



The Hackett Group 2008 Supplier Diversity Study Results: Insights into Program Performance and Practices

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Results for Participating Organizations

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Continuing Economic Instability and Global Markets will Challenge Supplier Diversity Managers to Create Real Value and Rethink Program Scope

- A complex set of objectives drive supplier diversity programs with direct to consumer organizations stressing brand recognition and non-direct to consumer organizations emphasizing customer and government requirements. ...both objectives can be directly tied to revenue which is critical to success
- Nearly three quarters of diversity suppliers have less than \$100k in annual spend with any one participant and account for less than six percent of the total supplier diversity spend reported. An organization's objectives should dictate the optimal approach for their diverse supplier adoption strategy
- Temporary staffing, facilities mgmt, construction services, contract manufacturing, and IT consulting were identified by participants as the categories with the highest opportunity for diversity suppliers
- While percent of spend with diverse suppliers is tracked by most participants there are a broad range of metrics measured depending on an organization's objectives and we are seeing more organization quantifying the value delivered from these programs
- Participation in supplier diversity associations, embedding practices within existing processes, and executive level support were identified as having the highest positive impact on supplier diversity success while availability of resources and acquisitions of diverse suppliers had the greatest negative impact
- Procurement is typically responsible and accountable for supplier diversity programs although a broad array of functions are consulted and informed with the CEO most often reviewing program performance
- Global sourcing is critically/very important for more than two-thirds of participants and over half believe global sourcing will have a negative impact on supplier diversity programs

Supplier Diversity Study Objectives and Scope

The Supplier Diversity Study was conducted to better understand...

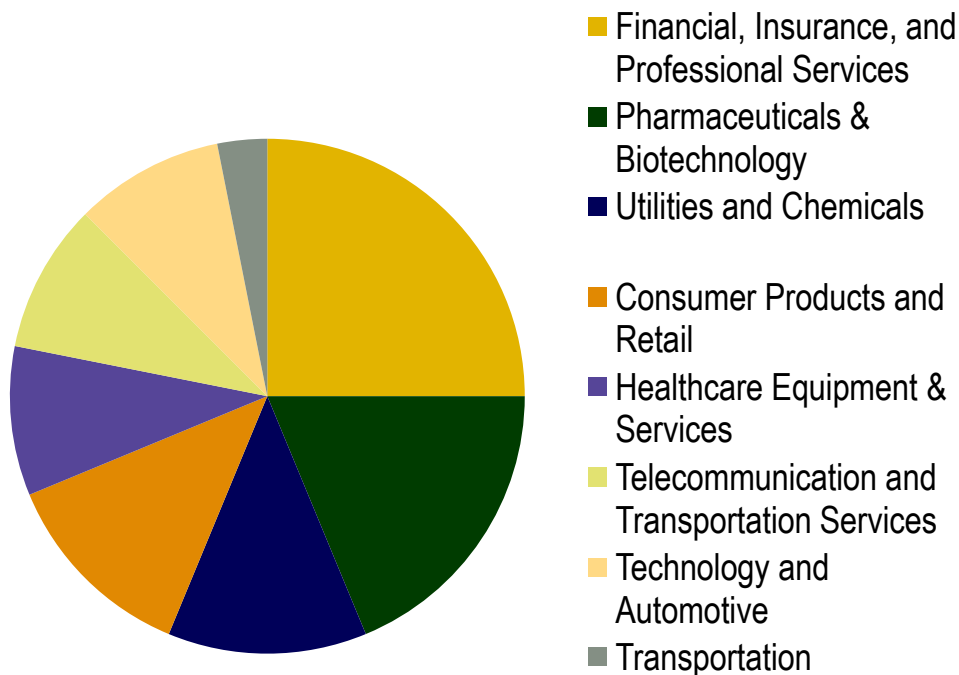
- The objectives of organizations related to their supplier diversity programs
- The measurements that organizations use to gauge success against these objectives
- The factors that drive and hinder supplier diversity success
- The impact of globalization on supplier diversity programs

The Supplier Diversity Study focused on...

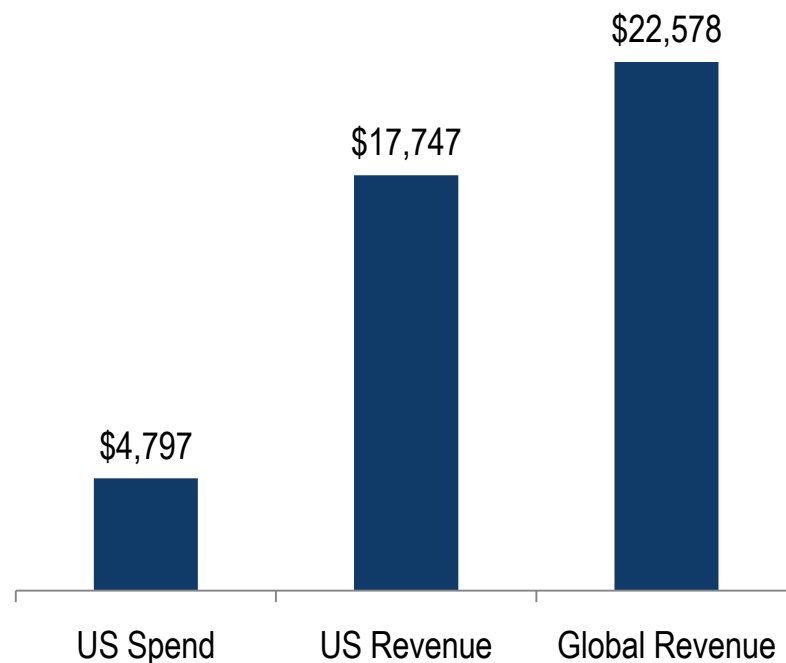
- Supplier Diversity performance within the United States
- In many instances supplier diversity was defined broadly and based on the scope of the study participants

Participants Ranged Across a Broad Types of Industries with an Even Split Between Service and Manufacturing Segments

Industry Demographics

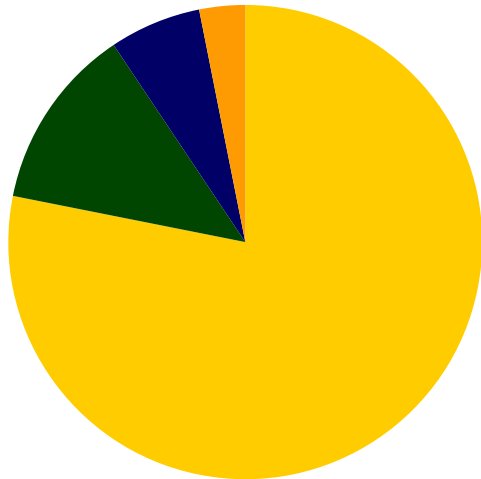


Average Participant Size (million)



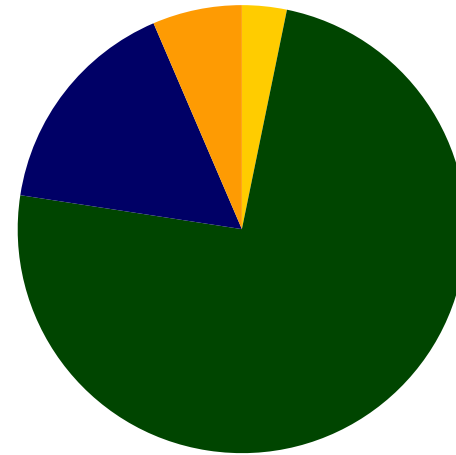
Nearly All Participants Reported Metrics based on Suppliers in the United States Although 78% of the Participants were Global Companies

Participant Geographic Presence



- Global Presence
- Regional presence within U.S.
- National presence within U.S.
- North American presence

Scope of Supplier Diversity Program

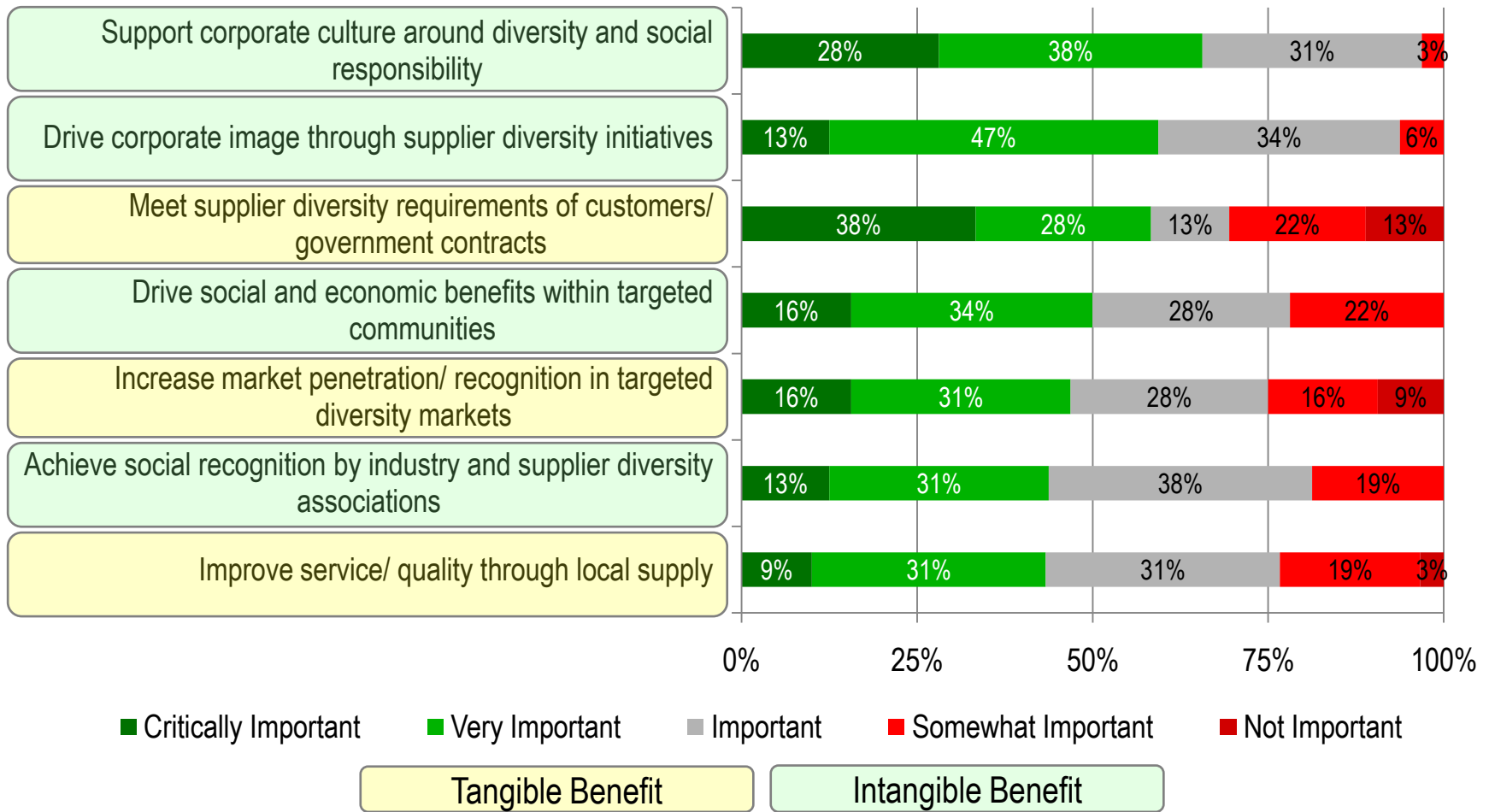


- Spend with suppliers both within and outside the U.S. and they are tracked as part of the same metrics
- No plans to include spend with non-U.S. suppliers within the next 3 years
- Plans to include spend with non-U.S. suppliers within the next 3 years
- Spend with suppliers in the U.S. and also track separately spend for non-U.S. suppliers

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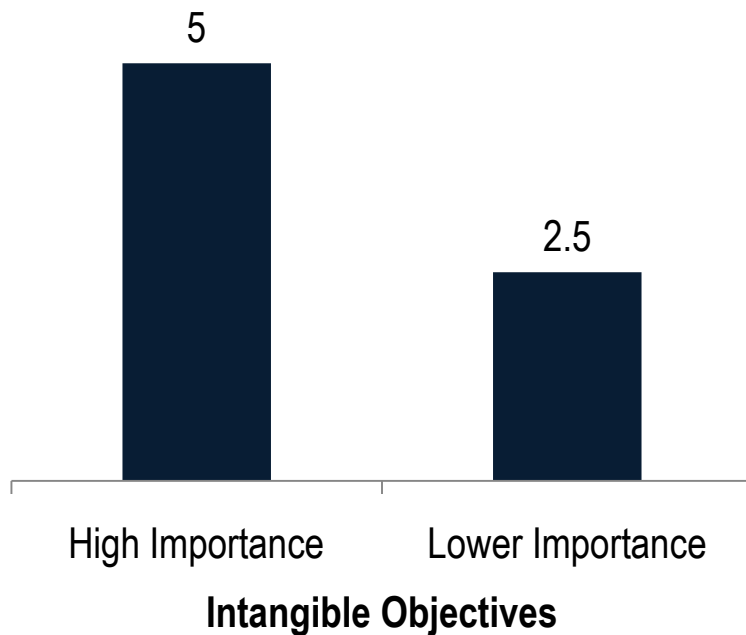
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While the Need to Tie Supplier Diversity Objectives to Tangible Benefits is Critical Particularly in Today's Economic Environment, Intangible Benefits Still Rank High on the Priority List

