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# SUPPLIER DIVERSITY A GUIDE FOR PURCHASING ORGANISATIONS



COMMISSION FOR  
RACIAL EQUALITY



# **SUPPLIER DIVERSITY**

A guide for purchasing organisations

Produced by The Centre for Research in  
Ethnic Minority Entrepreneurship (CREME)  
De Montfort University, Leicester





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# Introduction

Who you buy your goods and services from makes a difference. It can affect the price and the quality of your products and services, it can affect your efficiency, and it can affect your reputation and performance as an organisation.

This guide has been developed to help you to look again at the way you do the work of procurement in your organisation and to see if you are making the most of the rich diversity of businesses in Britain today. The guide shows you how to analyse what suppliers you might need for your business, and then match them against the suppliers you currently use, to see if businesses run by ethnic minorities are represented. If not, your organisation could be missing out, whether you operate in the public, private or voluntary sector.

If you are involved in procurement, this guide is for you. It shows how a 'supplier diversity programme' – a systematic way of making sure you consider the full range of businesses capable of meeting your needs – can benefit your organisation. For example, it can help you to:

- find efficient, flexible, innovative and committed suppliers;
- give you access to new markets;
- give you added competitive advantage when tendering for public contracts; and
- help you to be a socially responsible organisation.

If you are a public organisation, supplier diversity can:

- help you meet your legal responsibilities;
- improve your dealings with ethnic minority businesses and consumers;
- contribute to local economic development; and
- help promote 'best value' and a better service.

## What is 'supplier diversity'?

Supplier diversity is a process through which equal opportunities are provided to all businesses to compete. Our experience has shown that this brings competitiveness, innovation and savings to the supply chain.

**Procurement Officer – The Environment Agency**

'Supplier diversity' is a broad concept, describing the inclusion of groups that have traditionally found it difficult to break into the systems that large organisations have set up to buy in goods and services. Supplier diversity is used in this guide to refer specifically to programmes aimed at increasing the number of ethnic minority-owned businesses (EMBs)<sup>1</sup> that supply goods and services to public, private and voluntary organisations, either directly or as part of a wider emphasis on smaller enterprises in general. It should be made clear at the outset that the purpose of supplier diversity programmes in Britain is not to discriminate positively in favour of certain types of businesses, such as smaller businesses or businesses run by women or people from ethnic minorities, but rather to 'level the playing field', so that all suppliers compete for orders on equal terms. Supplier diversity programmes promote 'equality of opportunity', offering under-represented businesses the same opportunities to compete for the supply of quality goods and services as other qualified suppliers. As the procurement officer from the Environment Agency notes above, there is also a compelling business case for supplier diversity.

Although, as described, the focus of this guide is on EMBs, many of the arguments presented in this guide apply equally to other forms of diversity in the supply chain.

## What does this guide contain and who is it for?

This guide examines the potential advantages of having a more diverse supply chain, to encourage large purchasing organisations (LPOs) to set up supplier diversity programmes, and provides practical guidelines for setting them up. The hope is that this, in turn, will persuade more EMBs to consider supplying goods and services to larger organisations in the public, private and voluntary sectors. To a large extent, this is a matter of confidence building and we believe it can be achieved by persuading both LPOs and EMBs of the benefits of supplier diversity, and by showing them how it works in practice.

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1. For the purposes of this guide, an EMB is a business that is 51 per cent or more owned and controlled by people from ethnic minority groups, as described in the 2001 census (see [www.statistics.gov.uk/census](http://www.statistics.gov.uk/census)).



Part 1 is for anyone interested in how supplier diversity works. This includes people working in procurement in large public, private and voluntary organisations and owner-managers of EMBs. Others, such as owner-managers of small and medium-sized enterprises (SMEs), should also find it useful and informative. This section looks at the legislative, economic, demographic, and ethical context in which supplier diversity programmes operate in Britain today, and shows how changes in the social and economic environment can affect procurement.

Parts 2 and 3 are for senior decision makers, at both strategic and operational levels, in LPOs. Part 2 looks at how an organisation can benefit from a supplier diversity programme, with particular emphasis on the 'business case'. The aim is to show that 'good ethics' can also be 'good business'; behaving in a socially responsible way need not adversely affect an organisation's economic performance. Part 3 goes on to discuss some of the bigger challenges confronting those who try to set up a supplier diversity programme, not least the obstacles of inertia and resistance to change. Drawing on case material from both the UK and USA, we discuss some of the most intractable barriers to supplier diversity, on both the demand and supply side, and suggest how these might be dealt with.

Part 4 offers a step-by-step guide to setting up a supplier diversity programme in your organisation, based on current best practice. Although there is no single 'right way' to design a programme – much depends on the circumstances of each organisation – the case studies (see appendix 1), as well as information gathered from other sources (see bibliography), do suggest certain basic principles for those who wish to set one up.

Part 5 provides case studies, drawn from recent research on how supplier diversity programmes have been put into effect in a number of large UK-based organisations, and on the experiences of some EMBs who have been involved in the process. The aim is to show how each of the organisations approached supplier diversity. By using real examples of supplier diversity in practice, we hope to demonstrate that it can benefit both LPOs and EMBs.

The guide concludes with an overall summary, appendices, references and useful addresses.

## **How has this guide been put together?**

This guide is based on research carried out by staff at the Centre for Research in Ethnic Minority Entrepreneurship (CREME) at De Montfort University in

Leicester. The guide builds on previous work by CREME for the Department of Trade and Industry's Small Business Service, and on the experience they developed through the establishment of a supplier diversity intermediary partnership (see appendix 2).

Appendix 1 contains detailed write-ups of each of these interviews (from which the quotes in this publication are taken), while appendix 2 gives a brief profile of CREME's supplier diversity programmes, and details of other initiatives in the UK.

## **The wider context**

This guide has been produced against the background of current law and practice. Neither of these is static. It is likely that there will be changes in the law (for example, following the Discrimination Law Review, which is due to publish its final report in early 2007), which could affect the information contained in this guide, including the recommended guidelines. You will need to make sure you are aware of any relevant developments that could affect your decisions on whether and how to implement a supplier diversity programme.



