above.

$$\frac{\text{Next, the } \textit{Corporate D Payments Received}}{\textit{Total North American Payments Received}} = \text{Indirect Spend \%}$$

**Tier I Prime Supplier enters the following:**

- Total Diverse Indirect Spend
- Corporate D Direct Diverse Spend

Once entered, the *Total Allocated Diverse Spend* is displayed based on the *Total Diverse Indirect Spend* (\$10 million) multiplied by the *Indirect Spend %* (25%). This gives the Tier I Prime Supplier \$2.5 million in Customer Allocated Indirect Spend. The \$2.5 million is then added with the Direct Spend to give the Tier I Prime Supplier \$3 million in *Total Allocated Diverse Spend*.

$$\text{Total Diverse Indirect Spend} \times \text{Indirect Spend \%} = \text{Corporate D Allocated Indirect Spend}$$

$$\text{Corporate D Allocated Indirect Spend} + \text{Corporate D Direct Spend} = \text{Total Corporate D Allocated Diverse Spend}$$

Once calculated, the Percent of APV / Payments Received for the Tier I Prime Supplier is determined by taking the *Total Corporate D Allocated Diverse Spend* (\$3 million) and dividing it by the *Corporate D Payments Received* (\$25 million).

$$\frac{\text{Total Corporate D Allocated Diverse Spend}}{\text{Corporate D Payments Received}} = \text{Percent of Spend}$$

In the end, the report tells us that 15% of the Tier I Prime Supplier’s Customer Payments Received is attributed to Diverse Suppliers.

**Tier II Goal Methodology (Percent of Addressable Spend)**

Tier II Goal Methodology – Percent of Addressable Spend is a type of goal calculation that determines the percent of Diverse Spend attributed to a Tier I Prime Supplier within a Supplier Diversity Tier II Report.

To correctly calculate a Tier I Prime Supplier’s Percent of Addressable Spend, a Prime Supplier must report the following information:

- Total North American Sales
- Corporate Sales
- Corporate Purchases
- Total Allocated Diverse Spend (can include Indirect and / or Direct Spend)

For most Tier II Reports, Customers require Tier I Prime Suppliers to report their Total North American Sales and Customer Sales. These two data points determine the Indirect Spend percentage which can then be used to determine the Total Customer Allocated Diverse Spend. Once revealed, Total Customer Allocated Diverse Spend divided by a Tier I Prime Supplier's Customer Purchases dictates the Tier I Prime Supplier's percent of Diverse Spend for the Customer.

**Below is an example of the work:**

Total Sales	\$	100,000,000.00
Total Purchases	\$	55,000,000.00

<b>Corporate C</b>		
<b>Corporate C Sales</b>	\$	25,000,000.00
Corporate C Purchases	\$	15,000,000.00
Indirect Spend %		25%
Total Diverse Indirect Spend	\$	10,000,000.00
Corporate C Diverse Direct Spend	\$	500,000.00
<b>Total Corporate C Allocated Diverse Spend</b>	\$	3,000,000.00
<b>Percent of Addressable Spend</b>		<b>20.0%</b>

When looking at the example above the following data points are entered by the Tier I Prime Supplier to start (with Corporate C representing the Customer).

- Total North American Sales
- Total North American Purchases
- Corporate C Sales
- Corporate C Purchases

As we move forward the *Indirect Spend %* displayed is calculated based on *Corporate C Sales* (\$25 million) divided by *Total North American Sales* (\$100 million). This gives us the 25% shown above.

$$\frac{\text{Corporate C Sales}}{\text{Total North American Sales}} = \text{Indirect Spend \%}$$

**Next, the Tier I Prime Supplier enters the following:**

- Total Diverse Indirect Spend (Tier I's may also enter an allocated number if requested by Customer, eliminating the need for an Indirect Spend % calculation)
- Corporate C Diverse Direct Spend

Once entered, the *Total Allocated Diverse Spend* is displayed based on the *Total Diverse Indirect Spend* (\$10 million) multiplied by the *Indirect Spend %* (25%). This gives the Tier I Prime Supplier \$2.5 million in Customer Allocated Indirect Spend. The \$2.5 million is then added with the Direct Spend to give the Tier I Prime Supplier \$3 million in *Total Allocated Diverse Spend*.