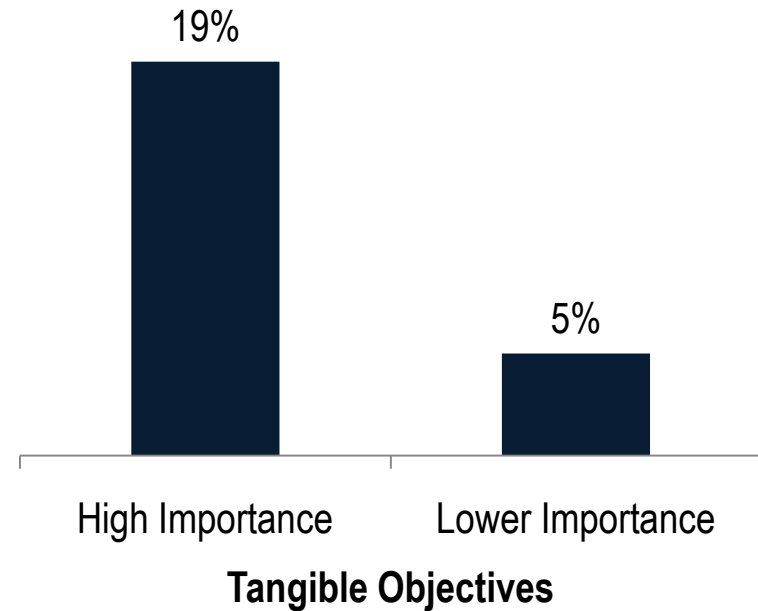


There Does Appear to be A Strong Correlation Between the Level of Importance Organizations Place on Tangible and Intangible Objectives and Supplier Diversity Performance

Times Recognized or Cited versus Importance of *Intangible* Objectives (median)

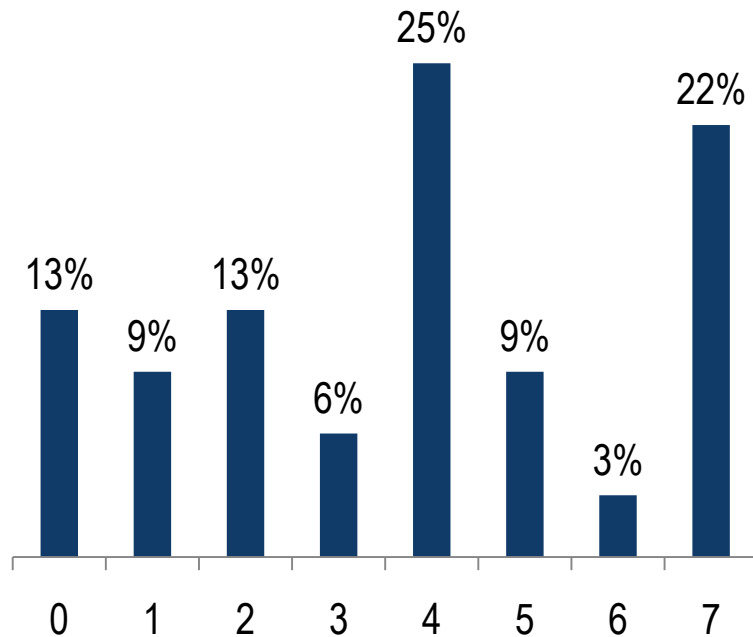


Percent of Spend with Diverse Supplier versus Importance of *Tangible* Objectives (median)

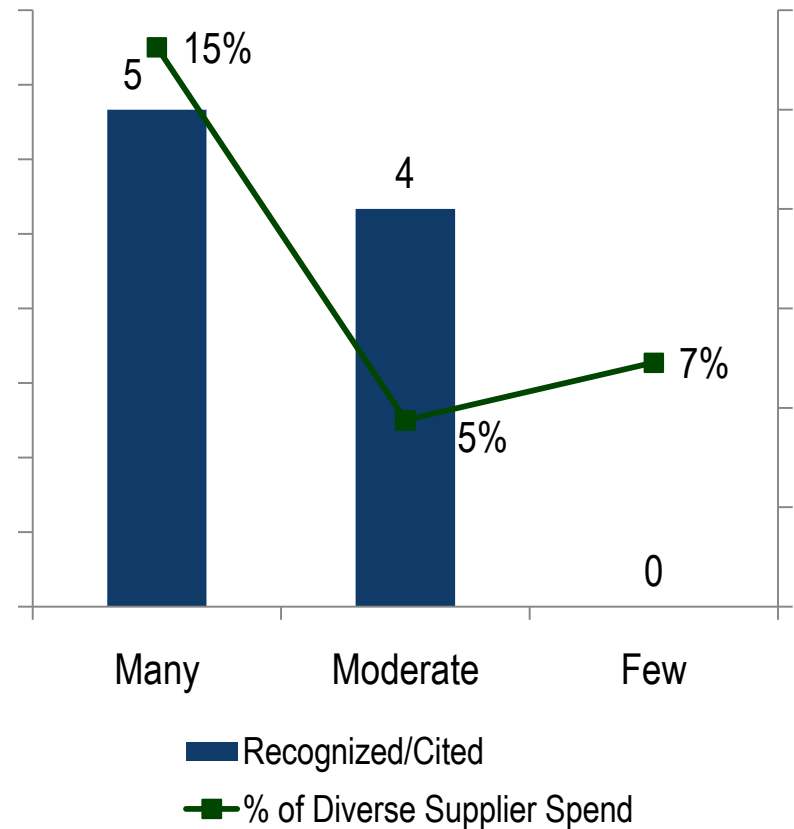


Many Organizations Have Multiple Critical/Very Important Objectives for their Programs which Tends to Drive Focus and Ultimately Performance

Number of Critical or Very Important Objectives Identified by Percent of Organizations

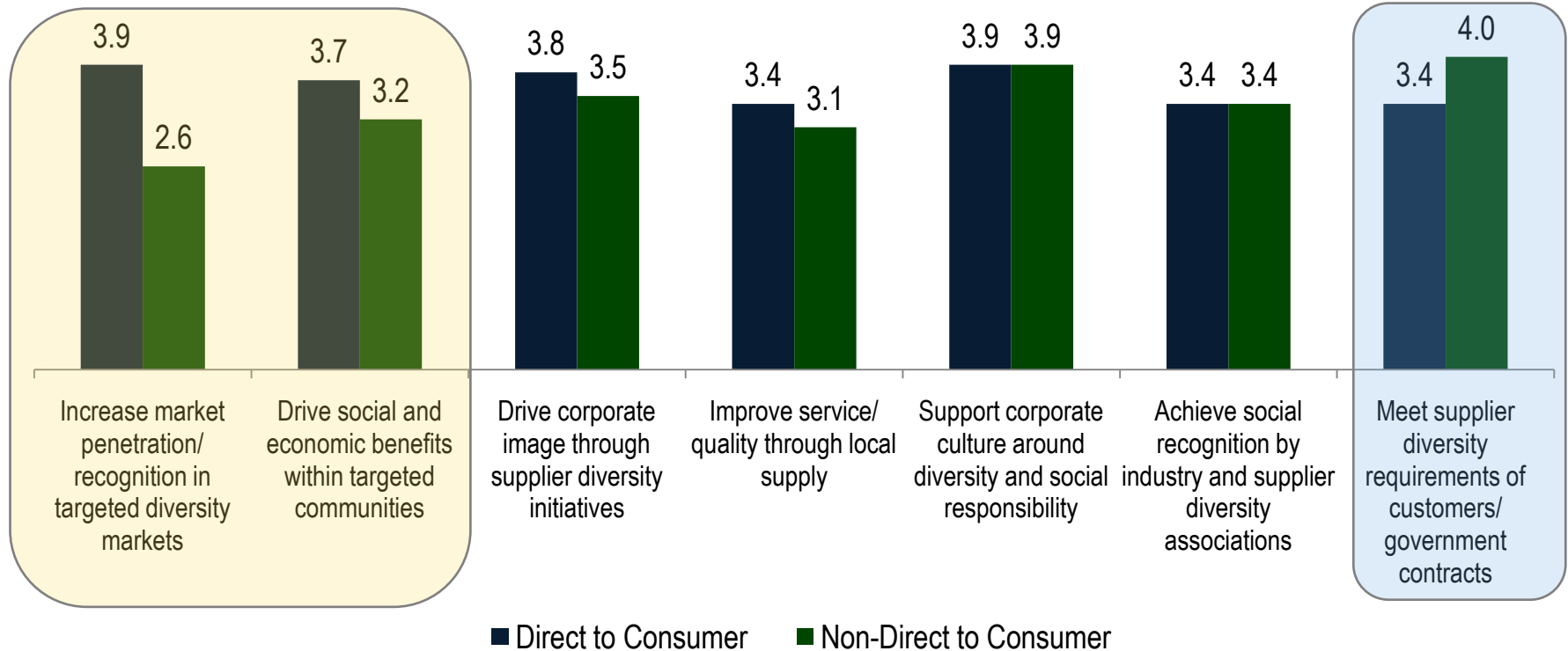


Performance versus Number of Critical or Very Important Objectives



Direct to Consumer Organizations Tend to Put Greater Importance on Objectives Tied to Brand Recognition within Target Markets While Non-Direct to Consumer Organizations Emphasized Requirements of Customers and Government

Importance of Objectives for Supplier Diversity Program



Importance of Supplier Diversity Objectives

5 – Critically Important

3 – Important

1 – Not Important

4 – Very Important

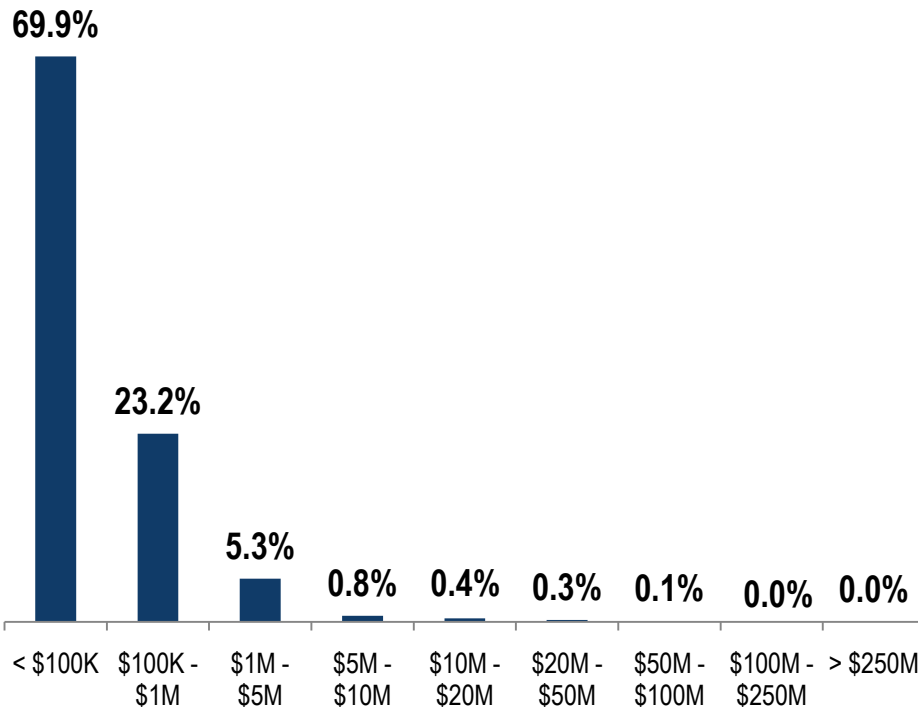
2 – Somewhat Important

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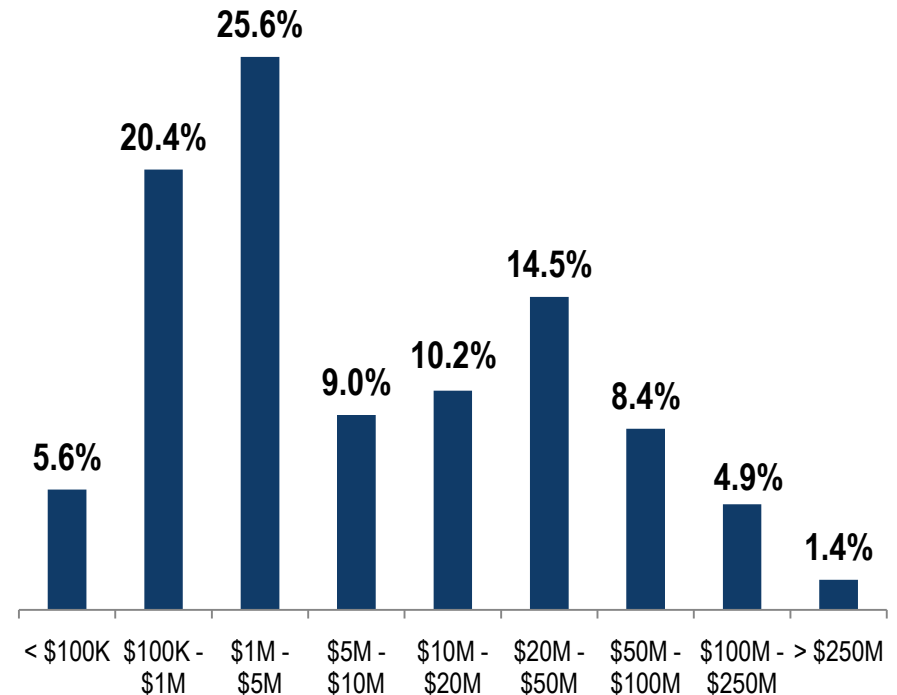
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70% of the Diverse Suppliers Have Less than \$100k in Annual Spend Although these Suppliers Represents only about 6% of Total Diversity Spend