# Why is supplier diversity important for procurement?

The idea of greater supplier diversity may not appeal to organisations which are looking for ways of better managing their supply chains through outsourcing, contract 'bundling' (where a number of small contracts are combined to form one large contract) and reducing the number of suppliers they use, to consolidate their purchasing activity with just a handful of vendors. Why should an organisation embark on a supplier diversity programme which appears to add to the complexity and cost of procurement, and to have more to do with moral and ethical considerations than with business and economic imperatives?

To answer this question we first need to consider a number of important developments in the business environment. Part 2 explores the specific issue of how organisations can benefit from supplier diversity.

## The legislative and policy framework

The legislative and policy context for supplier diversity varies between countries. In the USA, supplier diversity programmes aimed at ethnic minority businesses (EMBs) (and others) have a relatively long history, dating back to the late 1960s. Born out of the Civil Rights movement and the unrest of the period, these initiatives were encouraged and supported by a legislative framework designed to promote equality and social cohesion through a policy of 'affirmative action', where the overarching aim was to compensate for past discrimination by having 'set-asides' for socially and economically disadvantaged owners of small businesses. In the field of public procurement, for example, public organisations are now legally required to buy 25 per cent of their goods and services from 'diverse' suppliers such as minority businesses. Under the US National Minority Supplier Development Council's definition, a 'minority business' is one which is 51 per cent or more owned and controlled by people from certain designated minority groups, including racial and ethnic minorities, women, the disabled, war veterans, and gays or lesbians.

Europe, and the UK in particular, has no such legislative framework. The focus in the UK is on promoting equal treatment, rather than equality of outcome.

EU competition policy rules laid down by the Treaty of Rome are based on principles of equality of treatment, transparency, proportionality and mutual recognition. EU directives have been introduced to give effect to the provisions of the treaty. All the procurement directives, and the UK regulations which give effect to them, apply to certain contracts awarded by public organisations. Obligations arising from the EU Treaty also apply, irrespective of the nature of the procurement. These include, in particular, a requirement that contractors should not be discriminated against on unlawful grounds; this rules out positive discrimination and affirmative action across the EU, including in the UK.

Although affirmative action is illegal in the EU, discrimination and social exclusion are of increasing concern to both the EU and UK governments, and European procurement legislation is being reviewed in order to widen its scope so organisations can pursue equality of opportunity in their public procurement more effectively. The current trend in EU legislation is to emphasise social issues and to develop social policy that includes the development of small and medium-sized enterprises (SMEs) as a way of tackling social exclusion. In the UK, it is becoming increasingly likely that there will be new legislation promoting equal opportunities and combating discriminatory practices based on race and ethnicity.

Following the passing of the Scotland Act in 1998, the responsibility for the development and application of public procurement policy and best practice in Scotland was devolved to the Scottish Executive, along with responsibilities in health, education and economic development. While the Scottish Executive must still adhere to European procurement legislation, it has the opportunity to develop an innovative and tailored approach to procurement and supplier diversity in Scotland, different from that in England and Wales.

Currently, the general prohibition of racial discrimination introduced by the Race Relations Act 1976 (RRA) applies to all organisations, whether public, private or voluntary. However, public authorities also have a statutory duty to promote race equality and to prevent unlawful racial discrimination in areas such as employment practice, and the provision of goods, facilities and services, including their procurement practices.<sup>2</sup> Although the private sector is not directly bound by this duty, public authorities must ensure that any external suppliers meet any relevant requirements on their behalf; private businesses may therefore be obliged to meet certain requirements of the race equality duty when working under contract to public authorities.

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2. For further information on the Race Relations Act 1976 (RRA) and the race equality duty, see the Commission for Racial Equality's website at [www.cre.gov.uk](http://www.cre.gov.uk).

This means businesses should already have racial equality policies and practices, even without the pressure of an imminent contract. Since procurement is a vital organisational function, these policies and practices should demonstrate their commitment and willingness to diversifying their supply chains. Many public authorities now want to know more about how their suppliers approach the question of diversity. Bidders may be asked to provide a statement about the use of SMEs and diverse suppliers in their supply chain, to be evaluated as part of the wider scoring on ‘ability to deliver’ or ‘quality of service’. This document can be included with their submissions under the ‘environmental’ and ‘equal opportunities’ sections and is held, by a clause in the contract, to be the method statement (a document detailing how a particular process will be carried out, in this case how bidders will use diverse suppliers). Contractors must then record and report on their supply chain activities as part of the wider ongoing management and monitoring of the contract. Supplier diversity may even be made an implicit part of the contract. For instance, Transport for London (TfL) included terms, in its invitation to tender for the development of the £1 billion East London Line project, to provide fair opportunities for smaller suppliers, especially EMBs who in the past have often found it difficult even to enter the system for bidding for contracts. TfL’s contract terms require contractors to draw up plans for ensuring supplier diversity and general benefit to the community. As shown in the Haringey Council case study, the use of ‘community benefit’ clauses in local government’s tenders and contracts gains momentum when they are linked to its community strategy (see appendix 1).

## Customer demography

The debate on supplier diversity must be seen against a background of demographic change. The 2001 census<sup>3</sup> showed that ethnic minority groups made up nine per cent of the total population in England and two per cent in both Scotland and Wales. Non-white ethnic groups in the UK as a whole grew by 53 per cent between 1991 and 2001, from 3.0 million to 4.5 million (or 7.6% of the population). In Scotland, non-white ethnic groups grew by 62 per cent between 1991 and 2001, compared with a total population increase of just one per cent. It has been estimated that the ethnic minority population will double over the next 25 years. South Asians as a whole comprised around 48 per cent of the ethnic minority population and Black groups, 33 per cent. Three of the four Black groups were also significantly more likely to have been born in the UK than not, resulting from earlier migration from the Caribbean, and a growing number of mixed relationships. The census showed that ethnic

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3. See the website of the 2001 census, at [www.statistics.co.uk](http://www.statistics.co.uk).

minority populations tended to be more concentrated in certain regions. In England, for example, they were concentrated in the large urban centres (approximately 70 per cent). Birmingham and Leicester in the Midlands, and Bradford and Leeds in the North have significant Asian populations. In the south-east, London is highly diverse, with certain groups concentrated in specific localities. Nearly half (48 per cent) of the UK's ethnic minorities lived in the London region in 2001, where they made up 29 per cent of all residents. It has been estimated that, by 2011, ethnic minorities will form the majority population in half of London's boroughs.