$$\text{Total Diverse Indirect Spend} \times \text{Indirect Spend \%} = \text{Corporate C Allocated Indirect Spend}$$

$$\text{Corporate C Allocated Indirect Spend} + \text{Corporate C Direct Spend} = \text{Total Corporate C Allocated Diverse Spend}$$

Once calculated, the Percent of Addressable Spend for the Tier I Prime Supplier is determined by taking the *Total Corporate C Allocated Diverse Spend* (\$3 million) and dividing it by the *Corporate C Purchases* (\$25 million)

$$\frac{\text{Total Corporate C Allocated Diverse Spend}}{\text{Corporate C Purchases}} = \text{Percent of Addressable Spend}$$

In the end, the report tells us that 20% of the Tier I Prime Supplier's Customer Purchases is attributed to Diverse Suppliers.

## **Tier II Goal Methodology (Percent of Estimated Purchases (based on Customer Sales))**

Tier II Goal Methodology – Percent of Estimated Purchases (based on Customer Sales) is a type of goal calculation that determines the percent of Diverse Spend attributed to a Tier I Prime Supplier within a Supplier Diversity Tier II Report.

To correctly calculate a Tier I Prime Supplier's Percent of Estimated Purchases, a Prime Supplier must report the following information:

- Customer Sales
- Total Diverse Spend (can include Indirect and / or Direct Spend)

For the Percent of Estimated Purchases Goal Methodology, Customers require Tier I Prime Suppliers to report their Customer Sales and Total Diverse Spend. Once Customer Sales has been reported, the Customer will allocate an estimated purchase amount based on a percentage of the number reported.

This percentage is usually based on the Customer's own Total North American Sales to Total North American Purchase ratio.

These two data points, after calculation, determine a Tier I Prime Supplier's percent of Diverse Spend for the Customer. While the Total Customer Allocated Diverse Spend may be asked for during a report, it is not necessary in determining a Tier I's Percent of Purchases.

Below is an example of the work:

Total Sales	\$	100,000,000.00
Total Purchases	\$	55,000,000.00

<b>Corporate E</b>		
<b>Corporate E Sales</b>	\$	25,000,000.00
Purchase Percent of Sales		55%
Corporate E Purchases	\$	13,750,000.00
Indirect Spend %		25%
Total Diverse Indirect Spend	\$	2,500,000.00
Total Diverse Direct Spend	\$	500,000.00
<b>Total Diverse Spend</b>	\$	<b>3,000,000.00</b>
<b>Percent of Estimated Purchases</b>		<b>22%</b>

When looking at the example above the following data points are entered by the Tier I Prime Supplier to start (with Corporate E representing the Customer). Once Corporate E Sales are entered, 55% of the sales dollars are allocated to Corporate E Purchases.

- Total North American Sales
- Corporate E Sales
- Corporate E Purchases

As we move forward the *Indirect Spend %* displayed is calculated based on *Corporate E Sales* (\$25 million) divided by *Total North American Sales* (\$100 million). This gives us the 25% shown above.

$$\frac{\text{Corporate E Sales}}{\text{Total North American Sales}} = \text{Indirect Spend \%}$$

**Next, the Tier I Prime Supplier enters the following:**

- Total Diverse Indirect Spend
- Total Diverse Direct Spend

Once entered, the *Total Diverse Spend* is displayed based on the *Total Diverse Indirect Spend* (\$2.5 million) added to the *Total Diverse Direct Spend* (\$500 thousand). This gives the Tier I Prime Supplier \$3 million in *Total Diverse Spend*.

$$\textit{Total Diverse Indirect Spend} + \textit{Total Diverse Direct Spend} = \textit{Total Diverse Spend}$$

Once calculated, the Percent of Purchases for the Tier I Prime Supplier is determined by taking the *Total Diverse Spend* (\$3 million) and dividing it by the *Corporate E Purchases* (\$13.75 million).

$$\frac{\textit{Total Diverse Spend}}{\textit{Corporate E Purchases}} = \textit{Percent of Purchases}$$

In the end, the report tells us that 22% of the Tier I Prime Supplier’s Purchases are attributed to Diverse Suppliers.

