

Second Tier Programs Can Be Vital to the Success of Supplier Diversity

Today, supply chains of major industries look drastically different than they did even a decade ago. Cost reduction through modularization, global sourcing, supplier base rationalization, and other efficient supply chain management techniques have shrunk supplier bases to half or even a fourth of what they used to be.

This has resulted in increased pressure on supplier diversity offices at major corporations and government agencies to extend their supplier diversity programs well beyond first tier suppliers — into second tier and further down their value chains.

Leading supplier diversity programs, such as those at Ford Motor Company, Wal-mart, Procter & Gamble, Johnson & Johnson, Motorola, and AT&T, have augmented their efforts in the inclusion of diverse suppliers within their own supplier base (Tier 1) by encouraging their key large suppliers (prime suppliers) to create their own supplier diversity programs. This promotes participation of diverse suppliers at a second-, third-, fourth tier and further.

Tier 2 allows diversity efforts to be driven throughout the entire supply chain, according to Nannette Kelley, supplier diversity manager for Motorola, Inc. “Where we have had supplier diversity initiatives at the top level of many different industries, Tier 2 and Tier X drive diversity efforts into the vertical industries that support the top tier of businesses,” she said. “Motorola is planning for a global expansion of its supplier diversity initiative to regions and suppliers outside the United States.” This creates a multiplicative effect in expanding their supplier diversity efforts.

Keys to a Successful Second Tier Program

1. Corporate Commitment: As with any major corporate initiative, it is critical to have the sponsorship of Executive Management and Procurement for the Second Tier Program. Successful Second Tier programs start with such a commitment and create a formal policy, establish a budget for the effort, set program expectations, create contractual requirements of their key suppliers, establish consequences for non-participation, set internal accountability to achieve participation, and establish internal review schedules.

2. Prime Supplier Recruitment & Performance Goals: With the internal commitment in place, it is necessary to identify which suppliers will be recruited to launch the program. Across many industries today, it is not uncommon that a few hundred suppliers represent more than 80 – 95 percent of spend. Most programs, including those that now boast of billions in annual diversity spend in Second Tier, start small, focusing on the top 50 or 100 suppliers that represent a high percentage of their spend, and expand 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 accordingly 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 setup of an ongoing review process.

3. Program Design & Operational Considerations: Successful execution

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

- ❖ Frequency of reporting (Monthly, Quarterly, Semi-Annual, Annual)
- ❖ Prime supplier training, Help Desk and follow-up during the reporting cycle
- ❖ Method & ease of reporting - Direct/Contract-specific Spend and/or Indirect
- ❖ Level of Detail Collected (Supplier-level spend detail or category roll-up)
- ❖ 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 (Executive Management and Procurement)

4. Measurement and Continuous Improvement: “What gets measured, gets done” - and Second Tier reporting programs are no different. The measurement process should include program metrics such as response rates, total diverse spend reported, total verified diverse spend, number of suppliers exceeding, meeting or below goal with ability to deal with “offenders.” A periodic review with participating suppliers of the results against expectations, annually at a minimum, is an absolute must. Further, measurement against where the internal accountability was set 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 with changes in their needs and the environment.

Success in Action

Madlyn Bagneris, manager of supplier diversity at Entergy, remembers with horror the old days when she would spend countless hours tracking down prime suppliers to obtain their diversity-supplier information. She spent 30 days each quarter compiling the information, putting it in an Excel spreadsheet and verifying Minority and Women Business Enterprise

suppliers by randomly telephoning them. After an extensive search, Entergy chose CVM DiversityQuest to automate its system. The result: Entergy can now obtain the supplier information in a couple of hours. “The system has saved us time, money, people and man hours,” Bagneris said. “It has been a lifesaver for our supplier diversity department.”

The solution also enables Entergy to assist its prime suppliers in finding and hiring some of the minority- and women-owned businesses on Entergy’s database. “We are able to make sure smaller companies have a second opportunity to work, through the 2nd Tier system,” she said. The solution also makes it far easier and quicker than before to find certain categories of supplier, such as those who are veterans, disabled or in a HUB zone, Bagneris said. CVM DiversityQuest has helped conduct Web-based training for Entergy’s new prime suppliers so that they can file their electronic reports in a timely manner. That makes it easier for Entergy to extend the Tier 2 program deeper into its supply chain, she said.

Cox Communications’ goal in choosing Tier 2 was to address its complete supplier diversity program tracking and reporting needs. “CVM was the only supplier whose program provided the total package that allowed us to incorporate technology into managing our 1st and 2nd Tier programs,” said Ruby Patton, manager, supplier diversity, supply chain management, for the company. She notes that the automated system reduces the amount of time spent on manually tracking and reporting 2nd Tier results. It also makes it easier for program participants to report data rather than filling out forms manually and submitting them.

The ultimate goal of Cox’s supplier diversity program is to support minority companies and contribute to their growth, and to the communities in which Cox operates, Patton said. “We believe Tier 2 will help us advance those efforts by making it easier for our prime suppliers to assist us in reaching and supporting more minority-owned businesses.”

Rajesh Voddiraju is the President, Technology Solutions, of CVM Solutions.