Ethnic minorities represent a growing marketplace for goods and services. Most second- and third-generation ethnic minorities are upwardly mobile and have a high standard of education – ethnic minorities are more likely to continue into higher education than their white counterparts. For example, judged by employment, earnings and career progress, Indians consistently achieve on a par with, or outperform, both people from other ethnic minorities, and White people. This pattern is also reflected in educational qualifications, strengthening chances of long-term socioeconomic success. People from ethnic minorities have considerable purchasing power today, with black and Asian people earning £156 billion in total, after tax. Research from the Institute of Practitioners of Advertising shows that young black and Asian men have substantial disposable income, estimated at of £32 billion per year. Moreover, ethnic minority populations are more youthful than the white population; they represent a growing marketplace, with 45 per cent under 25 years of age, and their purchasing power is set to increase. It therefore makes business sense to obtain a foothold in this expanding marketplace, and procuring from EMBs can contribute to this<sup>4</sup>.

### **Business demography**

In the UK, over 99 per cent of all businesses are SMEs, with the vast majority counted as 'smaller businesses', employing fewer than 50 people. It is estimated that smaller businesses account for about 40 per cent of all business turnover, and about 45 per cent of non-government employment. These firms are seen as the driving engine of the UK economy and are an important source of new ideas, innovation and support for larger organisations. Within the small firm sector, EMBs are an important and growing feature. As well as playing a

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4. Figures in this paragraph and the previous one are taken from the National Employment Panel report *Enterprising People, Enterprising Places* (2005), and the website for *Race for Opportunity*, which works to promote the business case for race and diversity, run by Business in the Community (see [www.bitc.org.uk/take\\_action/in\\_the\\_workplace/diversity/race/race\\_for\\_opportunity](http://www.bitc.org.uk/take_action/in_the_workplace/diversity/race/race_for_opportunity)). For further details on these, see the bibliography.

significant economic and social role for ethnic minorities, they have contributed to the increase in the number of small businesses, the transformation of particular economic sectors and the regeneration of depressed inner-city areas.

The available evidence suggests that EMBs represent around 10 per cent of the total business population of the UK. The importance of the ethnic minority presence in the UK is underlined by the changing demographic profile and entrepreneurial potential of ethnic minority groups. Current business trends suggest that EMBs will become increasingly significant in the UK in the coming years. *Minority Ethnic Groups in the UK* (ONS, 2002) shows that people from certain ethnic minority groups are more likely to be self-employed than those from the majority white groups, while the *Global Entrepreneurship Monitor UK* (2004) report indicates that people from ethnic minorities tend to have more positive attitudes toward entrepreneurship, and greater confidence in their capacity to set up in business than their white counterparts. Some put this down to a strong motivation to be independent and a keen interest in entrepreneurial activity.

EMBs in Scotland account for just over three per cent of all self-employment, contributing an important share of Scotland's gross domestic product (GDP). Estimates suggest this is in the range of £500 to £700 million per annum. The importance of EMBs is greater than the ethnic breakdown of Scotland's population suggests, due to the more people from ethnic minorities than from the majority white group being self-employed and owning businesses. The relative importance of EMBs to the Scottish economy will increase in the future due to the younger demographic profile of the ethnic minority population compared to the overall significantly ageing population.

## Corporate social responsibility (CSR)

CSR refers to how businesses take account of their economic, social and environmental impacts in the way they operate. The demand to be better 'corporate citizens', placed on organisations by government, the market and society as a whole, has led to a new vision of 'corporate social responsibility', combining respect for people and communities with an equally hearty respect for profits.

Organisations have been, and will continue to be, increasingly subjected to public scrutiny of their actions, practices, policies, and ethics. Opinion polls suggest that in the future, businesses and other organisations will increasingly be judged by social pressure groups, think tanks, trade organisations and other important lobbies, on their social as well as their economic performance. Pressure from these sources can be extremely influential, especially in affecting

reputation. As CSR moves steadily up the public and political agendas, organisations will be called upon to demonstrate their social credentials in a variety of areas. Procurement professionals can contribute to this process by considering the ethical aspects of the supply chain, including the question of guaranteeing equality of opportunity in decisions about sourcing. Supplier diversity does not mean increasing the supply base; it is about being more inclusive in the way in which the organisation purchases its goods and services. This can provide a variety of benefits on both the demand and supply side that ultimately add value to the organisation.

### Summary

Organisations need to be alert to the legal, social, and economic context in which they operate, and keep pace with the changes that can affect them, for better or worse. The legislative framework in the UK dictates an 'equality of treatment' approach to supplier diversity, and the RRA provides a stimulus for engaging with ethnic minority suppliers. For purchasing organisations, making every effort to include EMBs among their suppliers – always on the basis of merit – makes good business sense when trading with public authorities, and sends the right signals to an increasingly diverse marketplace. As the number of EMBs is growing rapidly, and taking a larger share of the SME sector, organisations will need to pursue CSR more actively, and demonstrate better social performance. To do less is to fly in the face of business realities, and to fail to see how they must adapt, if they are to be successful now and in the future. Procurement professionals can make an important contribution in this area, by considering the ethical dimension of their purchasing decisions and the opportunities open to them to enhance the organisation's reputation by building a more diverse body of suppliers. A healthy and growing EMB population provides an opportunity for investigating ways of adding value to the supply chain and of building sustainable relationships with suppliers.



# 2

## How can organisations benefit from supplier diversity?

Supplier diversity has the potential to bring real organisational benefits and to help your enterprise perform better, both economically and socially. This part of the guide concentrates on five key areas where supplier diversity can make a positive difference to your organisation. These are:

1. Encouraging competition within the supply chain
2. Winning new customers and improving community relations
3. Winning public sector contracts
4. Meeting corporate social responsibility (CSR) objectives
5. Encouraging local economic development.

A supplier diversity programme is not something you can create overnight. Part 3 looks at some of the barriers you may face in trying to introduce such a policy in your organisation.

### Encouraging competition within the supply chain

There is a clear business case for encouraging supplier diversity. The more competition you get for your contract, the more chances you have of finding the best possible supplier and achieving value for money.

#### **Haringey Council**

Most ethnic minority businesses (EMBs) are small or medium-sized enterprises (SMEs). The tendering and procurement processes that many larger purchasing organisations (LPOs) use can discourage smaller businesses. Yet many SMEs offer substantial advantages to LPOs:

- **Cost efficiency**  
Lower administrative overheads and management costs can lead to very competitive pricing.