**Tier II Goal Methodology (Percent of Total Purchases)**

Tier II Goal Methodology – Percent of Purchases is a type of goal calculation that determines the percent of Diverse Spend attributed to a Tier I Prime Supplier within a Supplier Diversity Tier II Report.

To correctly calculate a Tier I Prime Supplier’s Percent of Purchases, a Prime Supplier must report the following information:

- Total North American Purchases
- Total Diverse Spend (can include Indirect and / or Direct Spend)

For the Percent of Purchases Goal Methodology, Customers require Tier I Prime Suppliers to report their Total North American Purchases and Total Diverse Spend. These two data points, after calculation, determine a Tier I Prime Supplier's percent of Diverse Spend for the Customer. While the Total Customer Allocated Diverse Spend may be asked for during a report, it is not necessary in determining a Tier I's Percent of Purchases.

Below is an example of the work:

Total Sales	\$	100,000,000.00
Total Purchases	\$	55,000,000.00

<b>Corporate B</b>		
Corporate B Sales	\$	25,000,000.00
Corporate B Purchases	\$	15,000,000.00
Indirect Spend %		25%
Total Diverse Indirect Spend	\$	10,000,000.00
Total Diverse Direct Spend	\$	3,000,000.00
<b>Total Diverse Spend</b>	<b>\$</b>	<b>13,000,000.00</b>
<b>Percent of Purchases</b>		<b>24%</b>

When looking at the example above the following data points are entered by the Tier I Prime Supplier to start (with Corporate B representing the Customer).

- Total North American Sales
- Total North American Purchases
- Corporate B Sales
- Corporate B Purchases

As we move forward the *Indirect Spend %* displayed is calculated based on *Corporate B Sales* (\$25 million) divided by *Total North American Sales* (\$100 million). This gives us the 25% shown above.

$$\frac{\text{Corporate B Sales}}{\text{Total North American Sales}} = \text{Indirect Spend \%}$$

**Next, the Tier I Prime Supplier enters the following:**

- Total Diverse Indirect Spend
- Total Diverse Direct Spend

Once entered, the *Total Diverse Spend* is displayed based on the *Total Diverse Indirect Spend* (\$10 million) added to the *Total Diverse Direct Spend* (\$3 million). This gives the Tier I Prime Supplier \$13 million in *Total Diverse Spend*.

$$\text{Total Diverse Indirect Spend} + \text{Total Diverse Direct Spend} = \text{Total Diverse Spend}$$

Once calculated, the Percent of Purchases for the Tier I Prime Supplier is determined by taking the *Total Diverse Spend* (\$13 million) and dividing it by the *Total North American Purchases* (\$55 million).

$$\frac{\text{Total Diverse Spend}}{\text{Total North American Purchases}} = \text{Percent of Purchases}$$

In the end, the report tells us that 23.6% (or 24% when rounded up) of the Tier I Prime Supplier's Purchases are attributed to Diverse Suppliers.

**Tier II Goal Methodology (Percent of Customer Sales)**

Tier II Goal Methodology – Percent of Customer Sales is a type of goal calculation that determines the percent of Diverse Spend attributed to a Tier I Prime Supplier within a Supplier Diversity Tier II Report. Percent of Sales is the most common goal method used in a Tier II report utilizing a Tier I Prime Supplier's corporate sales as its base.

To correctly calculate a Tier I Prime Supplier's Percent of Customer Sales, a Prime Supplier must report the following information:

- Total North American Sales
- Corporate (Customer) Sales
- Total Allocated Diverse Spend (can include Indirect and / or Direct Spend)

For most Tier II Reports, Customers require Tier I Prime Suppliers to report their Total North American Sales and Customer Sales. These two data points determine the Indirect Spend percentage which can then be used to determine the Total Customer Allocated Diverse Spend. Once revealed, Total Customer Allocated Diverse Spend divided by a Tier I Prime Supplier's Customer Sales dictates the Tier I Prime Supplier's percent of Diverse Spend for the Customer.