Percent of *Diversity Suppliers* by Average Annual Spend with Supplier



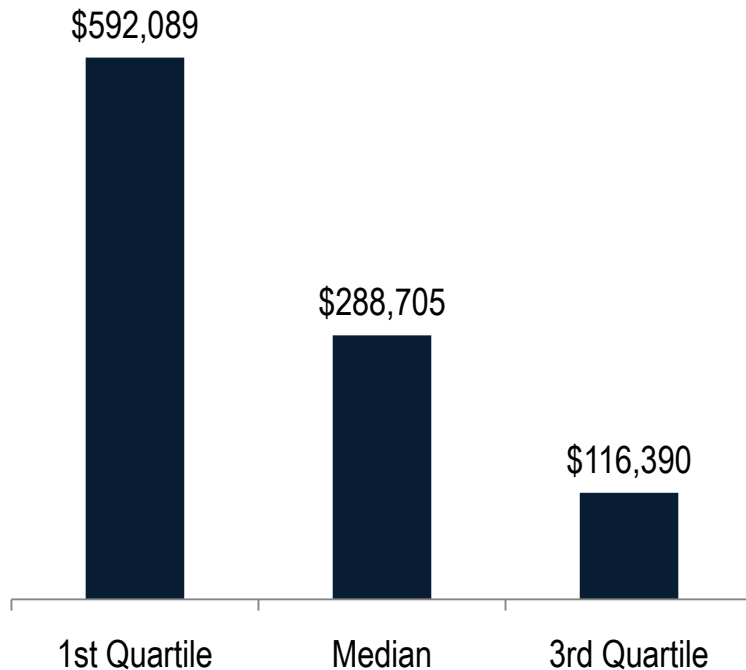
Percent of *Diversity Spend* by Average Annual Spend with Supplier



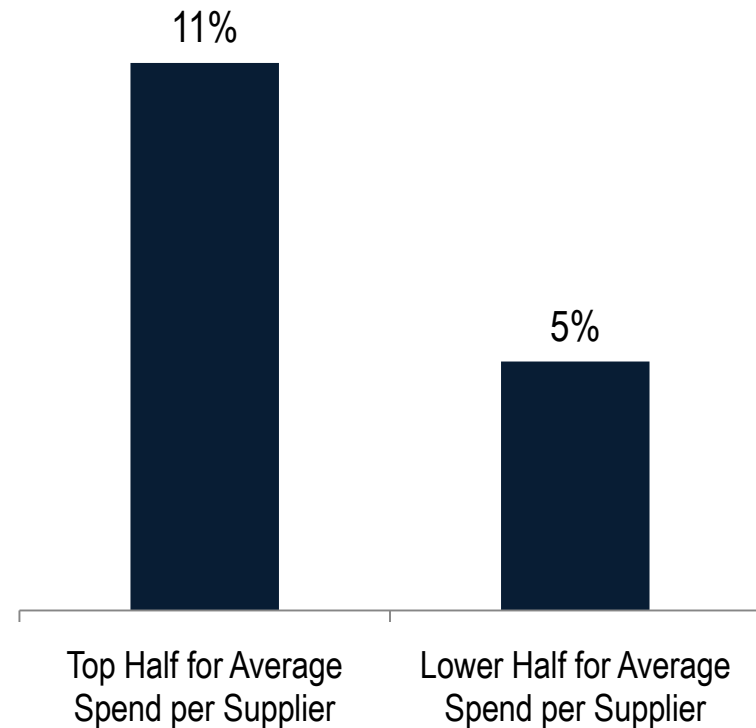
Organizations targeting percent of diverse supplier spend may be best served with several large divers suppliers while organizations targeting corporate image market awareness may be best served developing smaller suppliers

There Tends to be a Correlation with Average Spend per Diverse Supplier and Percent of Total Spend with Diverse Suppliers

Average Spend per Diverse Supplier

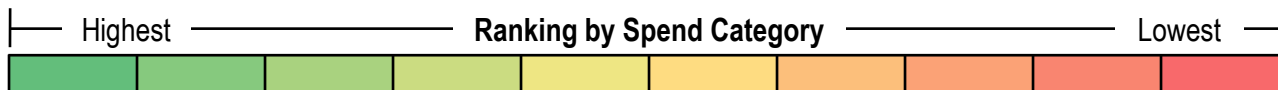


Supplier Diversity Spend as a Percent of Total Spend



Category Ranking Across Multiple Metrics Shows the Categories with the Highest Supplier Diversity Opportunity (slide 1 of 2)

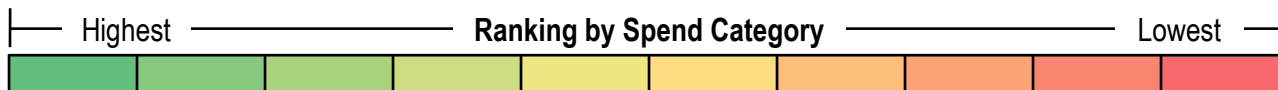
Category of Spend	Percent of Participants Indicating Some Diversity Spend	Average Diversity Spend per Participant Reporting Diversity Spend for Category	Average Diversity Spend as a Percent of Participant Total Spend	Category Diversity Spend as a % of Total Study Diversity Spend
Contract Manufacturing Services	Orange	Green	Green	Green
Temporary Staffing/ Contract Services	Green	Green	Green	Green
Construction Services	Yellow	Green	Green	Green
IT - Consulting Services	Light Green	Green	Green	Green
Facility Management and Maintenance Services	Green	Green	Light Green	Green
Engineering Services (non-IT)	Yellow	Green	Green	Green
Other Direct Materials	Orange	Green	Green	Light Green
Packaging Materials	Orange	Green	Green	Light Green
Facility Maintenance Supplies (e.g. MRO)	Green	Yellow	Green	Green
Other Professional Services	Light Green	Green	Yellow	Green
Other Services	Orange	Green	Green	Green
Legal Services	Light Green	Green	Yellow	Green
Research & Development Services	Yellow	Green	Green	Yellow
Logistics Services	Yellow	Green	Green	Yellow
Capital Assets (e.g. mfg equipment)	Red	Green	Green	Green
IT - Software	Light Green	Yellow	Yellow	Light Green
Marketing - Professional Agency	Green	Yellow	Green	Light Green
Supply Chain Services	Red	Green	Yellow	Light Green
Consulting/Audit/Tax Services	Yellow	Green	Yellow	Light Green
IT - Other Services	Yellow	Light Green	Orange	Light Green
Parts and Assemblies	Red	Yellow	Green	Orange



Note: Definitions for calculations are included at the end of this report

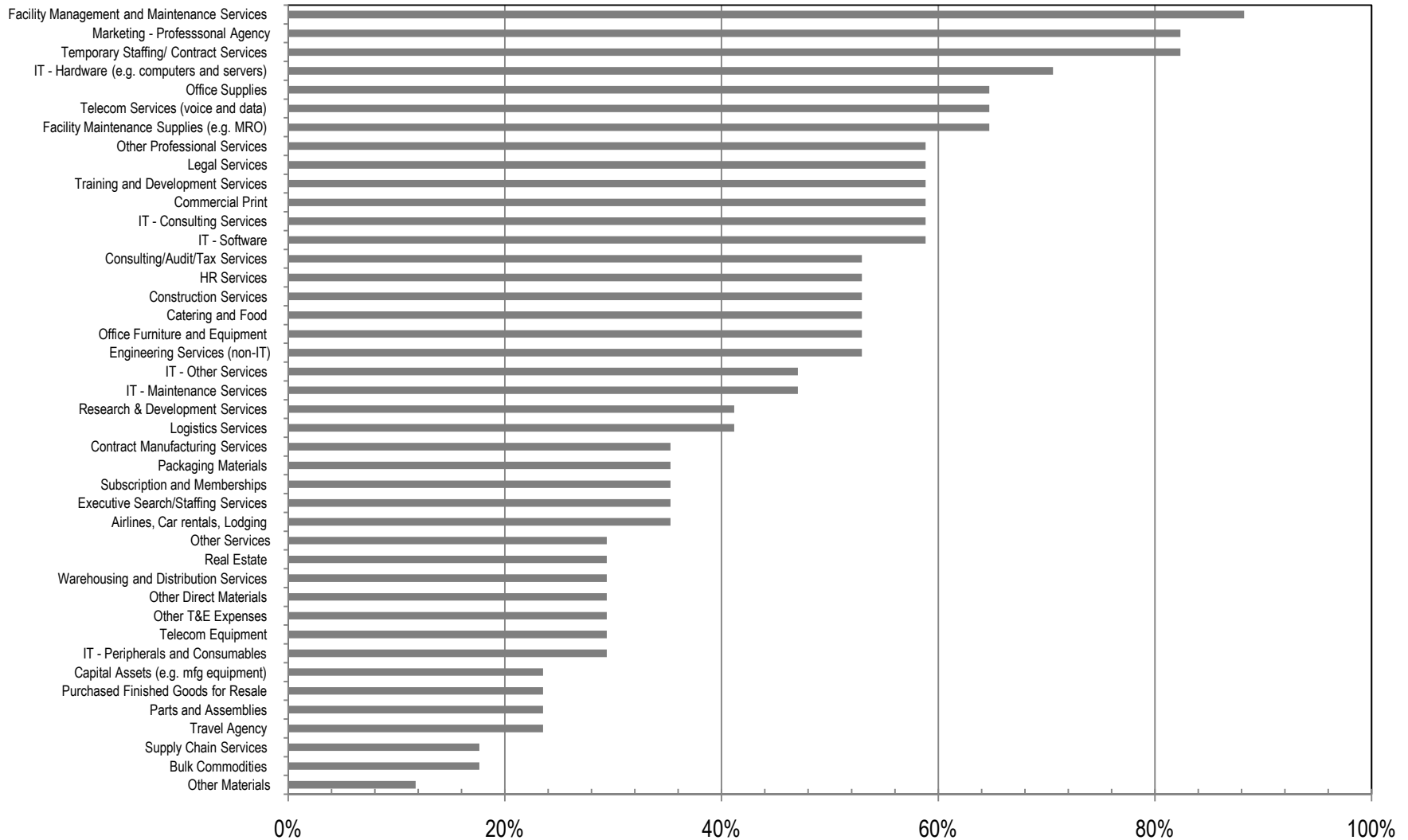
Category Ranking Across Multiple Metrics Shows the Categories with the Highest Supplier Diversity Opportunity (slide 2 of 2)

Category of Spend	Percent of Participants Indicating Some Diversity Spend	Average Diversity Spend per Participant Reporting Diversity Spend for Category	Average Diversity Spend as a Percent of Participant Total Spend	Category Diversity Spend as a % of Total Study Diversity Spend
Commercial Print	Green	Yellow	Yellow	Yellow
Warehousing and Distribution Services	Orange	Yellow	Yellow	Yellow
IT - Hardware (e.g. computers and servers)	Green	Yellow	Orange	Yellow
Office Furniture and Equipment	Yellow	Orange	Yellow	Orange
Training and Development Services	Green	Orange	Orange	Yellow
Executive Search/Staffing Services	Orange	Orange	Yellow	Orange
Telecom Services (voice and data)	Green	Orange	Orange	Yellow
HR Services	Yellow	Orange	Orange	Orange
Purchased Finished Goods for Resale	Red	Yellow	Orange	Orange
Office Supplies	Green	Orange	Orange	Orange
IT - Maintenance Services	Yellow	Orange	Orange	Orange
Telecom Equipment	Orange	Orange	Orange	Orange
Other Materials	Red	Red	Yellow	Red
Bulk Commodities	Red	Orange	Yellow	Red
Airlines, Car rentals, Lodging	Orange	Yellow	Orange	Orange
Subscription and Memberships	Orange	Orange	Orange	Orange
Catering and Food	Yellow	Orange	Red	Orange
Real Estate	Orange	Orange	Orange	Orange
IT - Peripherals and Consumables	Orange	Orange	Orange	Orange
Other T&E Expenses	Orange	Orange	Orange	Orange
Travel Agency	Red	Red	Orange	Red