- **Quality**  
Many SMEs compete on quality rather than bulk, and frequently a greater sense of ownership can lead to greater pride in the quality of the product.
- **Speed**  
Less bureaucracy and shorter management chains can lead to much quicker turnaround on orders and queries.
- **Flexibility**  
SMEs can often respond much more quickly to changes in the market place, and to changing demands from large customers.
- **Innovation**  
To differentiate themselves from the competition, many SMEs develop innovative products, services and production methods that can be of advantage to a large customer.
- **Commitment and service**  
Large orders often represent a significant share of turnover for SMEs. They are therefore motivated to provide better service, and are more willing to tailor products to meet the demands of specific customers.

In a bid to reduce administrative costs, many LPOs are looking to reduce the number of suppliers they deal with. However, 'supplier rationalisation' tends to lead to greater dependence on a few key companies; greater diversity of suppliers can reduce the potential risk. Moreover, small businesses may offer things that larger businesses cannot.

Supplier rationalisation has been, and will continue to be a key strategy for many organisations – whether at a national, European or global level. It leverages purchasing spend, focuses suppliers' resources, drives common quality and service standards and simplifies supply chains and communication. However, in an increasingly competitive marketplace it is key that we engage with smaller suppliers that may be able to provide a competitive advantage – whether that is innovation, speed to market, quality or cost.

### **PepsiCo UK**

Furthermore, even when rationalisation of suppliers is inevitable, smaller firms and EMBs can play an important role as part of the extended supply chain, that is, as second or third tier suppliers.

## Winning new customers and improving community relations

As a business, to succeed, we need to ensure that our supply base reflects the population and businesses we serve.

### **The Environment Agency**

As well as encouraging greater competition, supplier diversity programmes can help you understand what your ethnic minority customers want, and help you find new markets. Where you buy your goods and services from can have a surprising effect on who buys from you. Some ethnic minority businesses (EMBs) may buy and sell within their own communities; for organisations outside those communities, such co-ethnic trading represents an untapped source of supply and sales. Reaching such markets can become increasingly important as customer and business demography changes (see p10-11).

Corporations dealing with minority suppliers in the UK and USA claim that having diverse suppliers allows them to reach these previously inaccessible markets, and establish a good reputation among current and potential ethnic minority customers, by demonstrating their commitment to greater diversity in their procurement policies. Dealing with diverse suppliers will also enhance your organisation's capacity to understand, access, and meet the needs of ethnic minority markets.

Organisations in the public sector place less emphasis on finding new customers, but supplier diversity can also help them to relate better with the communities they serve.

We deliver services to an incredibly diverse range of communities. We have almost 200 languages spoken in our primary schools. This leads to a business case for encouraging ethnic minority businesses to compete for our contracts.

### **Haringey Council**

## Winning public sector contracts

Public organisations have a statutory duty under the Race Relations Act 1976 (RRA) to promote race equality in all their activities, including procurement. Guidance from the Commission for Racial Equality (CRE) and the Office of Government Commerce, which is applicable in England, Scotland and Wales, has made clear that value-for-money criteria may encompass social objectives, although the relative weight given to these objectives will vary, depending on the purpose and nature of the contract. Procurement officers should therefore take into account broader social and economic benefits to local communities, rather than assessing potential contractors purely on the basis of cost.

Commercial companies with an active supplier diversity programme can find themselves at a significant advantage when tendering for public sector contracts. If you can help the public sector meet its own obligations, that makes you a more attractive supplier. Given that local authorities alone spend over £40 billion a year on procurement, this is an important consideration.

I think most public sector procurers recognise that they have obligations towards government policies, which are wider than just extracting the cheapest price they can from a particular purchase.

### **West Midlands SME procurement pilot**

## **Fulfilling corporate social responsibility (CSR) objectives**

Good ethics is good business.

Strong ethical policies can help improve your organisation's reputation in the media, the marketplace and in society at large. Larger enterprises are under increasing public and political pressure to demonstrate that they take their social responsibilities seriously, and further legislation to compel companies to do this has already been proposed. Being ahead of such legislation could yield both short-term and longer-term benefits for an organisation.

Procurement professionals can contribute to CSR by considering ethical issues within the supply chain, including supplier diversity.

A supplier diversity policy can help:

- demonstrate commitment to CSR;
- reduce pressure from groups concerned about moral and ethical performance;
- establish positive public relations;
- avoid negative public relations; and
- reduce the costs of complying with future legislation.

There is evidence to suggest that a positive image both inside and outside the organisation can also help in attracting and retaining both customers and employees.

## Encouraging local economic development

We started looking at how we can create opportunities for local communities, looking at the way we can help minorities to participate in our business and become part of the economy. One of the things we looked at is how we buy our goods and services. We realised we needed to create wealth in local communities if they were to have the disposable income to buy our products.

### Ford

EMBs are often a key part of their communities and local economies. Apart from being an important source of employment and business opportunities for people from ethnic minorities, they also help to stimulate local economic and social development. By engaging with minority suppliers, larger organisations can help to improve the economic and social outlook of local communities.

But this is not just an ethical consideration. A strong local economy creates greater opportunities to supply goods and services to individuals and businesses by boosting local purchasing power. This is demonstrated by the experience of the Ford Motor Company in the USA. Over the last 25 years, Ford's commitment to economic development has been greatly expanded to include a vast network of minority suppliers and dealers. By encouraging the work of these entrepreneurs, Ford in turn has helped to create wealth within the communities in which it does business.

Ford's Minority Supplier Development programme is designed to identify minority business people with potential and to help them with their companies' growth. Ford now purchases more goods and services from companies owned or operated by minorities than any other US corporation – \$4.5 billion of goods and services from EMBs in 2001 alone.

### Summary

For procurement professionals, establishing a supplier diversity programme should not be seen simply as a public relations exercise. Engaging with ethnic minority suppliers can help organisations get better value, increase customer loyalty and obtain access to an increasingly important market of minority consumers through a stronger reputation and better understanding of what they want. Purchasing professionals are therefore in a key position to make a significant contribution to the organisation's economic and social performance.

# 3

## What are the obstacles to supplier diversity?

Companies and organisations that have developed successful supplier diversity programmes have identified six barriers that they had to overcome in order to make those programmes happen:

1. Management buy-in
2. Commitment of resources
3. Resistance to change
4. Coordination with other functions and policies
5. Identifying suitable suppliers
6. Concerns about suppliers' capacity.