Below is an example of the work:

<b>Total North American Sales</b>	\$	100,000,000.00
Total North American Purchases	\$	55,000,000.00

<b>Corporate A</b>		
<b>Corporate A Sales</b>	\$	25,000,000.00
Corporate A Purchases	\$	15,000,000.00
Indirect Spend %		25%
Total Diverse Indirect Spend	\$	10,000,000.00
Corporate A Direct Diverse Spend	\$	500,000.00
<b>Total Corporate A Allocated Diverse Spend</b>	\$	3,000,000.00
<b>Percent of Sales</b>		<b>12.0%</b>

When looking at the example above the following data points are entered by the Tier I Prime Supplier to start (with Corporate A representing the Customer).

- Total North American Sales
- Total North American Purchases
- Corporate A Sales
- Corporate A Purchases

As we move forward the *Indirect Spend %* displayed is calculated based on *Corporate A Sales* (\$25 million) divided by *Total North American Sales* (\$100 million). This gives us the 25% shown above. Next, the Tier I

**Prime Supplier enters the following:**

$$\frac{\text{Corporate A Sales}}{\text{Total North American Sales}} = \text{Indirect Spend \%}$$

- Total Diverse Indirect Spend (Tier I's may also enter an allocated number if requested by Customer, eliminating the need for an Indirect Spend % calculation)
- Corporate A Direct Diverse Spend

Once entered, the *Total Allocated Diverse Spend* is displayed based on the *Total Diverse Indirect Spend* (\$10 million) multiplied by the *Indirect Spend %* (25%). This gives the Tier I Prime Supplier \$2.5 million in Customer Allocated Indirect Spend. The \$2.5 million is then added with the Direct Spend to give the Tier I Prime Supplier \$3 million in *Total Allocated Diverse Spend*.

$$\text{Total Diverse Indirect Spend} \times \text{Indirect Spend \%} = \text{Corporate A Allocated Indirect Spend}$$

$$\text{Corporate A Allocated Indirect Spend} + \text{Corporate A Direct Spend} = \text{Total Corporate A Allocated Diverse Spend}$$

Once calculated, the Percent of Sales for the Tier I Prime Supplier is determined by taking the *Total Corporate A Allocated Diverse Spend* (\$3 million) and dividing it by the *Corporate A Sales* (\$25 million).

$$\frac{\textit{Total Corporate A Allocated Diverse Spend}}{\textit{Corporate A Sales}} = \text{Percent of Spend}$$

In the end, the report tells us that 12% of the Tier I Prime Supplier's Customer Sales is attributed to Diverse Suppliers.

### **Tier II Goal Methodology (Percent of Total Sales)**

Tier II Goal Methodology – Percent of Total Sales is a type of goal calculation that determines the percent of Diverse Spend attributed to a Tier I Prime Supplier within a Supplier Diversity Tier II Report.

To correctly calculate a Tier I Prime Supplier's Percent of Total Sales, a Prime Supplier must report the following information:

- Total North American Sales
- Total Allocated Diverse Spend (can include Indirect and/or Direct Spend)

For most Tier II Reports, Customers require Tier I Prime Suppliers to report their Total North American Sales and Customer Sales.

These two data points determine the Indirect Spend percentage which can then be used to determine the Total Customer Allocated Diverse Spend. Once revealed, Total Customer Allocated Diverse Spend divided by a Tier I Prime Supplier's Total Sales dictates the Tier I Prime Supplier's percent of Diverse Spend for the Customer.

Below is an example of the work:

<b>Total North American Sales</b>	<b>\$ 100,000,000.00</b>
Total North American Purchases	\$ 55,000,000.00

<b>Corporate A</b>	
<b>Corporate A Sales</b>	\$ 25,000,000.00
Corporate A Purchases	\$ 15,000,000.00
Indirect Spend %	25%
Total Diverse Indirect Spend	\$ 10,000,000.00
Corporate A Direct Diverse Spend	\$ 500,000.00
<b>Total Corporate A Allocated Diverse Spend</b>	<b>\$ 3,000,000.00</b>
<b>Percent of Sales</b>	<b>3.0%</b>

When looking at the example above the following data points are entered by the Tier I Prime Supplier to start (with Corporate A representing the Customer).