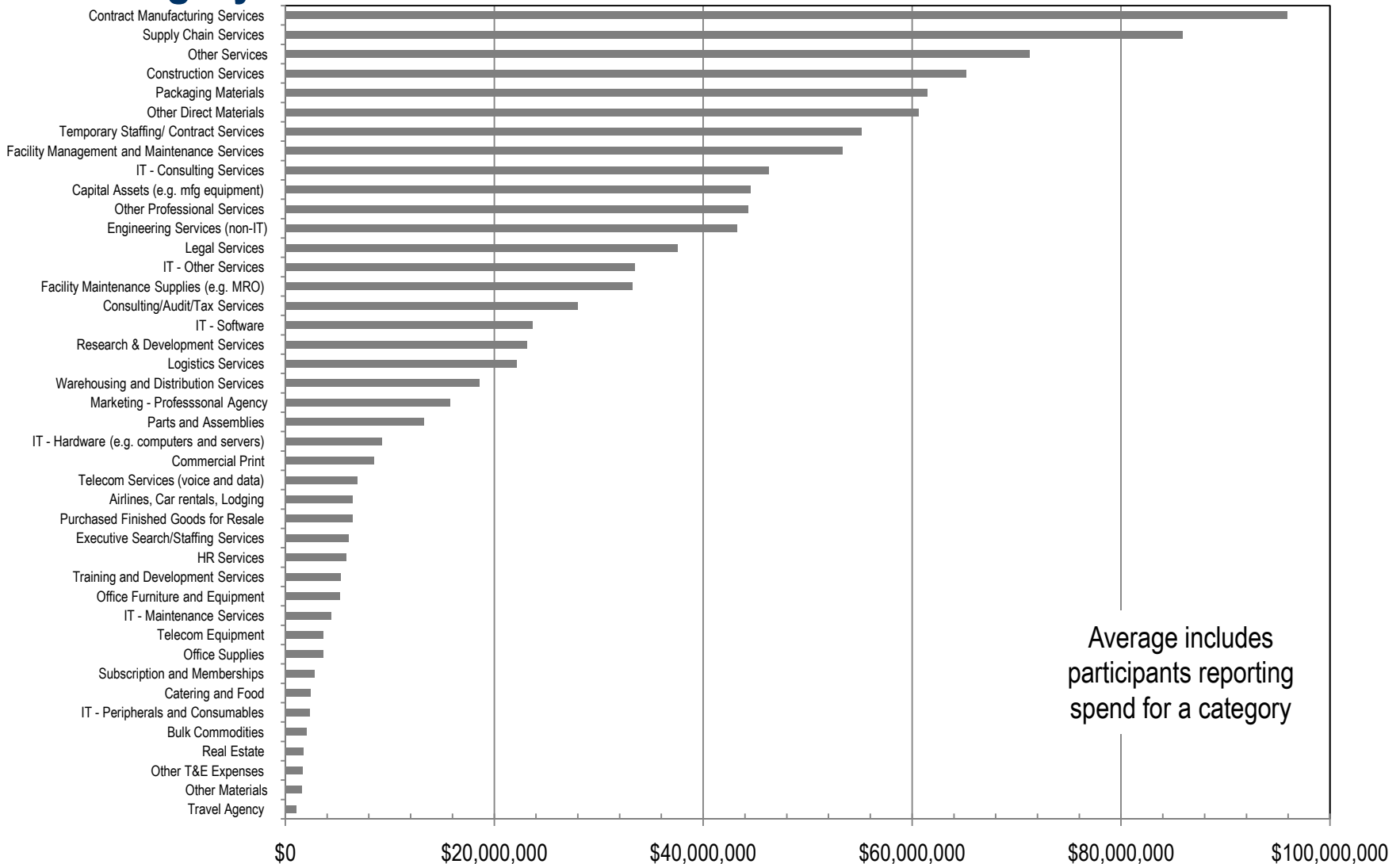


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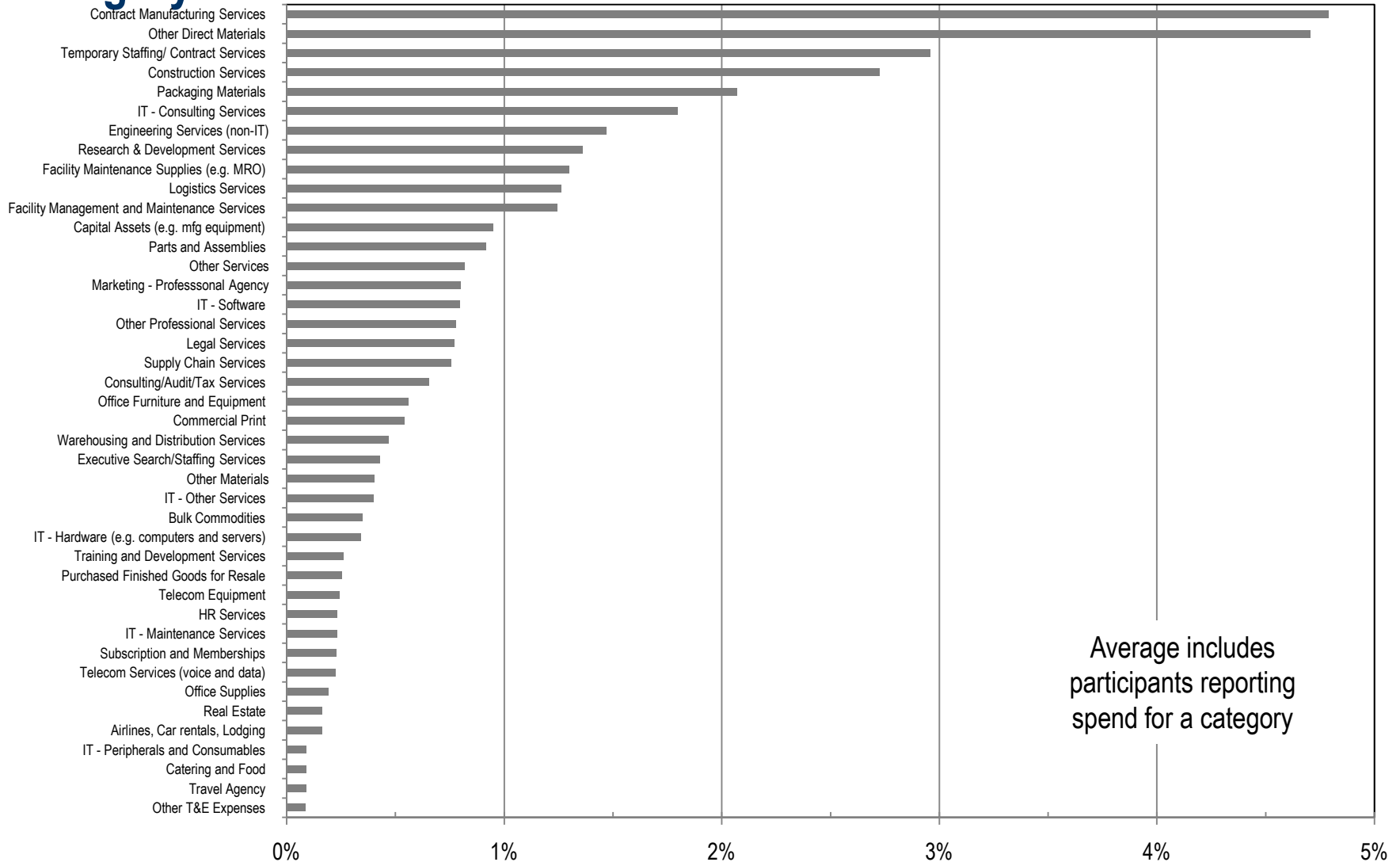
Percent of Participants Indicating Some Diversity Spend by Category



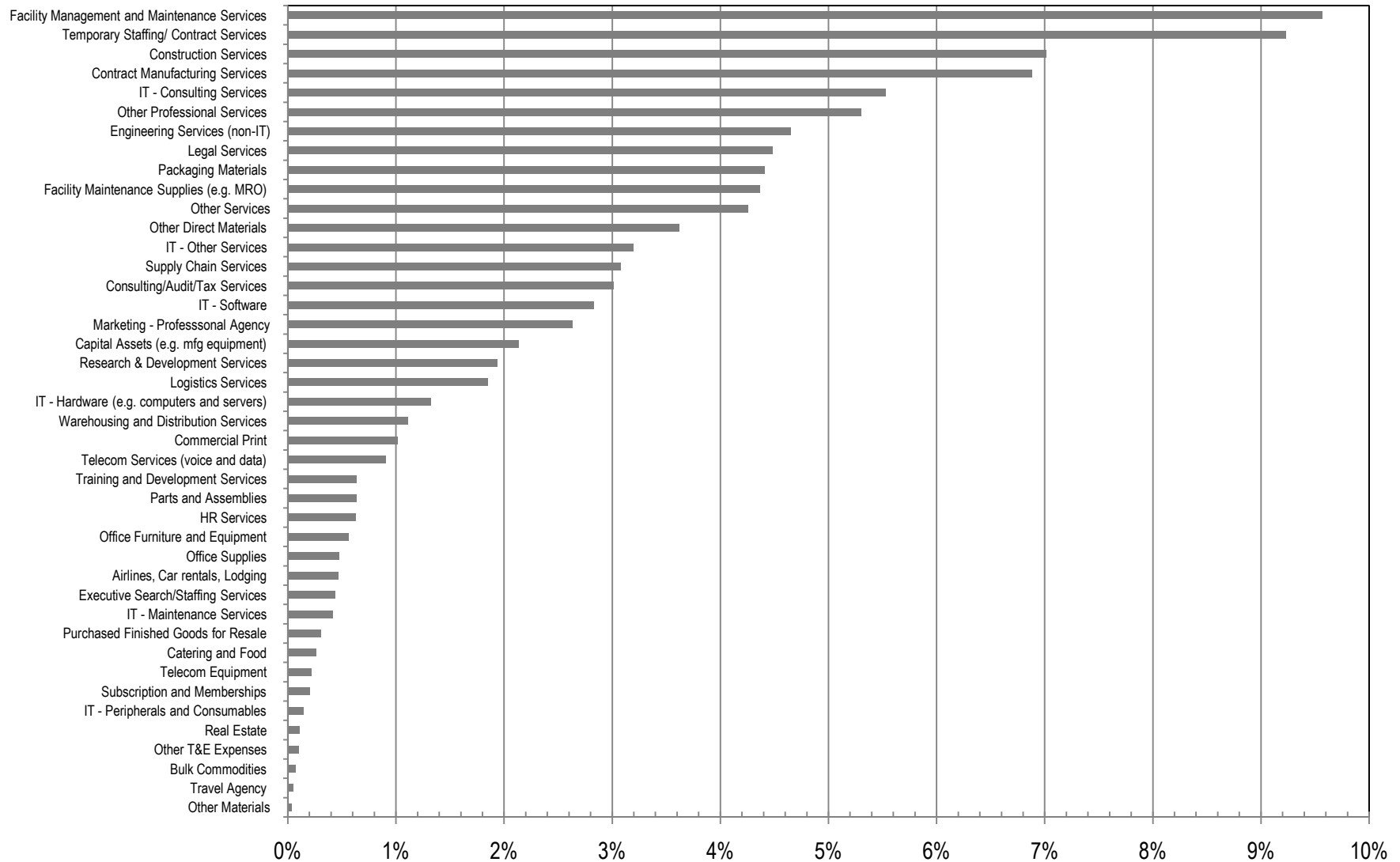
Average Diversity Spend per Participant Reporting Diversity Spend for Category



Average Diversity Spend as a Percent of Participant Total Spend by Category



Category Diversity Spend as a Percent of Total Study Diversity Spend

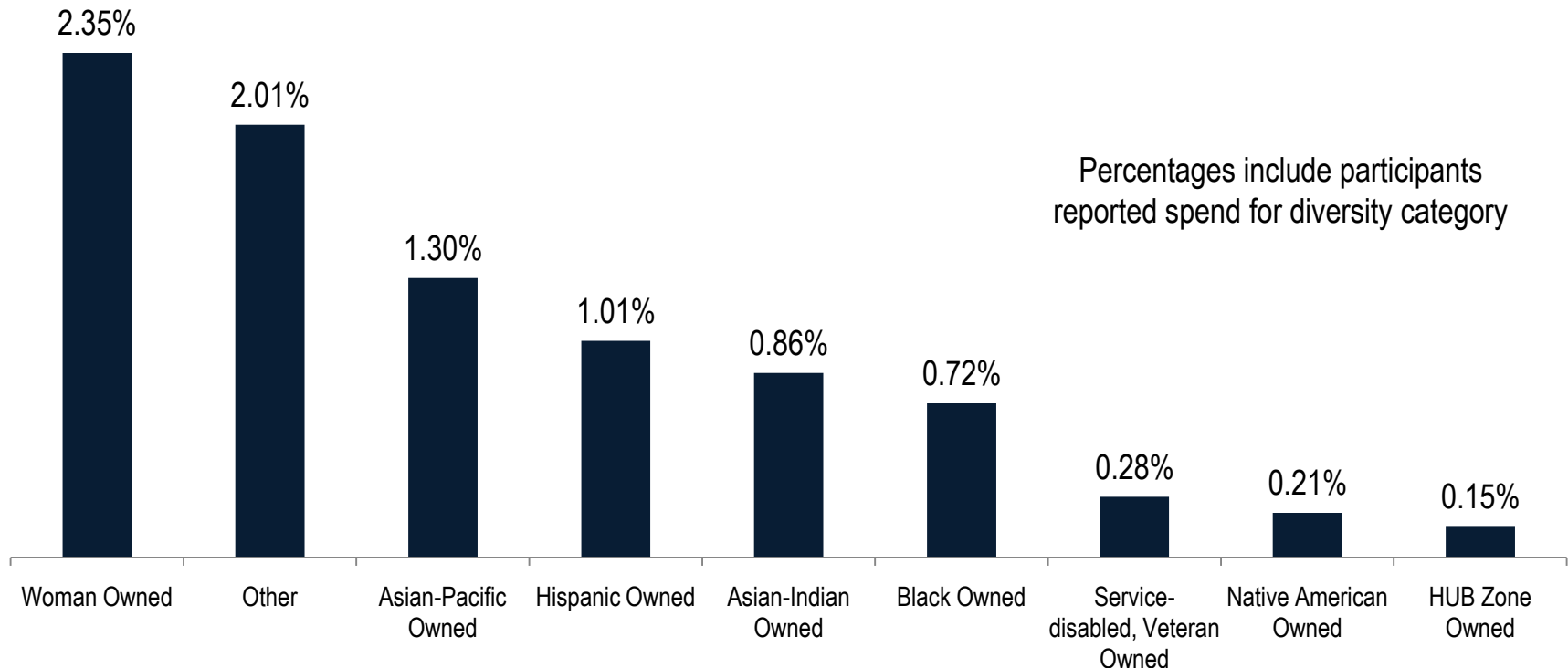


Woman-Owned Businesses Represented on Average 2.4 Percent of Total Spend for Those Reporting Spend within Diversity Group

79% of total reported supplier diversity spend was from 1st tier suppliers while 21% from sub-tier suppliers