Learning from the experience of these organisations, and recognising potential barriers, can help make the process of developing a supplier diversity programme run more smoothly.

The guide to developing a supplier diversity programme in part 4 will also be useful in overcoming these barriers.

### Management 'buy-in'

It is essential that you get buy-in from senior leadership within the business and pro-active engagement from your purchasing function.

**PepsiCo UK**

It is not easy to create a diverse pool of suppliers. People working in large organisations often have fixed mindsets and change can be slow, making this even harder. Winning commitment from senior management and key personnel across the organisation can help overcome these obstacles. Using the arguments put forward in part 1 of this guide can help you demonstrate why supplier diversity is important and gain management 'buy-in'.

## Commitment of resources

Getting verbal support for supplier diversity is one thing. Getting the resources to put a programme in place is another. Dedicating resources to promote supplier diversity can add to the cost of the procurement function, but the benefits of a larger pool of competent suppliers who can offer quality, innovation, and efficiency can easily outweigh the extra expense. Presenting a clear business case to senior managers justifying the commitment of resources to a supplier diversity programme is an essential part of the process.

## Resistance to change

Even with senior management on board there can still be resistance to change from others in the organisation, including staff involved in procurement, current suppliers, and marketing staff.

This opposition may be from those who misunderstand the reasons for greater supplier diversity, and who mistakenly assume that preferential treatment is being given to a certain group of bidders.

The true nature and benefits of supplier diversity need to be explained to all concerned. This was certainly the experience of a large US-based IT company. Procurement in the company was not confined to a particular department, but was undertaken by different people and departments across the organisation. All these individuals had developed long-term relationships with their suppliers, and to ask them suddenly to start including minority suppliers was difficult. One member of the diversity team explained the problem in this way:

A lot of procurement decisions are not made by procurement people. It's often dictated by others in the organisation. They might not be aware of the capabilities of minority businesses, where to find these qualified companies, nor the business case for seeking them out. It is our responsibility as a member of the supplier diversity team to educate people about these benefits.

## Coordination with other functions and policies

The compatibility of a supplier diversity programme with other functions and policies can require careful attention. If the programme is to be effective, either it needs to be designed to fit in with current functions, or current functions need to be modified to accommodate the supplier diversity programme. This might mean reviewing current procurement policies if, for example, they

currently favour contract bundling, which can exclude EMBs or other under-represented businesses which are often small and cannot compete for such large contracts.

## Identifying suitable suppliers

Organisations may not know how to identify and reach suitable ethnic minority businesses (EMBs). Even if suitable suppliers can be found, it can be difficult to persuade them to seek contracts with large corporate buyers, as many are small and under-capitalised, and a substantial proportion are micro-businesses, specialising in small low-value orders. A 'supplier diversity intermediary' can help in matching large organisations with suitable minority suppliers. Contact details for supplier diversity intermediaries can be found in appendix 2.

## Concerns about suppliers' capacity

Even when the benefits of a supplier diversity programme are accepted in theory, actually trusting particular EMBs to deliver can still be a significant barrier. In particular, many large organisations are concerned about whether EMBs have:

- the capacity to provide a consistently efficient and effective service;
- sufficient availability of products;
- products and services of a suitable quality.

These concerns are shared by most large organisations when first dealing with small businesses. Again, supplier diversity intermediaries can help with this process, by providing access to capable ethnic minority suppliers from their EMB membership database. Organisations could also set up programmes to help mentor and develop EMBs, helping them to become more able to compete for contracts.

## Barriers facing EMBs

The barriers to successful supplier diversity programmes do not all lie within the purchasing organisations. EMBs have their own problems when trying to win contracts from LPOs.



For example:

- EMBs may find it difficult to obtain information about supply contracts in the first place.
- EMBs may be put off by the often complicated and bureaucratic procurement process.
- Potential suppliers can be judged to be too small or specialist, with larger organisations opting for fewer, larger suppliers. EMBs are overwhelmingly small businesses.
- Many corporate buyers rely on an existing network of suppliers, making it difficult for EMBs to break into the supply chain.

The biggest challenge is communicating with a large organisation and initially getting approved as a supplier.

#### **Standout Design (EMB)**

Firms often have to go through a number of pre-qualification stages before they can get onto an approved list and be invited to tender. While such stages are usually designed to encourage good practice (for example, in health and safety), they can be off-putting, particularly for those smaller firms that feel uncertain about how to approach doing business with a large organisation. Simplifying the tendering process and easing access to contract opportunities could help attract more EMBs. In this respect, the success of the Haringey and West Midlands SME procurement pilots offer valuable lessons, some of which are transferable to the public sector as well. Some of the developments resulting from these two important initiatives include the use of Pre-Qualification Questionnaires (PQQ) in the tendering process, the creation of the National Opportunities Portal, the provision of training for procurement staff, SME training programmes and the development of guidance on good management practice in setting up diverse pools of suppliers. See appendix one for more information on the pilots.

The Environment Agency has also taken a number of steps to be more inclusive to EMBs, including:

- simplifying the tendering process and paper work;
- making more effort to provide extra information for small and medium-sized enterprises (SMEs) about the organisation's criteria for evaluating bids;
- avoiding the pre-qualification stage if it is not needed; and
- taking part in outreach activities for EMBs.

#### Summary

Experience shows that organisations that try to introduce a supplier diversity programme can face considerable barriers on both the demand and supply side. To increase the chances of success, organisations must identify and tackle these difficulties. Some have already done this and the guide to setting up a supplier diversity programme (part 4) is based on their experience.

# 4

## How can I set up a supplier diversity programme in my organisation?

### Step 1: Ensure commitment

Get engaged with the senior management, make sure you get buy-in from purchasing and other key functions, cascade that through the organisation and then make sure that the people who engage with the suppliers have got the appropriate training. Make sure you are organised for success.

**PepsiCo UK**

Setting up a supplier diversity programme calls for commitment of both time and resources. To start with, it needs the commitment of senior management. Eventually, it will need the commitment of everyone involved in the procurement process to make sure it actually happens.