- Total North American Sales
- Total North American Purchases
- Corporate A Sales
- Corporate A Purchases

As we move forward the *Indirect Spend %* displayed is calculated based on *Corporate A Sales* (\$25 million) divided by *Total North American Sales* (\$100 million). This gives us the 25% shown above. Next, the Tier I Prime Supplier enters the following:

$$\frac{\text{Corporate A Sales}}{\text{Total North American Sales}} = \text{Indirect Spend \%}$$

- Total Diverse Indirect Spend (Tier I's may also enter an allocated number if requested by Customer, eliminating the need for an Indirect Spend % calculation)
- Corporate A Direct Diverse Spend

Once entered, the *Total Allocated Diverse Spend* is displayed based on the *Total Diverse Indirect Spend* (\$10 million) multiplied by the *Indirect Spend %* (25%). This gives the Tier I Prime Supplier \$2.5 million in Customer Allocated Indirect Spend. The \$2.5 million is then added with the Direct Spend to give the Tier I Prime Supplier \$3 million in *Total Allocated Diverse Spend*.

$$\textit{Total Diverse Indirect Spend} \times \textit{Indirect Spend \%} = \textit{Corporate A Allocated Indirect Spend}$$

$$\textit{Corporate A Allocated Indirect Spend} + \textit{Corporate A Direct Spend} = \textit{Total Corporate A Allocated Diverse Spend}$$

Once calculated, the Percent of Total Sales for the Tier I Prime Supplier is determined by taking the *Total Corporate A Allocated Diverse Spend* (\$3 million) and dividing it by the *Total North American Sales* (\$100 million).

$$\frac{\textit{Total Corporate A Allocated Diverse Spend}}{\textit{Total North American Sales}} = \textit{Percent of Spend}$$

In the end, the report tells us that 3% of the Tier I Prime Supplier’s Total North American Sales is attributed to Diverse Suppliers.

### **Tier II Report (Supplier Diversity)**

Within the supplier diversity industry, organizations may require certain Tier I Prime Suppliers (or subcontractors) to report their spend with diverse suppliers. The purpose of this report is to ensure Tier I Prime Suppliers are utilizing diverse suppliers to complete contracts. This allows organizations to influence Purchasing/Supplier Diversity dollars beyond their internal procurement operations and ultimately creates a stronger economy, expand opportunities for companies owned by previously underrepresented and growing populations (e.g. women-owned businesses)

**A specific Tier II report may encompass any of the following data points:**

- Tier I North American Sales
- Tier I North American Purchases
- Customer Spend
- Customer Purchases
- Indirect spend
- Direct spend

An organization may collect this information by way of:

- Email
- Excel
- PDF
- Word Document or
- Online Portal created for the sole purpose of analyzing Tier II diverse spend

In addition to the data points and types of reports listed, organizations may mandate that Tier I Prime Suppliers report their information on a monthly, quarterly, bi-annual, or annual basis. These frequency requirements may also be tracked by a customer's Fiscal Year. This means that a quarterly report that includes October, November, and December spend may be reported as Quarter 4 spend for one company, but Quarter 1 spend for an organization utilizing the US federal government fiscal year.

While Tier II reports may be different in terms of data required, type, and frequency, all reports are focused on collecting Diverse Spend from Tier I Prime Suppliers in an effort to determine the company's overall Diverse Spend percentage.

A Tier I Prime Supplier's percentage of spend can be calculated in a number of ways depending on the organization requesting the spend. These calculations or Goal Methodologies include the following:

- Percent of Sales
- Percent of Purchases
- Percent of Addressable Spend

## UNSPSC Code

The United Nations Standard Products and Services Code (UNSPSC) is a code set managed by GS1 for the UN Development Programme (UNDP), offering a five level hierarchy used to classify products and services used in eCommerce. The code is an eight to ten digit number that is similar to other coding schemes including the European Union's Common Procurement Vocabulary, Germany's E-class, and GS1's Global Product Classification. As of 2016, the code set includes just over 19,000 numerical descriptions.