Average Diversity Spend as a Percent of Total Spend by Diversity Category

Percentages include participants reported spend for diversity category



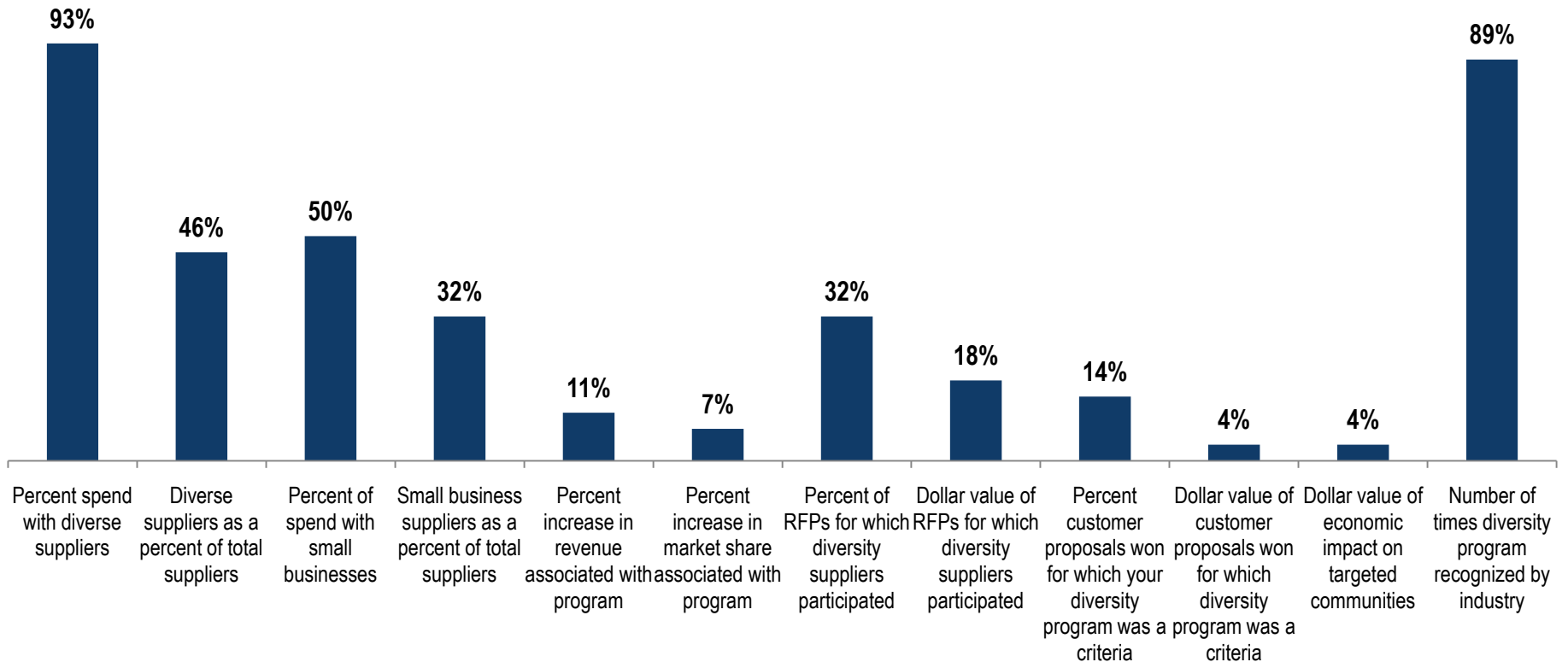
¹Other includes both diversity groups not identified as well as minority spend that participants were unable to allocate across specific diversity groups

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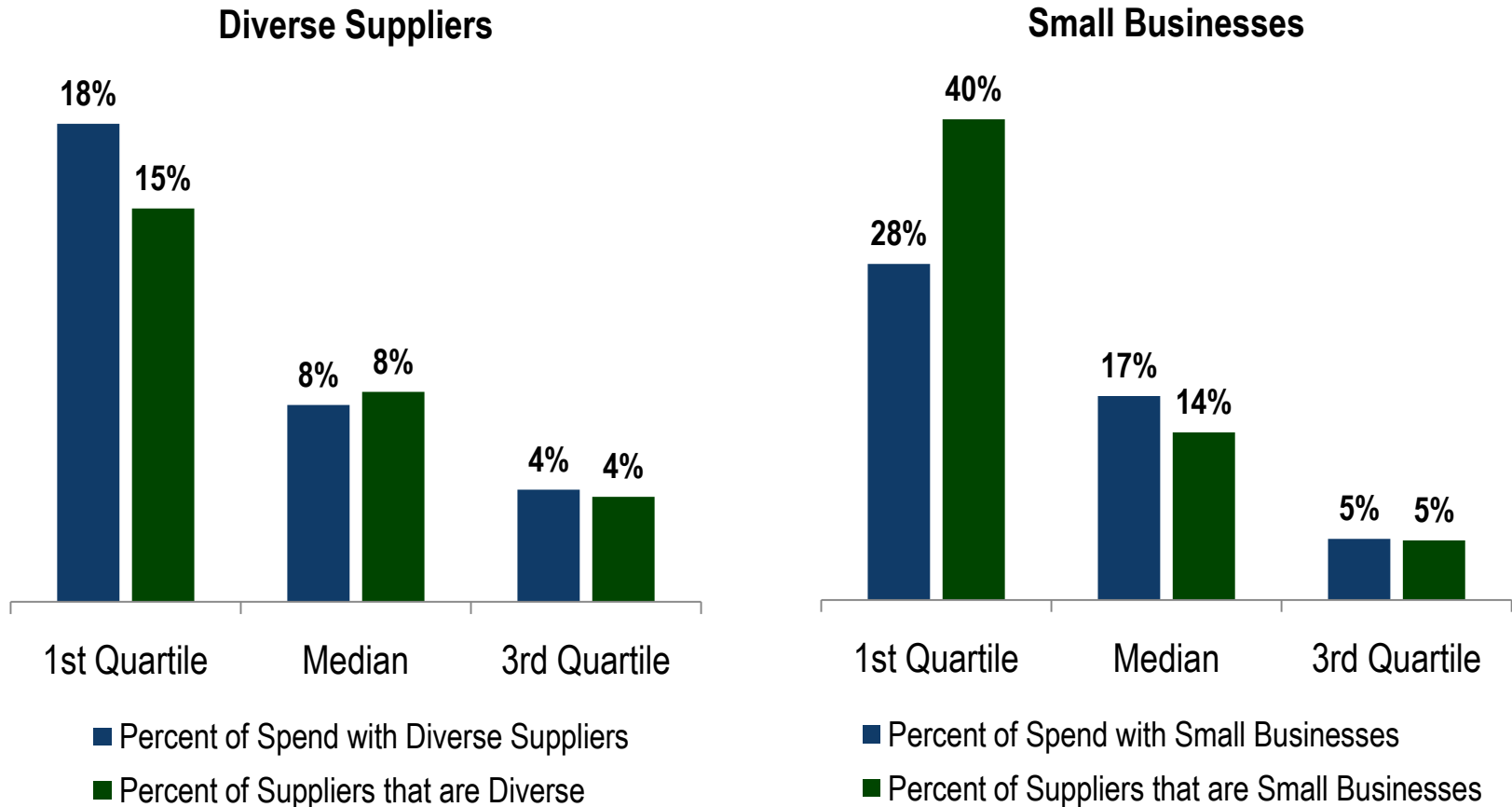
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Percent of Spend with Diverse Suppliers is Tracked by Most Participants but there are Also a Broad Range of Other Metrics Measured Depending on an Organization's Objectives

Percent of Participants Reporting Metrics



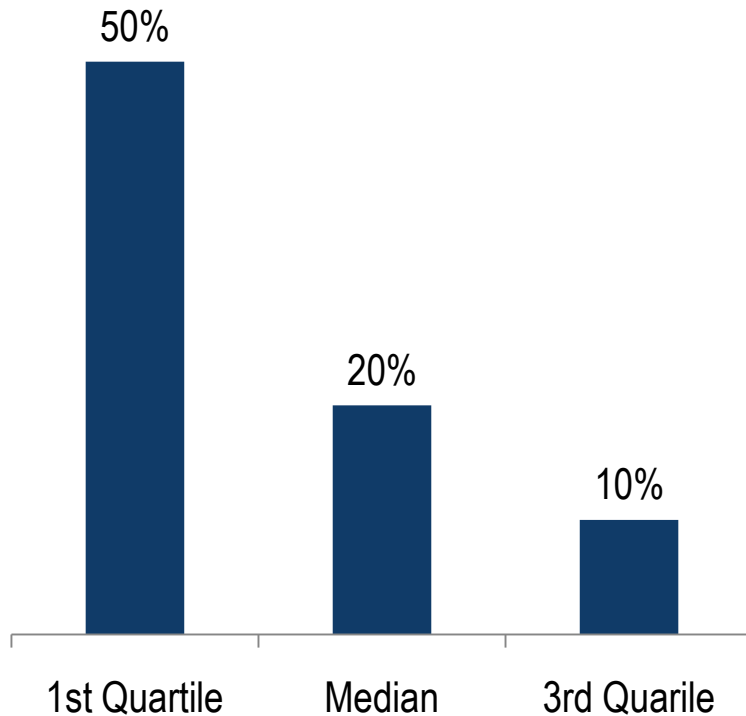
Percent of Spend and Percent of Suppliers Reported by Participants: Diverse Suppliers and Small Businesses



Metrics were self-reported across all supplier diversity categories considered in-scope of the participants program

Organizations Also Commonly Measured Percentage of RFPs Diverse Suppliers Participated and Recognition Received by Industry Groups

RFPs for which Diversity Suppliers Participate



Number of Times Recognized or Cited by Industry (annual)

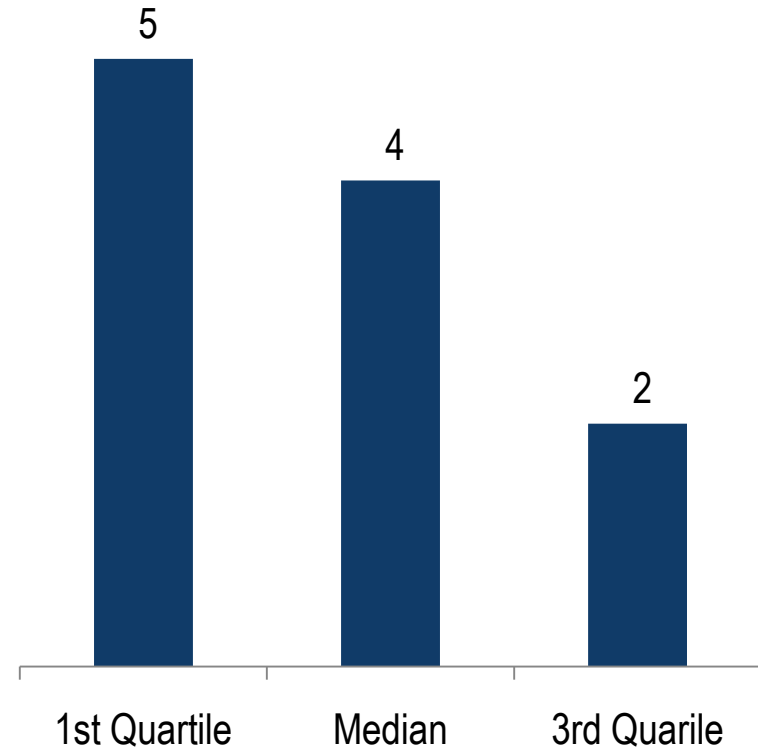
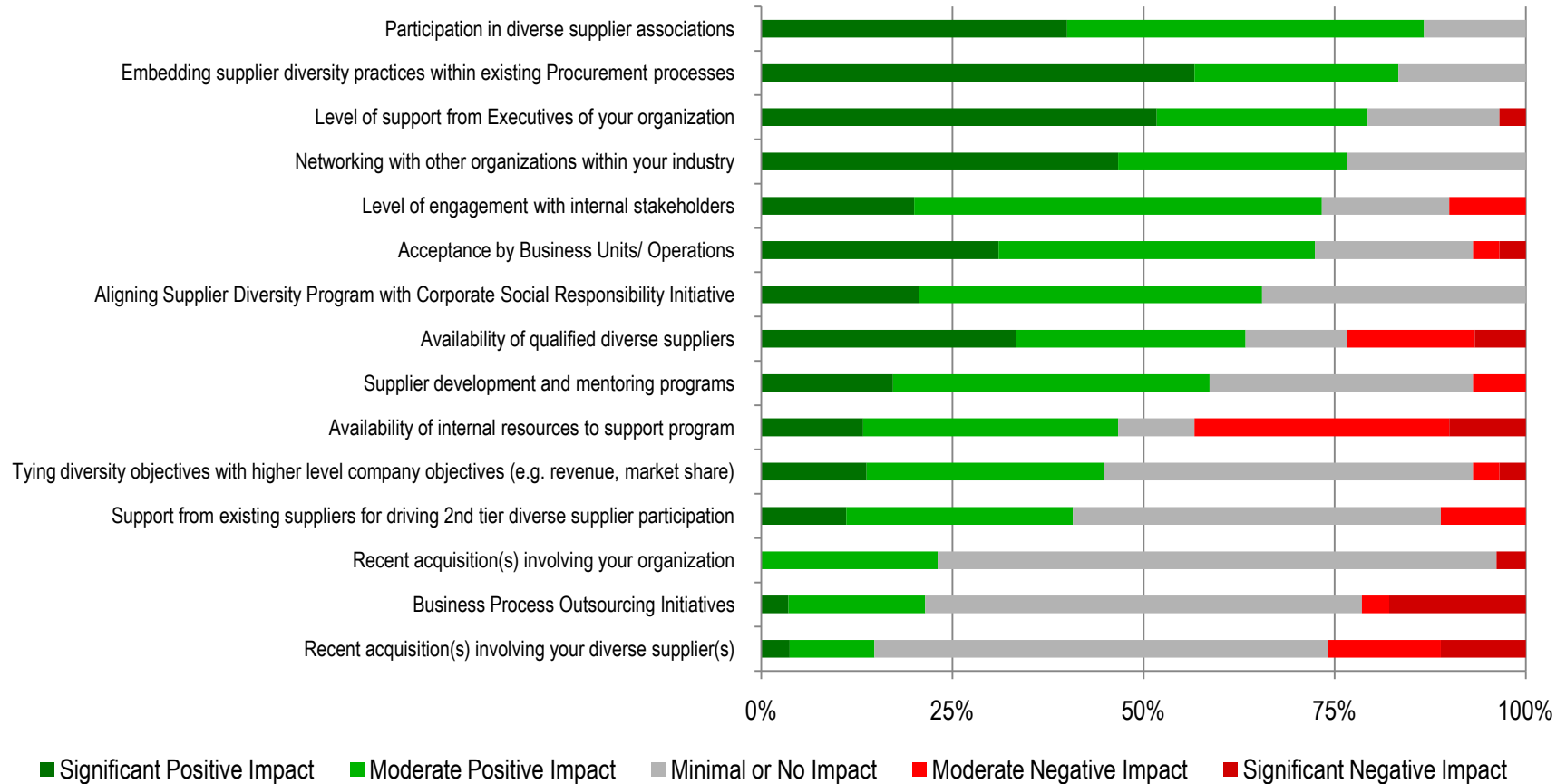


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Participants were Asked the Level of Impact that a Variety of Factors Have Had on the Success of the Supplier Diversity Programs



The factors that most negatively impact success tend to be those around the availability of diverse suppliers and internal resources to while some of the factors that most drive success are around internal and external networking. Executive support and embedding supplier diversity practices into existing processes has the highest level of positive impact.