### Step 2: Ask for help and advice

There are a number of organisations that can provide specialist supplier diversity advice. Following the example set in the US, the UK now has ‘supplier diversity intermediaries’ dedicated to opening up procurement in private, public and voluntary organisations to small and medium-sized enterprises (SMEs) and ethnic minority businesses (EMBs). Examples include the Minority Supplier Development UK, Procurement Development Programme and the Migration Policy Group’s European Supplier Diversity Business Forum. The purpose of these organisations varies, but they all aim to:

- help companies develop and implement supplier diversity policies;
- provide a forum for discussing supplier diversity programmes with other companies; and
- provide access to suitable EMBs.

For more details on supplier diversity intermediaries, see appendix 2.

### Step 3: Appoint a supplier diversity coordinator

Appointing a credible person with responsibility for supplier diversity in the organisation can help ensure the success of a supplier diversity programme. This individual can coordinate the whole process and make sure it is effectively implemented and monitored. Appointing a supplier diversity coordinator immediately sends a positive message to staff and suppliers that the organisation is committed to supplier diversity and sees it as important. It is particularly important that the post has the full support of the organisation's senior managers and executives.

As with any job, the role and responsibilities of the coordinator should be clearly defined. As well as coordinating activity internally, the appointed person can be a first point of contact, and sponsor, for prospective ethnic minority suppliers.

Appointing an inter-disciplinary team of middle-level managers from different functions to handle supplier diversity can also be helpful.

We have set up, across BT, a steering group [Diversity Action Group] and we have brought together interested stakeholders. We also have procurement people sitting on that. The next step for this group is to provide education internally to the procurement officers.

**BT Group plc**

### Step 4: Carry out a survey of suppliers

To increase the diversity of your suppliers, you need to learn all about both the suppliers you already use and those you might use, by undertaking a supplier survey.

For each supplier you use at present, the survey should identify:

- the size of the business and the ethnicity of the owners and workforce; and
- their percentage share of the organisation's total procurement.

For each supplier you might use, the survey should identify:

- the size of the business and the ethnicity of the owners and workforce; and
- their potential procurement opportunities, for example, office supplies or catering.

To help you with this survey, the questions and categories used to identify ethnicity of ownership are included in appendix 2.

When carrying out your survey, you should make clear that this information will only be used to ensure equality of opportunity in the procurement process. If the person answering the questionnaire is not the owner of the business, you should advise them that data protection legislation requires them to consult the owners before disclosing personal details such as sex and ethnicity.

Although the Race Relations Act does not require private organisations to keep ethnic records, without these it would be difficult to establish any inequality in the procurement process. Also, without records, it is impossible to know whether or not supplier diversity programmes are succeeding. Keeping, and acting on, this information demonstrates commitment to diversity.

## **Step 5: Review your procurement policies and procedures**

It is important to review all your procurement policies and practices, so that you can identify and understand any barriers which are preventing EMBs (or other SMEs, including social enterprises and others from the voluntary and community sectors) from becoming suppliers. This may also require looking at the organisational culture. Procurement staff, for example, may only use larger suppliers because they prefer to deal with a limited number of suppliers, even though this may not be a formal organisational policy or procedure.

You will also need to look at your supply chain to identify opportunities for including EMB suppliers in the procurement process. At first, it is likely that most of the opportunities available will be for relatively small, low-value contracts at the low-risk end of the supply chain. However, these can be very useful in building trust and understanding between your organisation and small EMBs.

It is important at this stage to remember that supplier diversity does not mean preferential treatment for ethnic minority suppliers. It is about equality of opportunity for all, by creating a more 'level playing field'. Making opportunities visible to under-represented suppliers can give you a wider choice of goods and services, and therefore potentially better value.

## Step 6: Draw up new procurement policies and procedures

Once you have undertaken Steps 1 to 5, you will have: gained support from a supplier diversity intermediary; put in place someone to coordinate the development of your supplier diversity programme; found out about your current and potential suppliers and identified opportunities for EMBs in your supply chain; and gained an understanding of the barriers which prevent EMBs from getting involved in your procurement processes. With these resources and information in place, you can develop new procurement policies and procedures. These policies should:

- take into account all other policies and procedures;
- demonstrate your commitment to supplier diversity;
- reduce bureaucratic demands;
- simplify procedures;
- state explicitly how to make links with EMBs;
- encourage other suppliers and contractors to make use of EMBs in their contracts or purchase orders (as second- or third-tier contractors) as part of the terms and conditions of the tender process;
- identify the markets where procuring from EMBs is a viable option; and
- state your willingness to accept tenders from consortia of suppliers.

You may also want to look at alternative ways of packaging contracts. SMBs are not able to tender for every notice. Can your contracts be split to make them more accessible to smaller suppliers?

Remember, too, that when size and scale limitations militate against an EMB becoming a first-tier supplier, you can work with your main contractors to fit EMBs into their supply chains as second- and third-tier suppliers to your organisation. Develop policies that encourage other suppliers and contractors to make use of EMBs in their contracts or purchase orders as part of the terms and conditions of the tender process. This should involve increasing visibility of contracts for ethnic minority suppliers across the supply chain.

You can ensure the involvement of small EMBs in larger contracts by asking your main contractors about their own procurement policies, and their track record of engaging with EMBs. You can ask them to advertise subcontracting opportunities through their website, trade press, supplier diversity

intermediaries, and national and local EMB support organisations, and provide advice on how subcontractors can enter the supply chain.

You should develop guidance for your principal contractors that raises awareness of these issues, and helps them understand the importance your organisation attaches to supplier diversity. You can include supplier diversity policies in their contracts or purchase orders as part of the terms and conditions of the tender process, so that they receive a consistent message throughout the procurement process.

## **Step 7: Communicate with staff and current contractors**

You need to be sure that everyone in the organisation is aware of the importance that is now attached to supplier diversity. Staff at all levels must be aware of the extra effort needed to ensure EMBs are seriously considered as suppliers. Everyone who is directly involved in the procurement process should understand the supplier diversity strategy in detail. If the strategy is published with a statement by the managing director, it will make a stronger impression.

Once the policy is understood internally, you then need to make sure all your suppliers understand it too. Various methods have been used successfully, in combination, including:

- memos informing principal contractors of what is expected from them in terms of supplier diversity;
- letters explaining the reasons behind adopting supplier diversity;
- educational seminars for suppliers' purchasing officers, explaining the benefits of supplier diversity programmes to all involved;
- use of the corporate website to state the organisation's commitment to supplier diversity, and showcase success stories; and
- newsletter articles celebrating the success of the organisation's supplier diversity programme, publicising award-winning EMBs, and congratulating staff for their efforts in supplier diversity.