Below is a quick explanation of the hierarchy used in UNSPSC Code sets

- Numbers 1 and 2: Segment
- Numbers 3 and 4: Family
- Numbers 5 and 6: Class
- Numbers 7 and 8: Commodity
- Numbers 9 and 10: Business Function (Optional)

To download the complete code set please [CLICK HERE](#). The free PDF version can be accessed towards the bottom of the page.

## Veteran-Owned Business

A Veteran-Owned Business refers to any company that is 51% majority owned and operated by a person who served in the active military, naval, or air service, and who was discharged or released under conditions other than dishonorable. Veteran-owned businesses may be small, medium, or large firms.

The following agencies certify veterans looking to be identified as veteran-owned businesses:

- Department of Veterans Affairs (VA – Veteran Owned Small Business (VOSB))
- National Veteran Business Development Council – <http://nvbdc.org/>
- National Veteran Owned Business Association – <https://navoba.org/>

For resources from the Small Business Administration on starting a business as a veteran, [CLICK HERE](#)

## Woman-Owned Business

A Woman-owned business enterprise (commonly nicknamed WBE), is a business that is at least 51% owned and operated by a single or group of female citizens. WBEs are usually certified by third party organizations including Federal agencies, State governments, and national certifying entities approved by either the public or private sector. Please keep in mind that not every woman owned business is also a small business and vice versa.

There are multiple nationally recognized certifying agencies that offer the service of confirming and authenticating woman-owned businesses including:

- Women Business Enterprise National Council- <http://www.wbenc.org>
- U.S. Women's Chamber of Commerce – <https://uswcc.org>
- Women-Owned Small Business Federal Contracting Program – <https://www.sba.gov/contracting/government-contracting-programs/women-owned-small-businesses>
- National Women's Business Council – <https://www.nwbc.gov/>

### **Women-Owned Small Businesses (WOSB) Federal Contracting Program**

The Women-Owned Small Business (WOSB) Federal Contract Program is one of the newest Small Business Administration's set aside programs within the American government. Created in 2011, the goal of the program is to expand Federal contracting opportunities to WOSB which historically has been withheld. In addition to the WOSB, the program also includes the Economically Disadvantaged WOSBs (EDWOSBs) for the purposes of competing for and receiving contracts and awards in industries where WOSB are unrepresented.

A few requirements instituted for women-owned companies to qualify for the program include the following:

- Company must meet small business size standard for primary NAICS code and contract
- 51% owned and operated by a woman or women who are US citizens
- Personal net worth must be less than \$750,000 (for more information visit the WOSB website)
- Adjusted gross income averaged over three years is \$350,000 or less (for more information visit the WOSB website)
- Fair market value of all assets is \$6 million or less (for more information visit the WOSB website)
- Company must be certified by SBA approved third party certifying organizations including
  - El Paso Hispanic Chamber of Commerce
  - National Women Business Owners Corporation
  - US Women's Chamber of Commerce
  - Women's Business Enterprise National Council
- In addition, women-owned businesses that are certified through the 8(a) Business Development Program may follow steps to be recognized as a WOSB.

If you are interested in participating in the WOSB program, learn more about the 4 step certification process

[HERE](#)

# THE VALUE OF CERTIFICATION



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## THE VALUE OF CERTIFICATION

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### THE VALUE OF OBTAINING RECOGNIZED THIRD PARTY AGENCY CERTIFICATION

#### WHAT IS A CERTIFIED DIVERSITY BUSINESS?

A Certified Diversity Business is one that has received a certification from a recognized Third Party certification agency.



Certification as a minority, woman or disabled veteran-owned (M/W/DVBE) business indicates an objective third-party organization has closely examined a business and determined (usually through submitted documents and a site visit) **that the business is owned, operated and controlled by a minority, woman or disabled veteran, or a group of minorities, women or disabled veterans.** While each certifying agency may have varying standards, most agencies require a business owner to be a U.S. Citizen or have U.S. Resident Alien status and to meet specific criteria proving true ownership and control of the business.

These agencies will confirm that the businesses are those where a **M/W/DVBE unconditionally owns 51% of the business** and are responsible for the day-to-day operations as well as major decisions on matters of management and policy. The burden of proof lies with the diverse business to demonstrate compliance with these M/W/DVBE eligibility standards.