Participation in Associations, Embedding Practices within Existing Processes, Executive Level Support and Networking Had the Highest Positive Impact on Program Success

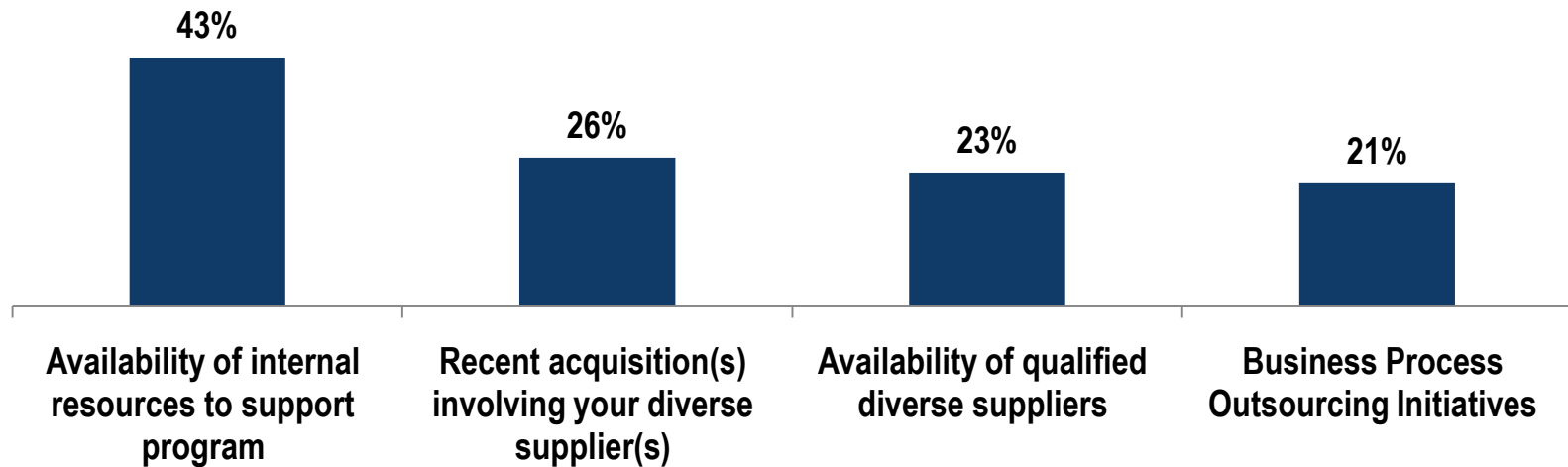
Percent of Participants Stating the Factor Had a Positive Impact on Supplier Diversity Program



- Participating in diverse supplier associations provides access to diverse supplier, networking opportunities, information on diversity events, and best practices
- Embedding supplier diversity requirements into existing sourcing, purchasing, and supplier management processes helps insure that supplier diversity objectives are aligned with the overall objectives of Procurement
- Executive level support for supplier diversity programs is critical as program objectives are most commonly aligned with high-level business objectives like revenue growth and corporate image
- Many organizations noted that networking with industry peers has been helpful in exchanging best practices, identifying new sources of supply, and driving adoption of 2nd tier divers supplier adoption

Availability of Resources and Acquisitions of Diverse Suppliers were Factors Most Stated as Having a Negative Impact on Supplier Diversity Programs

Percent of Participants Stating the Factor Had a Negative Impact on Supplier Diversity Program



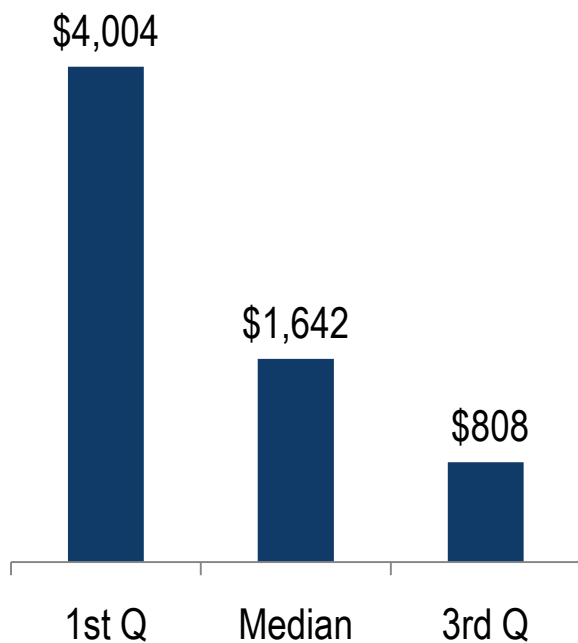
- There was a broad range of available resources allocated to support supplier diversity programs among participants but an unclear ROI that may exist within some programs likely drives an under allocation of resources
- As diverse suppliers become larger and more successful they are often acquired losing their diverse supplier status and having a significant impact on an organization's supplier diversity metrics
- The availability of qualified diverse supplier is hindering success, however, only half of the participants identified supplier development and mentoring programs as a driver of success and some organizations identified the availability of qualified diverse suppliers as an enabler of their program's success
- Outsourcing initiatives can impact diverse suppliers by reallocating services to an outsource provider

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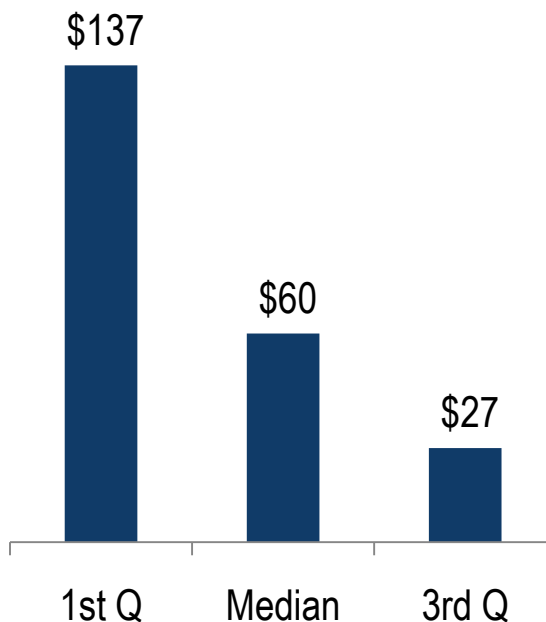
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We Also Looked at the Level of Investment that Organizations Make into Supplier Diversity Programs from a Resourcing and Budgeting Perspective

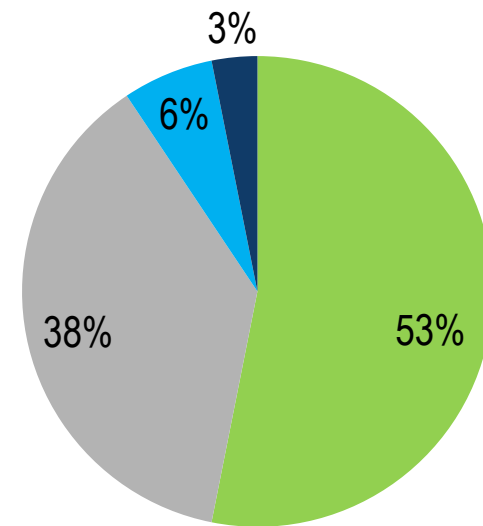
Level of Supplier Diversity Spend per Dollar of Supplier Diversity Budget¹



Supplier Diversity Spend (\$millions) per Supplier Diversity FTE



Source of Supplier Diversity Budget



- Separate budget maintained for supplier diversity related expenses
- Functional budget (e.g. Procurement) supports supplier diversity expenses
- Funding approved on a per request basis
- No funds allocated for supplier diversity expenses

¹Training, sponsorships, tradeshows, advertising, memberships, promotions, etc. related to supplier diversity program

Procurement is Most Typically the Responsible and Accountable Function for Supplier Diversity Programs Although A Broad Array of Functions are Consulted and Informed

	Responsible	Accountable	Consults	Informed
Procurement	53%	41%	6%	0%
Sales & Marketing	16%	0%	31%	28%
Human Resources	3%	3%	38%	38%
Communications	6%	3%	31%	44%
Finance	6%	13%	25%	25%
Businesses/ Operations	16%	0%	25%	47%
CEO	3%	9%	13%	53%
Board of Director	0%	0%	6%	59%

Responsible – This is the person or group responsible for performing the activities associated with the supplier diversity program.

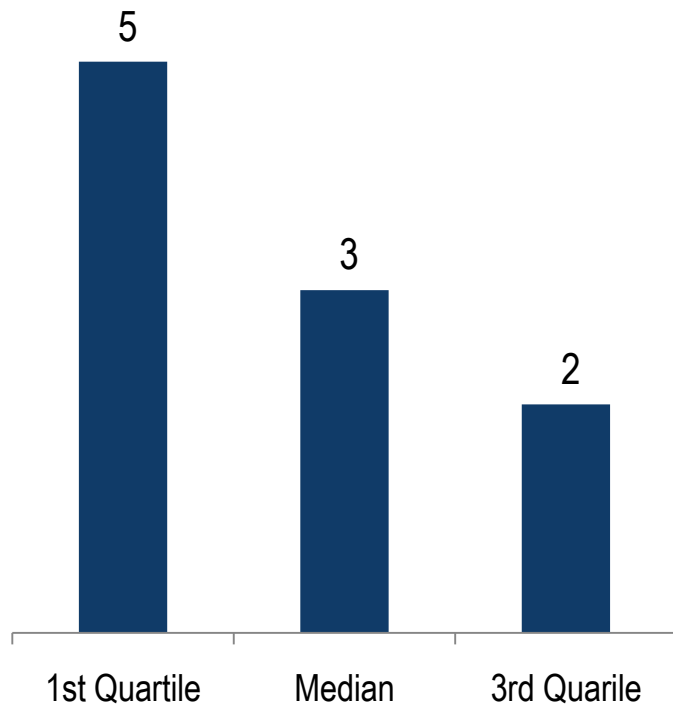
Accountable – To whom the responsible person is accountable; this is the person who is held accountable for the supplier diversity program.

Consults - Provides input and advice to the responsible group or person; these are the people communicated with prior to actions being taken or decision made.

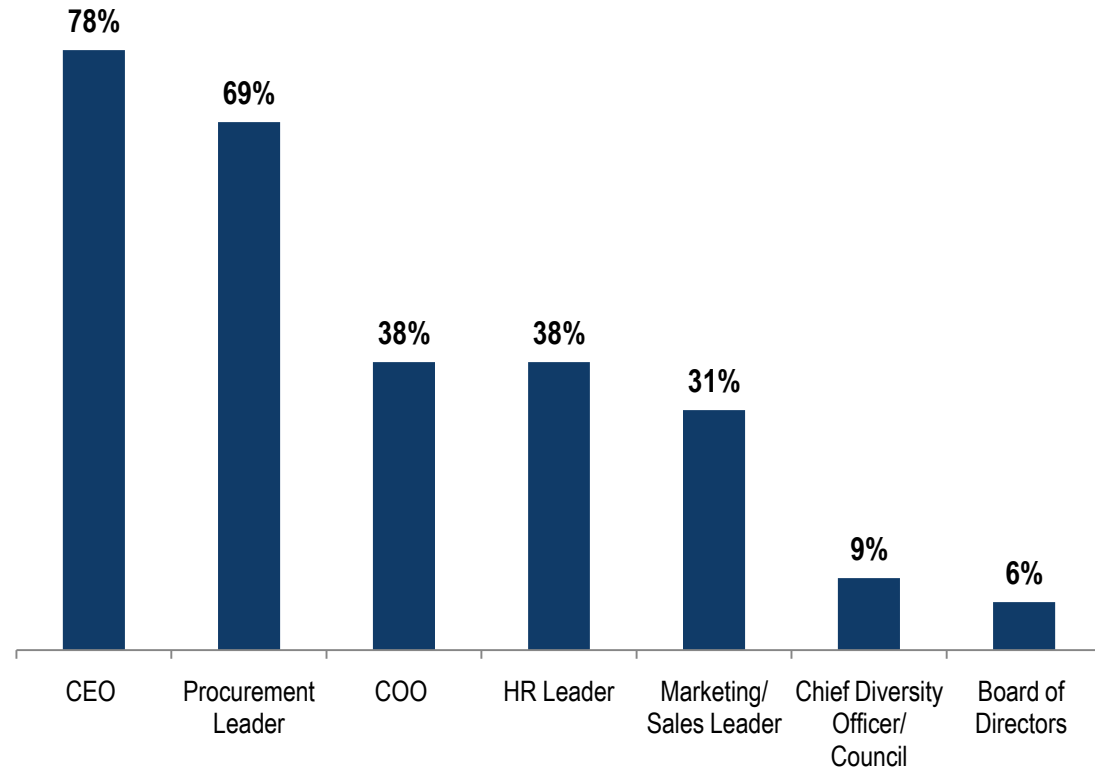
Informed – Must be notified of results, but need not be consulted; these are the parties who are notified about an action after it has been performed.