The supplier diversity message should be consistent whatever methods you use.

## Step 8: Develop and implement a training programme

Training is key to introducing a successful supplier diversity programme. If those who are involved in the procurement process understand the benefits of having a diverse pool of suppliers, any obstacles to change can be removed more easily.

The training programme should focus on the aims, structure and benefits of the supplier diversity programme, and explain how procurement practices can inadvertently discriminate against SMEs and EMBs.

Extra educational seminars for senior officers on supplier diversity can help to improve their knowledge and encourage them to take part in the programme. Putting forward a sound 'business case' makes the argument for engaging with traditionally under-represented groups of suppliers more compelling.

## Step 9: Develop contacts with EMBs

Clearly, you will have been in contact with EMBs throughout the time when you were developing your supplier diversity policy. You can do this through 'meet the buyer' events or links provided by supplier diversity intermediaries. Meet the buyer events give suppliers the chance to meet 'buyers' from large public and private sector organisations, and to discover what goods and services they procure.

Organisations can also attract tenders from SMEs and EMBs by setting up a website similar to the government's supplier portal ([www.supply2.gov.uk](http://www.supply2.gov.uk)), and using it to:

- accept applications from ethnic minority suppliers;
- publish details of contracts and principal contractors;
- encourage small suppliers and EMBs to get in touch with principal contractors;
- advertise subcontracting opportunities; and
- provide advice on how subcontractors can enter the supply chain.

It is good business practice to ensure you communicate with your suppliers at every stage of the procurement process. Avoid unnecessary jargon, make clear statements and provide advance notice of contracts and relevant information through:



- supplier diversity intermediaries;
- the local press;
- the ethnic minority media;
- community organisations;
- business support organisations; and
- EMB support organisations.

At first, many small suppliers and EMBs may only have the capacity to tender for small contracts. However, by working with interested suppliers, you can help to build their capacity. You can also give unsuccessful ethnic minority suppliers detailed feedback at each stage of the procurement process, and offer advice on how to do it next time.

If possible, it is good practice to provide training and mentoring to ethnic minority suppliers. Successful initiatives have usually involved a 12-month period when the supplier gets assistance with business planning, marketing and tendering processes as well as support on the strategic and technical aspects of their capabilities as suppliers. This can be provided by other suppliers as well as by the purchasing organisation. The CREME supplier diversity programme has examples of its corporate members working with principal contractors to promote opportunities to EMBs to bid for contracts (see appendix 2).

## Step 10: Set targets and monitor the programme

As with any programme, setting objectives and suitable benchmarks for supplier diversity is crucial. Developing targets both strengthens commitment and helps to assess progress. Remember that quotas – allocating a set number of contracts for EMBs – constitute positive discrimination and are illegal.

To use a familiar business acronym, targets should be SMART (Specific, Measurable, Achievable, Realistic, Timely).

For example, these could include:

- a measurement of the amount you spend each year through minority suppliers;
- a percentage increase on the previous year's spend;
- the percentage of total purchase value spent with minority suppliers;

- a timetable for increasing the number and variety of means used to reach EMBs; and
- a deadline for setting up mentoring programmes.

Do not forget to monitor the benefits to your organisation as a result of your supplier diversity programme as well. Suitable indicators could include:

- the number of new suppliers;
- the number of Corporate Social responsibility (CSR) targets met;
- the number of public sector contracts won;
- the number of new customers (if measurable); and
- positive PR from the supplier diversity programme.

Monitor your progress against these targets and keep management, staff, suppliers and other interested parties informed of progress.

You also need to monitor the procurement process itself, to prevent contracts automatically being offered to current suppliers. This is particularly important if EMBs are to become involved in larger contracts.

It is helpful to ask for feedback from EMBs that did not apply after making inquiries, or who did not submit tenders when invited to do so. This may help uncover further barriers in the procurement process.

### **Step 11: Celebrate success**

If the programme is to continue to be successful, it is important publicly to recognise and reward those who have done an outstanding job. This includes both minority suppliers and procurement staff. Recognition could involve an awards ceremony, an article in the company's newsletter or a press release to external publications. Supplier diversity objectives could also be linked to employee performance appraisals and pay.

# A checklist

## ADVERTISEMENT

- Use various media to advertise tenders, so that they reach prospective ethnic minority suppliers.
- Use a supplier diversity intermediary to reach diverse groups of suppliers.
- Attend meet-the-buyer events and deliver workshops for ethnic minority suppliers.



## SELECTION

- Use a transparent process to prevent any discriminatory practices.
- Make sure purchasing staff are committed and abide by supplier diversity policies, by monitoring and reporting progress.



Is a minority supplier invited to tender?

NO



Provide regular timely feedback on all aspects, positive and negative.

YES



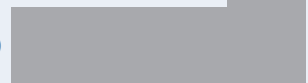
## INVITATION TO TENDER

- Answer prospective suppliers' queries promptly and clearly.
- Use clear documentation throughout the procurement process to encourage EMBs to take part.



Awarded contract?

NO



YES



## AFTER THE CONTRACT

- Meet the minority supplier and discuss management and monitoring of the contract in detail. Clarify what is required and what the process entails. Answer all queries and give regular and useful feedback.
- Where appropriate, offer a mentoring arrangement.

## Summary of key points

Supplier diversity is becoming an increasingly important business issue.

Supplier diversity can allow your organisation to assess all potential suppliers on an equal footing, and award contracts to those who will provide the best product or service at the best price.

A supplier diversity programme can:

- find suppliers who are more efficient, flexible, innovative and committed;
- open doors to new markets;
- add competitive advantage when tendering for public contracts;
- help meet corporate social responsibility (CSR) targets;
- contribute to local economic development;
- improve staff recruitment and retention; and
- ultimately, improve your bottom line.

For public organisations, supplier diversity can help them to:

- meet statutory duties;
- improve relations with people from ethnic minorities; and
- ensure 'best value' and a better service.

Barriers to implementing supplier diversity programmes can exist in all organisations. Procurement processes in large organisations are often inherently biased towards current suppliers and large companies. Other barriers relate to:

- management buy-in;
- commitment of resources;
- resistance to change;
- coordination with other functions and policies;
- identifying suitable suppliers; and
- concerns about suppliers' capacity.

Following the guide to setting up a supplier diversity programme (part 4) should help you to overcome these obstacles and implement a supplier diversity programme that can add value both to your business, and to the wider community.

