

The Second Tier

How to make the most out of your tier-two supplier diversity program.

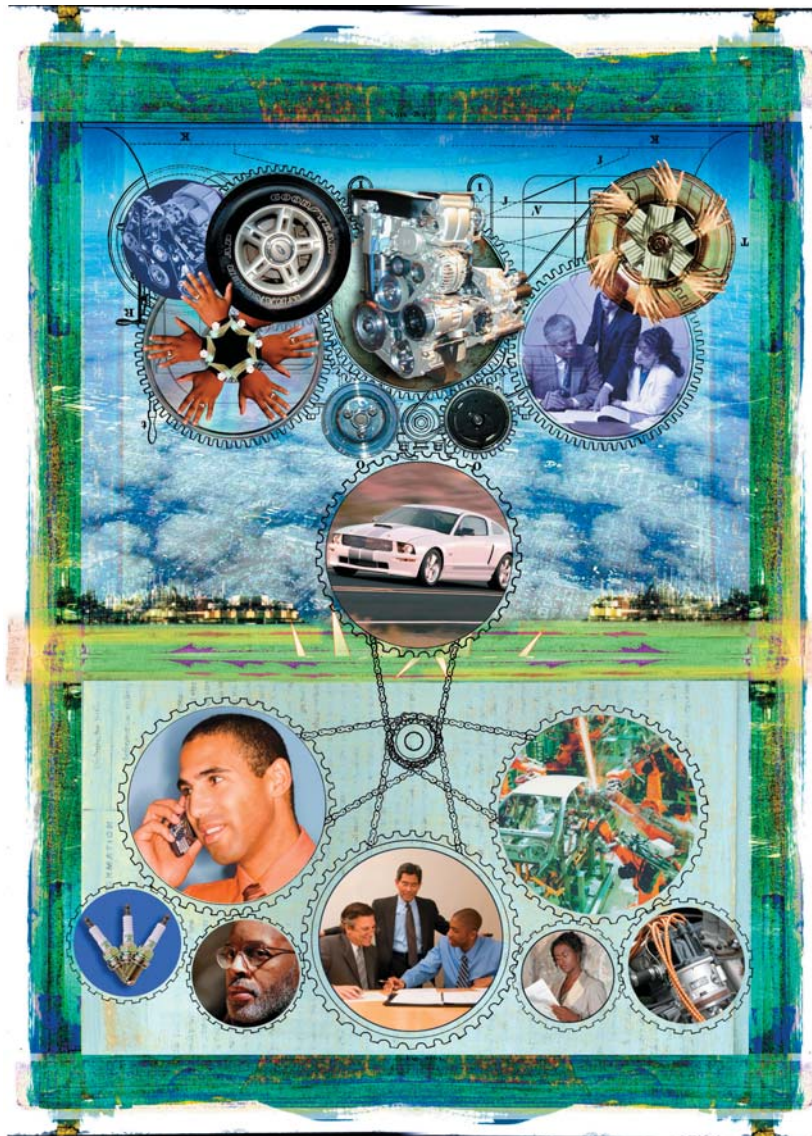
By Rajesh Voddiraju

Industry supply chains have made quantum leaps in efficiency and technological sophistication over the past decade. Such capabilities as global sourcing, supplier-base rationalization, and just-in-time delivery have changed the face of the supplier base, shrinking it to as small as a quarter of what it once was.

Now, the suppliers that are still standing are finding that the supplier diversity offices of major corporations and government

agencies are delving deeper into the supply chain to ensure the inclusion of diverse suppliers. Those diversity offices are extending their programs beyond their company's own supplier base into the next tier and even further down the value chain.

The first steps in implementing a tier-two program is selling the business case (to your tier-one suppliers) and gaining buy-in. Whether your company sells



www.jonconrad.com

to consumers, commercial customers, or local, state, or federal government entities, mature supplier diversity programs expand their scope well beyond their immediate tier-one suppliers. The dynamics of modularization, supplier-base rationalization, low-cost country sourcing (procuring materials from countries with lower labor and production costs), and other practices certainly affect the ability to grow the supplier diversity program if one were to only think about the tier-one supplier base.

As with any major corporate initiative, for the second-tier program to be a hit, it is critical to have the endorsement of executive management and procurement. The world-class second-tier programs that we see today do indeed start with such a commitment. Just look at **Ford Motor Company, Wal-Mart Stores, Inc., Procter & Gamble, Johnson & Johnson, AT&T, and Motorola, Inc.** These companies encourage their first-

Second Tier *(continued)*

tier large suppliers to create their own supplier diversity programs.

Nannette Kelley, supplier diversity manager for **Motorola, Inc.**, says, “Where we have had supplier diversity initiatives at the top level of many different industries, tier two and ‘tier x’ drive diversity efforts into the vertical industries that support the top tier of businesses.”

What exactly does buy-in and commitment involve?