Multiple Executives Typically Review Supplier Diversity Status on an Annual Basis with CEOs Leading the Way at Most Organizations

Number of Executives reviewing supplier diversity performance at least once per year

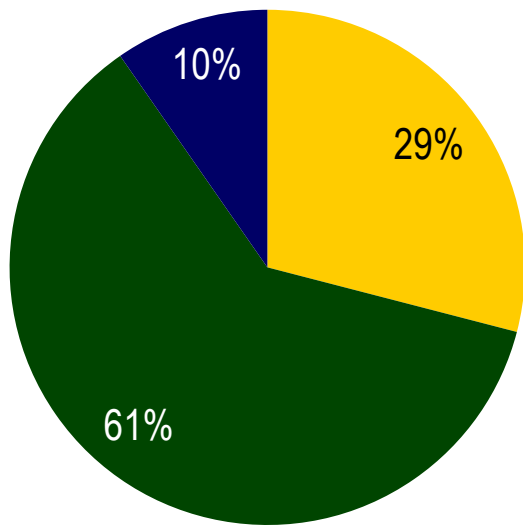


Review Supplier Diversity Status At Least Annually



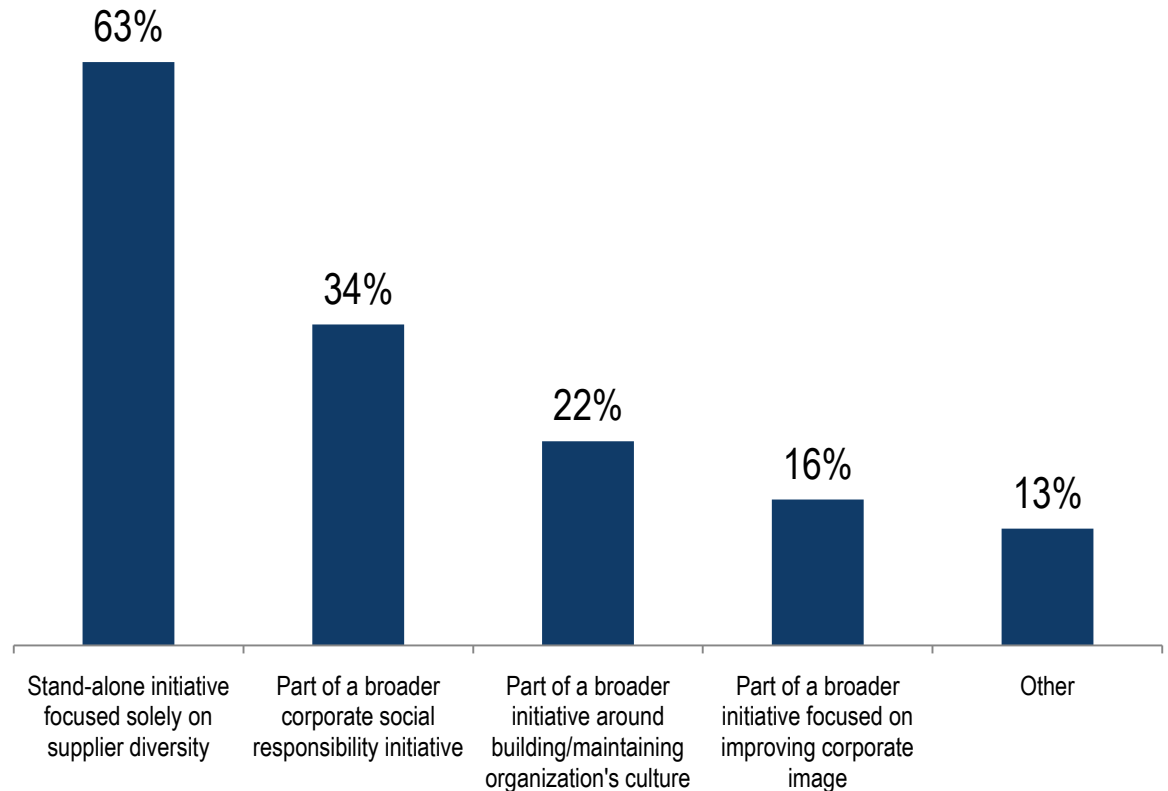
A Centralized Procurement Structure was Predominate and Participants Most Often Positioned Supplier Diversity as a Stand-Alone Initiative

Procurement Governance Structure



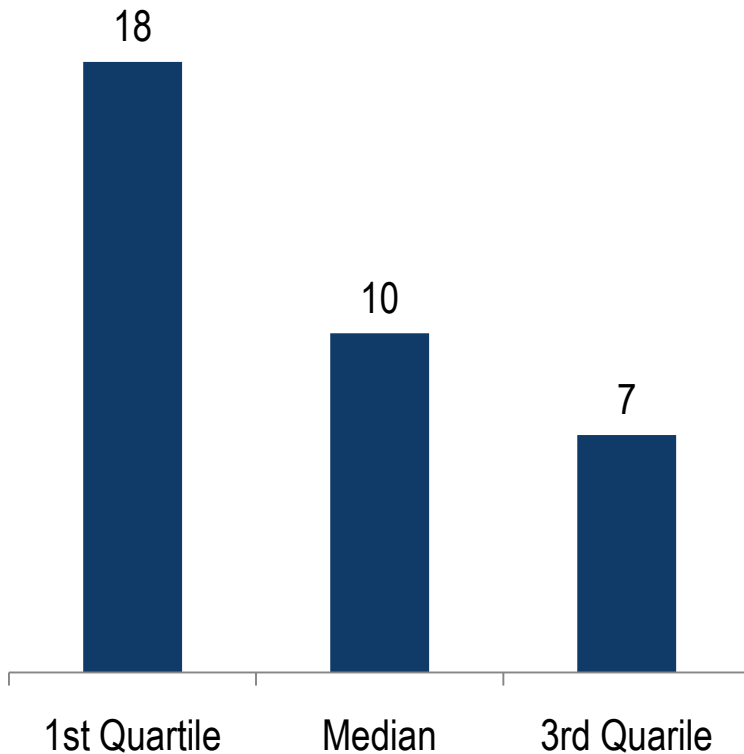
- Centrally led (coordinated centrally but executed de-centrally)
- Predominately centralized
- Predominately decentralized

Positioning of Supplier Diversity Program



Most Organizations have Fairly Mature Programs and 60% Leverage Diversity-Owned Marketing Agencies to Help Target Diverse Markets

Number of Years Supplier Diversity Program has been in Place



Level of Importance for Leveraging Diversity-Owned Marketing/ Advertising Agencies to Reach Diverse Markets

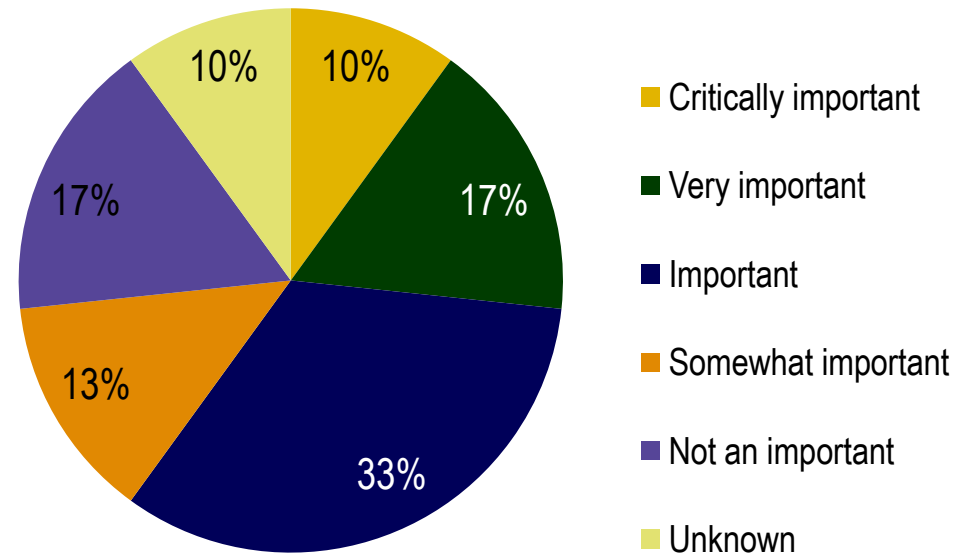
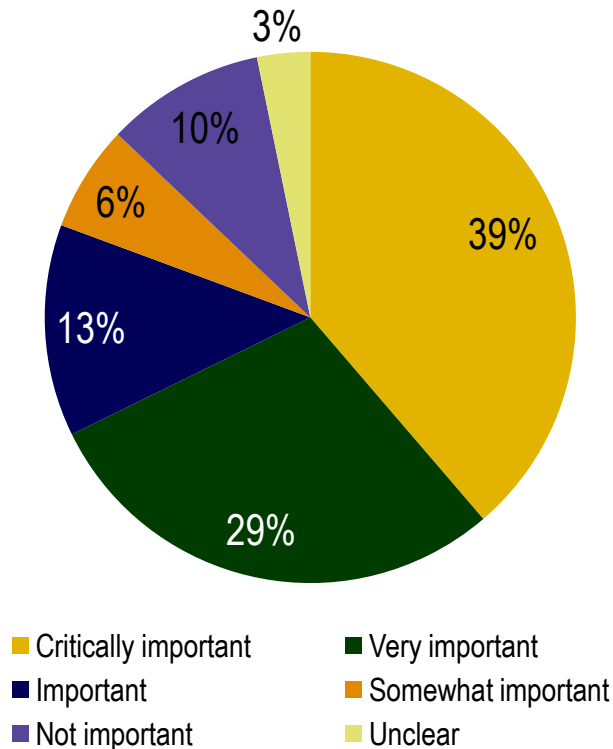


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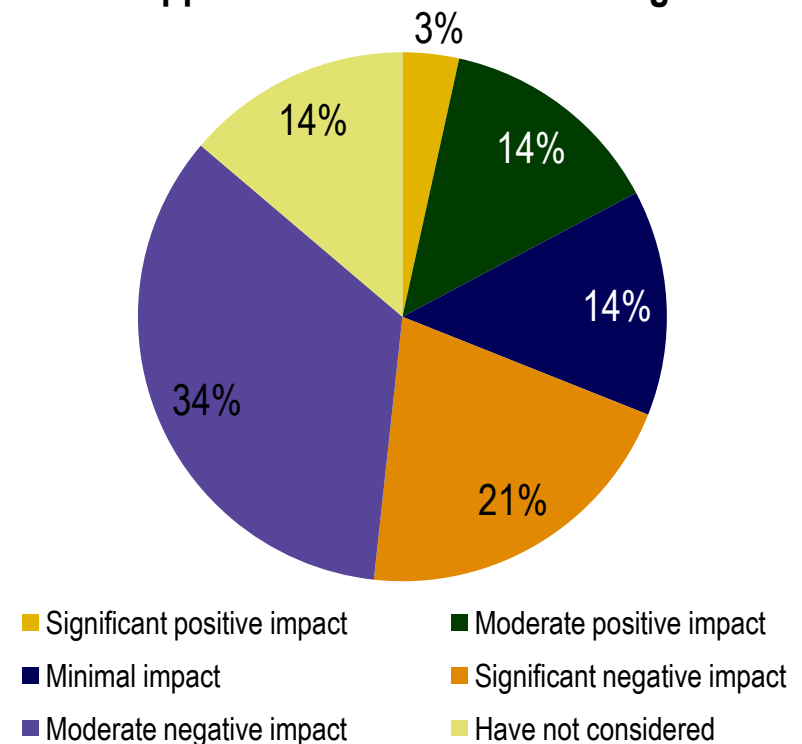
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Global Sourcing is Critically/Very Important for 68% of Participants and 55% of Participants Believe It will Have a Negative Impact on Domestic Supplier Diversity Programs

