

Maximizing the Benefits of B2B Supplier Diversification

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As America's population becomes **more diverse** and social movements highlighting the need for inclusion have taken center stage, governments, nonprofits, and large companies from a wide variety of industries (for example, Nike, Nordstrom, Pfizer, IBM, Microsoft, Dell, Coca-Cola, Fox News) have responded to these demographic changes with initiatives to promote supplier diversity and inclusion. These B2B programs are intended to make it easier for small businesses or those owned and operated by people from socially or economically disadvantaged groups, such as minorities, women, the LGBTQ community, and veterans, to win contracts and sell their goods and services. For instance, **Google's supplier diversity program** has helped small and minority-owned businesses win contracts for a wide variety of commodity products and for services like transportation and catering.

Such businesses are vital to the economy and society of the

United States. Small businesses alone account for **nearly half** of the country's GDP and have created over **60% of the country's new jobs** in recent years. Women **own 40%** of all businesses in the U.S., and ethnic minorities own **nearly 30%**. Taken together, these numbers make small and diverse businesses a key facet of the U.S. economy — and the numbers will continue to rise.

Many companies describe the implementation of these supplier diversity initiatives **as a moral decision** and treat them as an investment in corporate social responsibility, demonstrating that their company stands for a set of core values. But despite these initiatives' economic and social significance, their success has been mixed, due in part to doubts about their effectiveness.

Assumptions of Financial Inefficiency Results in Lackluster Support

Despite the fact that many large businesses proudly describe their supplier diversity initiatives on their websites, very few of them actually report the key results or disclose how many of their contracts are won by diverse suppliers. This lack of disclosure easily leads to cynicism; big companies may pay lip service or implement half measures, but it's unclear how much they embrace and practice supplier diversity.

Some buyers fear that such initiatives do not make financial

sense — that choosing to buy from any but the cheapest business increases their purchasing costs. Some politicians and analysts have criticized supplier diversity initiatives as **financially inefficient and relevant monitoring systems as weak or lacking**. Compounding the problem, even supportive politicians' track records often fall short of their vision. In his 2020 presidential campaign, Pete Buttigieg included an ambitious **supplier diversity initiative** as a key part of “how we’re going to tackle systemic racism in this country,” stating that women-owned and minority-owned businesses would receive 25% of all federal contracting dollars. But such businesses received only 3% of South Bend, Indiana’s contracting dollars during his time as mayor.

Financial Benefits for Buyers

The assumption that supplier diversity initiatives are financially inefficient is common — but flawed. Supplier diversity initiatives not only are beneficial for the diverse businesses that get to sell their goods, they are also economically attractive to the buyers that implement them. A stream of academic research has demonstrated that supplier diversity initiatives can quite substantially reduce the buyer’s purchasing costs in a wide variety of industry settings. Such initiatives were shown to save \$45 million in the **radio spectrum industry**, reduce expenditures in the **logging industry by 10%**, trim Montreal’s **snow removal costs by 6%**, and most recently, cut **Virginia’s government procurement expenditures by 12%**.

The key element among these research findings is the level of competition among businesses. In many product categories, there are a handful of large, highly efficient suppliers and a substantial number of smaller, slightly less-efficient suppliers. Without buyers’ supplier diversity initiatives, the large businesses essentially compete only against each other, leaving the remaining suppliers no realistic chance of competing on price. But when buyers have a supplier diversity initiative, the large businesses can no longer count on winning contracts just by being a dollar cheaper than the competition. As a result, supplier diversity initiatives intensify the level of marketplace competition, forcing large businesses to cut their prices further, which can lead to cheaper, more efficient purchases for the buyer.

The results are counterintuitive yet powerful: Supplier diversity can be valuable for buyers solely for reasons of short-term cost minimization. Buying from multiple suppliers decreases any single supplier’s monopoly power. Because buyers’ needs may change in the future, suppliers must remain nimble and innovative to stay viable and win future contracts. Thus, even companies that don’t truly value the socially responsible aspects of supplier diversity can attain substantial and immediate cost benefits from a supplier diversity program.

Of course, supplier diversity initiatives can also catalyze meaningful qualitative perks and strengthen relationships with customers. Being able to work with multiple suppliers ensures that buyers can best address the needs of diverse and emerging customer segments. Such initiatives allow companies to better connect with their increasingly diverse customer base, which may have significant implications for future growth, given that minority population growth will account for as much as **70% of the total increase** in purchasing power from 2020 to 2045.

For society at large, supplier diversity and inclusion expand economic opportunity for the traditionally disadvantaged, reduce inequality, and are conducive to social stability and the promotion of civil society. Indeed, combating social inequality and promoting diversity are included in the United Nations’ **2030 Sustainable Development Goals**.

Overcoming Barriers to Supplier Diversity Initiatives

Many barriers to adoption of supplier diversity initiatives are due to false assumptions and information gaps. The false assumptions are usually on the buyer’s side: Buyers often rely on **past habits and relationships**, assuming they’ll face higher costs with new vendors. Some eligible businesses choose not to participate in diversity initiatives, assuming it’s not worth their time; other eligible companies remain unaware of supplier diversity opportunities.

Information gaps, on the other hand, work both ways. In CVM’s “**2019 State of Supplier Diversity Report — Diverse Suppliers**”, surveyed suppliers shared that their biggest challenges were “difficulty in being discovered by bigger

companies”; “purchasing, procurement, and other decision makers not attuned to how their supplier diversity programs work”; and a “fixation on the bottom line.” If the buying process is opaque or if the odds appear long, suppliers can easily get discouraged from bidding. Exemplifying a common sentiment among suppliers, one response read, “In the end, the companies only care about price. Diversity is a nonissue when price is involved.”

Given the power asymmetry of buyers and the historical disillusionment from minority suppliers, buyers must make deliberate choices in order for the supplier diversity initiatives to bear fruit and move the economic needle for both parties. For government buyers at the local, state, or federal level, this simply means committing to a clear diversity initiative and publicizing this information on the procurement website, on the bidding portal, and at government trade shows. Private-sector buyers have to make a more concerted effort to reach their target audience of suppliers, but partnering with corporate membership organizations can simplify this task considerably. Organizations like the **National Minority Supplier Development Council** and the **Women’s Business Enterprise National Council** can facilitate connections through their large networks of minority- and women-owned businesses.

Buyers also need to strategically promote their supplier diversity initiatives by, for example, highlighting supplier outreach programs and promotions at trade conferences frequented by minority suppliers. Furthermore, buyers must make the effort to deliberately encourage diverse business owners to participate, simplify the often-daunting purchasing process, and provide suppliers with guidance on how to be successful.

Small and diverse businesses are foundational to society’s economic stability, but they are also particularly sensitive to economic shocks given their size and often fragile financial standings, **as evidenced by the current COVID-19 disruptions**. Proactively including small and diverse businesses in government and large company procurement processes is a win for buyers, for diverse business owners and their employees, and for economic and social progress. These shared successes, across diverse members of society, can significantly contribute to prosperity and inclusion for

all.

About The Authors

Simha Mummalaneni is assistant professor of marketing at the University of Washington’s Foster School of Business. Jonathan Z. Zhang is assistant professor of marketing at Colorado State University’s College of Business.



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