

# Study: Supplier Diversity Doesn't Cost More

**Companies can invest in minority-owned suppliers without penalty.**

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August 24, 2006

Companies wanting to expand their supplier diversity programs can do so without sacrificing savings, according to a recent report by The Hackett Group.

While many executives may assume that proactive efforts to use women-or minority-owned suppliers result in higher costs or additional administrative burdens, Hackett's report concludes that companies that make such efforts see no negative impact on procurement costs.

Using a minority-owned supplier has no effect on a company's overall performance when it comes to procurement, says Christopher Sawchuk, senior business adviser for The Hackett Group. The strategic advisory firm surveyed 50 so-called "world-class" companies with median revenue of \$7 billion and a median procurement spend of \$3 billion. "You can still be world-class and have a significant portion of your supply base focused on diverse suppliers," Sawchuk says.

The 50 "world-class" companies examined by Hackett don't differ all that much from other companies in their use of diverse suppliers, but they realize a bigger return — 133 percent — on the cost of procurement operations. That suggests, at a minimum, that supplier diversity isn't a drag on procurement costs. Moreover, the report notes, using minority-owned suppliers may result in more revenue down the road, when customers concerned with a company's social responsibility hear about the increased use of diverse suppliers.

Some companies, such as Marriott International, have found that deliberately investing in a diverse supplier program can benefit the communities they do business in, help their corporate image and sometimes save money.

Marriott's program, established in 1997, was the first of its kind established by a hospitality company, says Mike Tobolski, senior director of supplier diversity. In 2005, the hospitality company spent \$347 million on women- and minority-owned businesses.

"We look for good vendors all the time. With women- and minority-owned suppliers, our goal is to mirror the community in which we do business," Tobolski says. "We see it as a strong business case to be competitive."

The stumbling block for many companies seems to be the perception that using minority-owned businesses is costly. "There is a cost," Sawchuck says. "But the cost, when you look at the scheme of things, is probably not that high. It's a balance. A lot of organizations are leveraging diversity to drive revenue improvements."

For Lamont Robinson, corporate director of supplier diversity for Cardinal Health, finding diverse suppliers is a necessity as his customers — hospitals and their group purchasing organizations — are pressured to use diverse vendors. Five years ago, the health-care service and product provider put its Supplier Diversity Program in place and has been actively involved in trade shows and associations to locate diverse manufacturers. It's also been able to attract new customers because of the program, according to Robinson.

"For the most part, we're able to find wins for not only us but for our diverse suppliers and the customer by bringing in some sort of diverse solution," he says.

He admits that working with a small business that have low profit margins can be a challenge, but by working with these companies and training them on how to improve their business, Cardinal Health is able to grow a larger, stronger pool of suppliers. "It's tough to bring a diverse supplier on board and not train them," Robinson says. "You have to give them the proper tools so they can grow."

Hackett's survey also examined which executives typically oversee supplier diversity programs. While 92 percent of the companies surveyed said their programs were reviewed by the head of procurement or supply chain, 35 percent also reported that their CFOs get involved in such efforts. Other executives who are involved in the review include the CEO (46 percent of the time), head of human resources (17 percent) and board of directors (13 percent).