Importance of Global Sourcing



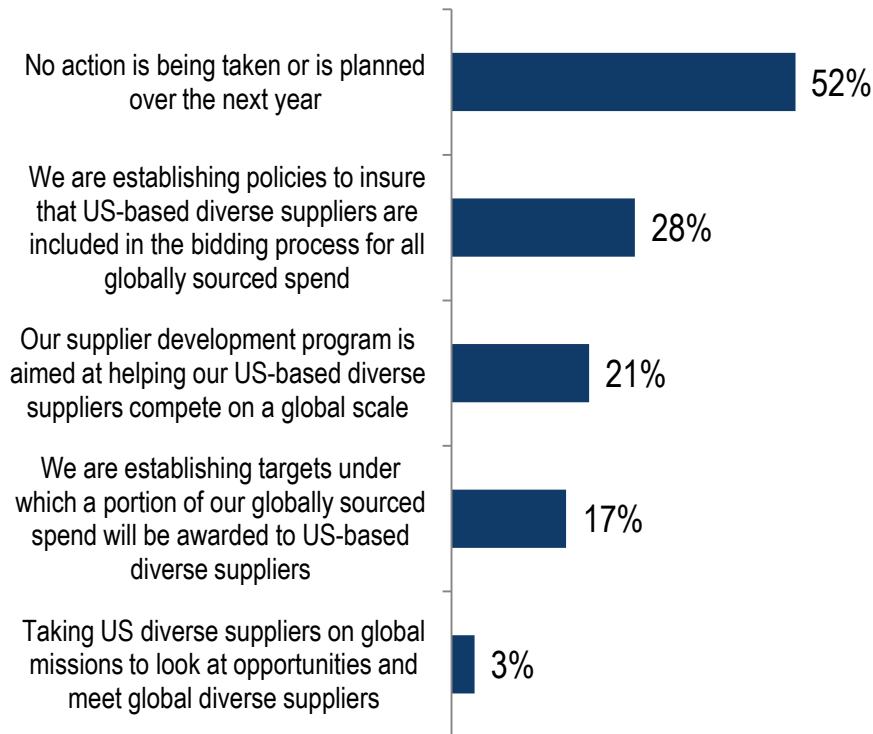
Impact on Spend with US-based Diverse Suppliers due to Global Sourcing



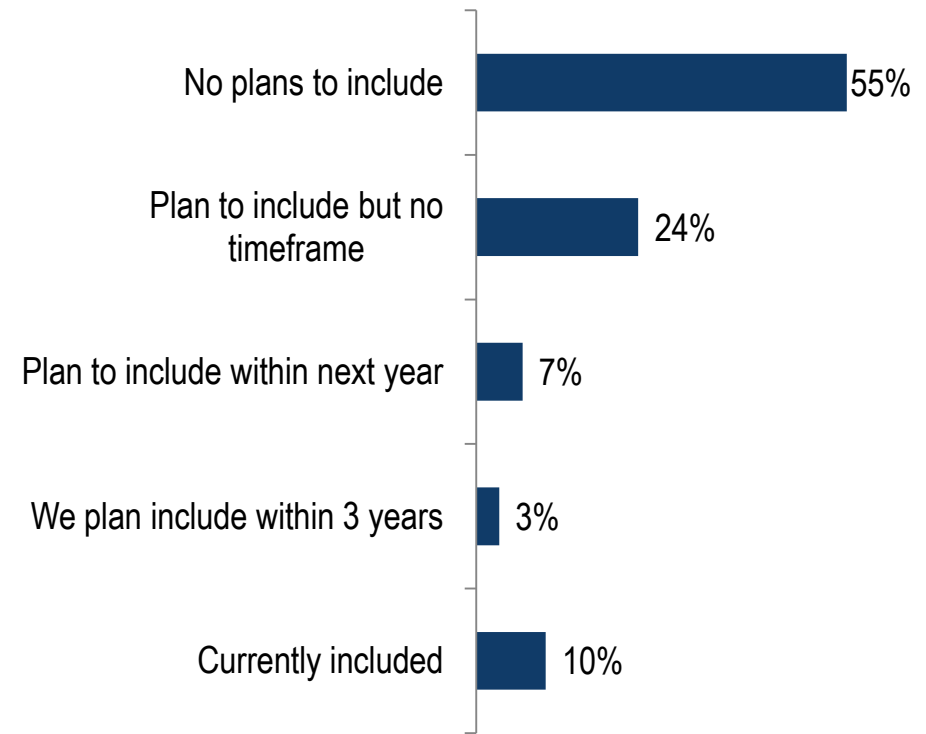
As organizations look globally for new sources of supply domestic diverse suppliers face greater cost and scope of service pressures resulting in increase competition and fewer opportunities

More than Half the Participants Have No Plans to Help US-based Diverse Supplier Compete Globally and 80% Have No Time Frame Established to Expand Supplier Diversity Program Outside the US

Plan to Support US-based Diverse Suppliers Competing in Global Markets

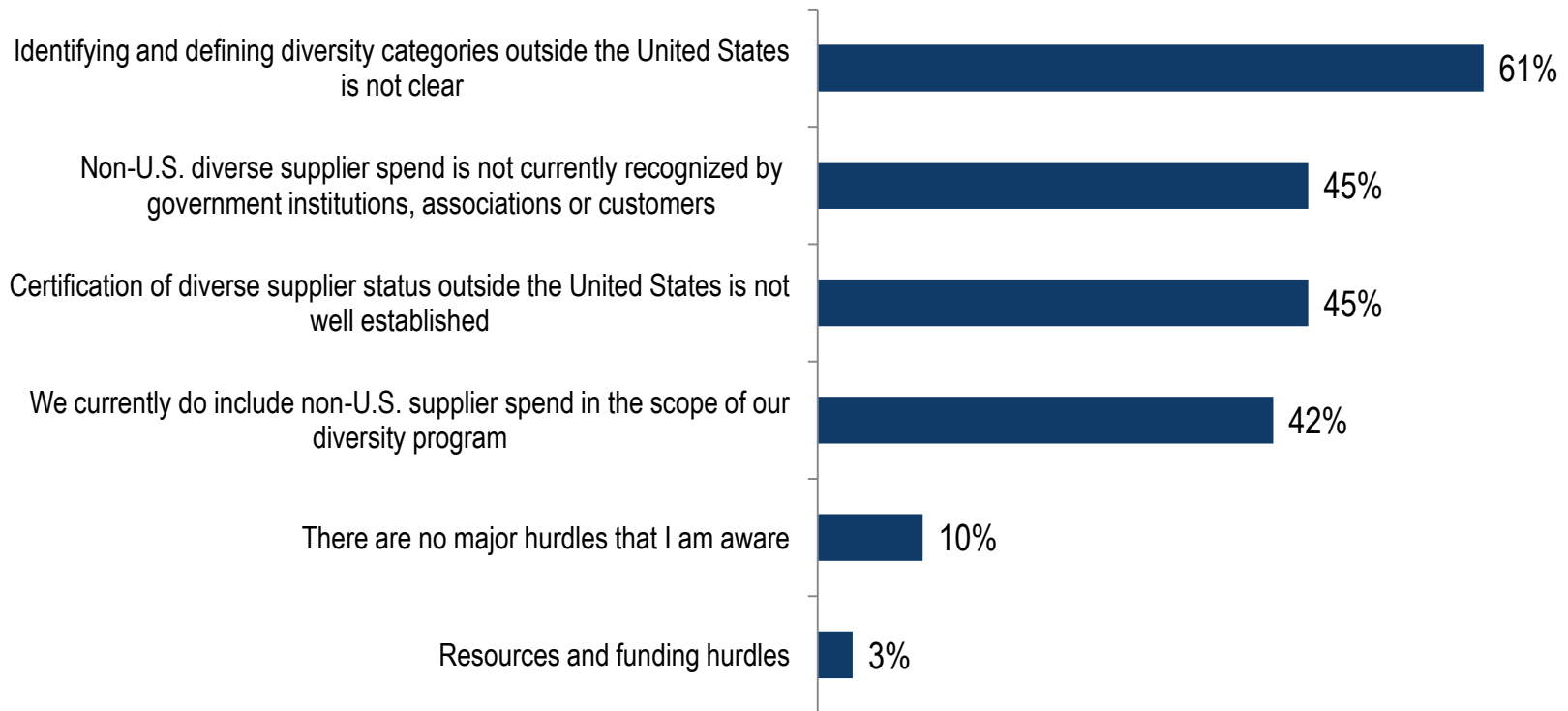


Plans for Including Diverse Suppliers Outside the United States



There Are Numerous Hurdles Facing Organizations for Including Suppliers Outside the US within Their Supplier Diversity Programs

Hurdles to Including Diverse Suppliers Outside the United States within Scope of Supplier Diversity Program



For Those Including Non-US Suppliers in Their Diversity Programs There Are Multiple Certification Processes Utilized

Method to Certify Supplier Diversity Status Outside the U.S.

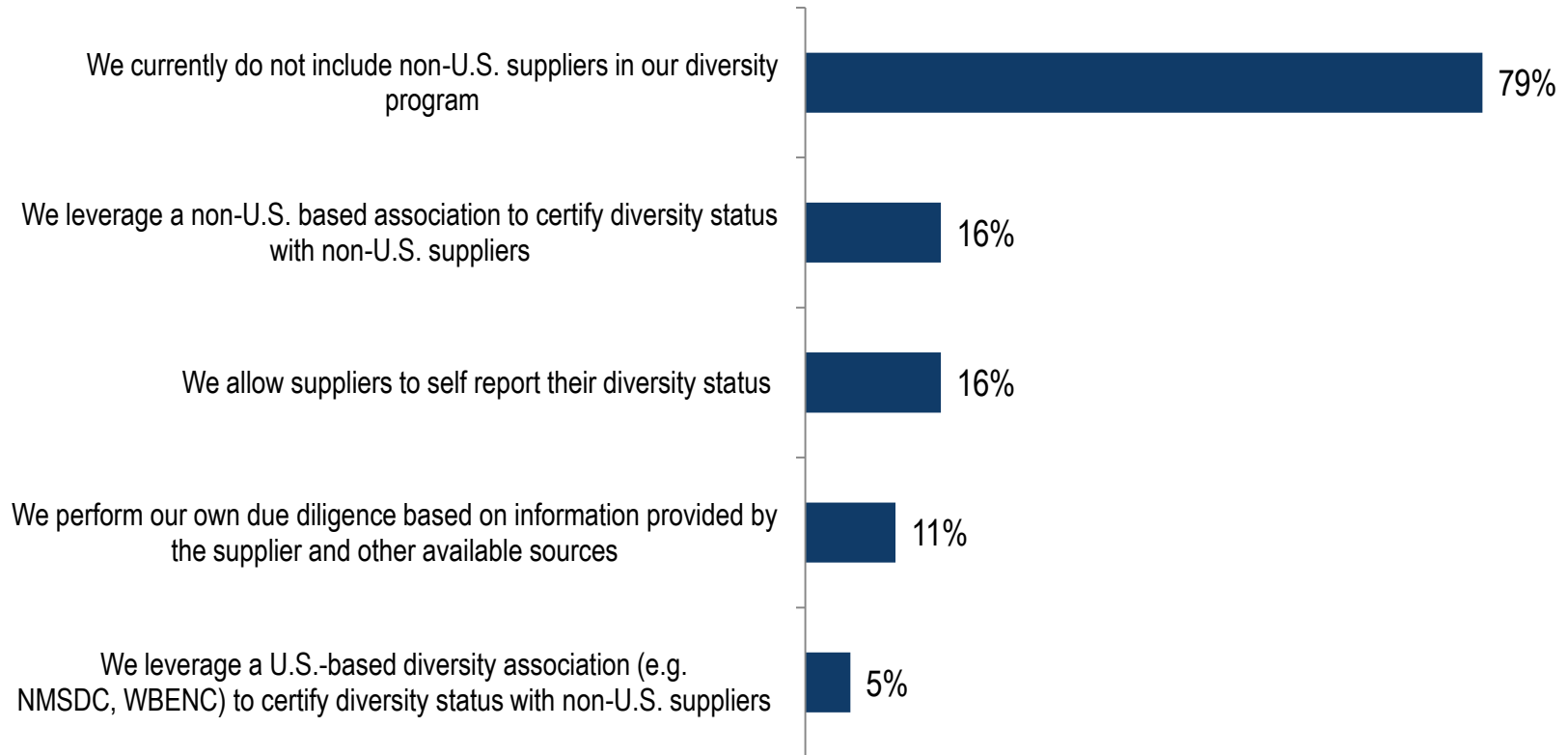


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Looking Ahead...It will be a Turbulent Time

- Economic instability will continue and supplier diversity managers will need to insure alignment with changing corporate objectives and that performance reflects the real value created. Wrapping supplier diversity around higher level initiatives like social responsibility will drive greater visibility and support
- Globalization will continue and organizations will focus on policies and practices to support their domestic diverse suppliers while rethinking how they define diversity taking into account the broader notion of “responsible supply” and such factors as localization
- Business line managers will focus on operational efficiency so embedding diversity requirements within standard procurement processes and effectively communicating objectives will be as important as ever
- Acquisitions and financial problems will continue within the diverse supplier community driving the need for robust supplier management and development programs identifying diverse sources of supply and nurturing diverse supplier growth and financial stability
- Networking with peers and industry groups will continue to provide valuable insight for supplier diversity managers and help drive support for second tier supplier diversity targets
- Efficiency will be the focus of most organizations in 2009 and supplier diversity managers will be asked to do more with less
- Advanced sourcing optimization techniques will be leveraged to include diversity status as a parameter in complex and global sourcing events resulting in multiple suppliers and closer alignment with requirements

Definitions for Spend Analysis

Percent of Participants Indicating Some Diversity Spend

- Calculated by taking the number of participants indicating some supplier diversity spend for the particular category as a percent of the total number of participants

Average Diversity Spend per Participant Reporting Diversity Spend for Category

- Calculated by taking the average dollar value of spend reported by participants by category including those participants that indicated some supplier diversity spend for the particular category

Average Diversity Spend as a Percent of Participant Total Spend

- Calculated by taking the average reported supplier diversity spend by category as a percent of participant's total spend including those participants that indicated some supplier diversity spend for the particular category

Category Diversity Spend as a % of Total Study Diversity Spend

- Calculated by taking the total supplier diversity spend reported across all participant for a particular category as a percent of the total supplier diversity spend reported across all participants

The Hackett Group

2008 Supplier Diversity Study Results

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