Via this registration and certification process and numerous marketing activities, events and bid announcements, corporation and government agencies are informed and actively select from a certified suppliers list to meet their diversity procurement goals.



## WHAT ARE THE BENEFITS OF BEING A CERTIFIED DIVERSITY OWNED BUSINESS?

By gaining certification, the M/W/DVBE company is identified as an **eligible, certified supplier** in various centralized databases used by many corporations and government agencies to search for prospective suppliers. In addition, being a certified, diverse supplier **can expedite the contracting process for new suppliers because the diversity requirement is already documented.**

Many certification agencies offer programs and services that help M/W/DVBE business owners achieve optimal size and sustain growth. Following is an example of what the M/W/DVBE business owner can receive:

- Targeted Workshops and Seminars on all aspects of running and growing the business.
- Counseling/Business Coaching where counselors meet with business owners individually to work through issues, discuss and develop strategies, and enhance managerial skills.
- Marketing and Business Opportunities to build relationships; and identify, bid and win contracts with corporations and government agencies.
- Events/Networking Opportunities to meet other diverse business owners and discuss issues and challenges the supplier is likely to face as they continue to grow their business.
- Business Assessments that help an entrepreneur assess their business, create a plan to strengthen their business and identify ways to capitalize on new opportunities.
- Sales Prospect Evaluations that aid how to prioritize their sales effort and knowing the revenue their company can realistically expect from their sales pipeline.
- Referrals to Specialized Business Professionals with expertise in a variety of disciplines, including accountants, lawyers, graphic designers, and sales consultants.

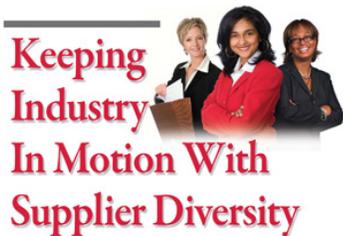
## DOES CERTIFICATION MAKE SENSE FOR ME AND MY BUSINESS?

Determining if certification is right for you requires you to examine your business plan to see if you will be able to utilize certification as a tool in growing your business. Certification helps some businesses more than others and, in some cases, depending on your product or service and your customer base, certification may not bring significant value to your organization.

Generally speaking, **businesses providing products and services marketable to other businesses, corporations or government entities will garner the most value from certification.** Examples of businesses which can utilize certification as a resource or tool include, but are not limited to, service providers and consultants, industries not traditionally owned and operated by women such as general contractors, construction companies and electricians, and those within competitive industries such as Information Technology (IT), marketing and advertising. The value of certification will ultimately rest in how the certification is used, which is usually as a means of gaining access or breaking into accounts.

## WHY DO SOME OF MY CUSTOMERS CARE SO MUCH ABOUT CERTIFICATION?

If some of your corporate or government customers are asking you if you are certified or are encouraging you to become certified, there is a reason for it. Often times, **these entities are tracking their dollars spent with diverse businesses by both dollar amount and percentage of total spend.** They are tracking these dollars for any number of reasons which may include:



- Business objectives related to customer base, competitive edge, or economic growth
- Contract requirements, meaning one, or more, of their customers with whom they are under contract is requiring them to report diverse spend as a requirement in fulfilling the contract

In the case of contract fulfillment, **some of your customers may be facing negative consequences if they fail to comply with diverse business spend requirements.** Their contract could possibly be cancelled or not renewed, which could mean lost business to you if you are sub-contracting to them. In complying with contract requirements and mandates, corporations and government entities often require certification as a means of identifying diverse suppliers and protecting the integrity of the diverse business figures they are reporting.



*Rethink Possible*

# MANTRA

## METHODOLOGY



## MANTRA

“Diverse and small business relationships contribute to customer loyalty, stimulate economic development and tap into the innovation and entrepreneurship we need to win in a competitive marketplace.”

“Having a diverse supplier base strengthens our ability to conduct business across all cultures and geographies and, in doing so, gives us access to the thoughts, ideas, and perspectives of some of the most diverse and forward-thinking companies in industry.”