It requires more than a handshake deal or words of encouragement. You need to create a formal policy for a second-tier program. The policy should clearly articulate your company’s desire to expand diversity efforts to tier two and beyond. It should also establish what is expected of prime suppliers that are required to participate in the program, including how goals will be set, how frequently prime suppliers will be required to report sub-tier diversity spend, and how those tier-one suppliers will be held accountable to mutually agreed-to goals.

Samples of formal programs are easily accessible. Excellent resources are the **National Minority Supplier Development Council** and the **Women’s Business Enterprise National Council**, corporate peers who have implemented a program in your industry or region, and consultants such as **RGMA & Associates**, as well as the Internet.

The policy would be difficult to materially implement unless amendments are made to existing standard contracts requiring participation from prime suppliers. Indeed, second-tier reporting is much more than mere data collection and reporting. Successful programs ensure that there is an adequate support structure to drive high participation and actual spend based on goals established.

This requires proper outreach and communication, tools to automate the data collection, a rigorous verification process to certify that the diverse suppliers named in sub-tiers are indeed diverse, and verification that spend did occur between the two parties (the prime and the sub).

The indirect and direct procurement teams ultimately play a major role in dictating the conformance and success of the program. **Madlyn Bagneris**, manager of supplier diversity at **Entergy**, notes that having a system that enables the company to obtain supplier information quickly and accurately has enabled Entergy “to make sure smaller companies have a second opportunity to work through the second-tier system.”

Tier-tier programs are ultimately driven by procurement teams. Purchasing managers and buyers who

maintain these critical supplier relationships are key to driving high levels of participation from suppliers. The procurement team must have clear directions regarding its role, the policy established, the expectations of a prime supplier chosen, and the exact purposes of periodic reviews.

Another important aspect of the process is establishing accountability within the procurement team for certain levels of diversity spend contribution from the key suppliers nominated or chosen and, therefore, accountability for goals set for each prime supplier on their contracts with your corporation.

Goals for each prime, and for your organization overall, depend on a variety of factors, including your industry (or your supply chain), the level of knowledge of supplier diversity among your suppliers, their ability to participate, and the potential for subcontracting opportunity based on their contract(s).

With the internal commitment in place, prime suppliers must be identified to launch the program. Across many industries today, it is not uncommon for a few hundred suppliers to represent more than 80 to 95 percent of spend. Most programs, including those that now boast billions in annual diversity spend in the second tier, start small—focusing on the top 50 or 100 suppliers that represent a high percentage of their spend and expanding their programs in a phased manner.

It is important to analyze the chosen supplier base in terms of the realistic scope of diverse supplier participation at a second-tier level and to set specific goals for each prime supplier, or set goals for all suppliers in a particular commodity group. The prime supplier recruitment should include contractual amendments (if necessary), proper communication of the expectations, training, and the setup of an ongoing review process.

Successful execution requires careful consideration of several critical elements of the program design, including:

- Frequency of reporting, whether it’s monthly, quarterly, semi-annual, or annual. Quarterly reporting is by far the most common. Specific industries or commodity categories, like the construction industry for example, may require more frequent reports to be able to measure and course-correct on the fly.

- Prime supplier training, help desk, and follow-up during the reporting cycle.

- Method and ease of reporting, whether measuring direct or indirect contract-specific spend.

- Level of detail collected.

-
- Use of robust technology to enable efficient and accurate reporting.
 - Verification of diversity status of spend reported and auditing.
 - Measurement against goals and periodic reviews with prime suppliers.
 - Internal reporting.

Continuous measurement and continuous improvement should be the mantra for any tier-two program. The measurement process should include several key program metrics, including total diverse spend reported and total verified diverse spend, such as response rates and the number of suppliers exceeding/meeting/below goal, as well as the ability to deal with “offenders.”

A periodic review, yearly at a minimum, with participating suppliers to review the results against expectations is an absolute must. Otherwise, the supplier will get the message that “it must not be important” or “no one is enforcing it, so let’s see what happens if we don’t do it.”

Further, measurement against internal accountabil-

ity standards, such as the above metrics by commodity group, specific buyer, business unit or plant, is equally important to drive continuous improvements in the process. Even today’s world leaders in second tier continuously improve and evolve their program as their needs and the environment change.

The result of such high standards not only ensures that supplier diversity goes beyond the surface, but can help entire communities.

Fred Lona, director of supplier diversity at **Hilton Hotels Corp.**, says, “We’re helping the vitality of the communities where we do business by reinvesting in local businesses.” ◆

Rajesh Vaddiraju is president of the software solutions division at CVM DiversityQuest, an Illinois-based, minority-owned diversity database and software development company that specializes in providing supplier, spend, and contract management solutions to leading corporations around the world.



*Reprinted with permission from the May/June 2007 issue of
Minority Business Entrepreneur*

For subscription information, go to: www.mbemag.com or call (310) 540-9398