# APPENDICES

## Appendix 1: The case studies

CREME's supplier diversity intermediary has been in operation for over two years and has been a rich source of information on the issues discussed in this guide. Interviews with the following parties were also undertaken specifically for the production of this guide:

- corporate members of CREME's supplier diversity intermediary – BT Group plc, the Environment Agency, PepsiCo, Miller Construction;
- representatives of three government-funded procurement initiatives aimed at assisting small and medium-sized enterprises (SMEs) to trade with the public sector – the Haringey and West Midlands pilots, and a Supplier Development Programme in Scotland; and
- four EMBs that won contracts with large organisations as a result of CREME's supplier diversity intermediary.

### Members of CREME's supplier diversity programme

#### BT Group plc

The BT Group is one of Europe's leading providers of telecommunications services. Its annual turnover is over £18bn, and it employs more than 102,000 people worldwide.

In 2005, BT spent over £4 billion on procurement. At every stage of its dealings with suppliers, from selection and consultation to recognition and payment, its aim is to behave in line with the principles of fair and ethical trading. At the same time, BT's procurement strategy is driven by external forces.

We are working in an extremely competitive environment with market convergence of telephony and computers and increasing globalisation. In that very competitive environment our drive is to reduce cost.

BT's procurement strategy aims to achieve the best value for money. Although consolidation of the suppliers is the dominant trend in most industries, BT often uses small and medium-sized enterprises (SMEs), niche providers with the agility to respond promptly.

If you look at the major technology we use, we use a number of IT companies at Silicon Valley who may be start-up businesses. There is also a lot of spend below £50k, from stationery to catering.

Because its customers are so diverse, the issue of diversity is commercially important to BT, and firmly built into its business objectives. It is crucial that its workforce and pool of suppliers reflect all its customers.

BT recently sent a booklet, *The Way We Work*, to current suppliers, to reinforce the message that BT values diversity in the workforce and to explain how it expects its suppliers to demonstrate this when working with BT.

For BT, one aspect of supplier diversity is minority suppliers, that is suppliers who are at least 51 per cent minority owned. Another part is how diverse other suppliers are. A business might not have a 51 per cent minority ownership but it might have a majority workforce from ethnic minority communities.

For the supplier diversity programme to work, there needs to be close communication between the sales and purchasing functions. Officers responsible for purchasing must understand how the company can benefit from supplier diversity, for example through increased opportunities for public contracts.

We know that there is an increased understanding within national and local government on supplier diversity. Procurement is seen as a lever for change and we want to make sure that BT does not miss out by not having a supplier diversity programme.

Implementing a supplier diversity policy is not always easy. In 2005, BT decided to join the supplier diversity programme run by CREME.

One of the issues large companies face is how to find minority businesses. It requires a huge amount of investment to do this, both financially and through human resource. But a supplier diversity intermediary fulfils this role when it has a real understanding of the issues and also grassroots connection into small companies.

## The Environment Agency

The Environment Agency is responsible for protecting and managing the environment in England and Wales. The agency is organised by eight regions, each with its own area offices, and employs more than 10,000 staff. The Midlands region, in particular, has taken a lead in developing supplier diversity as part of a broader diversity programme.

Beyond 'value for money', the procurement objectives of the Environment Agency include 'best practice' and 'least impact on the environment'. For the Environment Agency, 'best value' does not always mean lowest cost.

We're a complex organisation and we ask for a lot more now from our suppliers, not just in relation to price and quality but, for example, health and safety and environmental criteria. If we take on new suppliers, it is critical that they understand what we are looking for and we understand their requirements and limitations.

Being a government organisation makes the agency accountable for public money. At the same time it has a statutory duty under the Race Relations Act 1976 (RRA) to promote race equality in all its activities, including procurement. The Environment Agency does not see these as conflicting demands.

As a business, to succeed, we need to ensure that our supply base reflects the population and businesses we serve.

To make sure supplier diversity receives proper attention, procurement officers have made it one of their objectives under their annual performance review process.

A number of steps have been taken by the Environment Agency to reduce barriers for SMEs and ethnic minority businesses (EMBs) wanting to bid for contracts. This includes giving one procurement officer the responsibility of promoting and developing a supplier diversity programme. This involves:

- reaching out to diverse businesses in the region;
- raising awareness about the benefits of supplier diversity with procurement officers;
- simplifying the tendering process and paperwork; and
- providing more information to EMBs about the evaluation criteria.

In order to reach prospective minority suppliers the Environment Agency has joined a supplier diversity intermediary, CREME. At national level the Environment Agency now spends nearly £34 million (or 7.5 per cent) of its annual expenditure with EMBs.

Just because you go for the biggest doesn't necessarily mean you're getting the best. A lot of large companies tend to get complacent. With small firms you often have more interest, commitment and sometimes better quality.

Dedicating resources to promote supplier diversity adds costs to the organisation's procurement activity, but the benefits of acquiring a larger pool of competent suppliers who can bring quality, innovation, flexibility and efficiency to the organisation exceed these costs.

## Miller Construction (UK) Ltd

Miller Construction is part of The Miller Group, which is the UK's largest privately owned house building, property development and construction business.

Most of the procurement for Miller Construction is carried out through subcontracting packages by the company's supply chain partners; project teams are trusted to make decisions on the best solution for their particular project. SMEs play a pivotal role in Miller's supply chain.

Many of the organisations we deal with are SMEs such as bricklayers and joiners.

The huge skills shortage in the construction industry presents large organisations with major problems. Coupled with this is the government-driven commitment to 'sustainable construction', which encourages the use of local SMEs.

Any strategy which assists us in being able to find resources within our locality is obviously a benefit for us. That is one of the key reasons for developing supplier diversity.

The big problem for SMEs when trying to diversify into mainstream markets is not knowing who to contact and how to market their business to this sector. Miller recognises the importance of being approachable, and has taken steps to eliminate barriers to access.

We approach supplier diversity by regionalising our company into smaller approachable sizes. In doing this, suppliers get to meet people who work in their area ... 'localised clustering', rather than major corporate purchasing from one head office.

For Miller, identifying suitable suppliers and the time needed to develop relationships with them presents its own problems. Getting involved with a supplier diversity intermediary organisation can help.

We have found the intermediary to be a good organisation that can source good minority businesses. It's important that the organisation can filter say 20 out of 100 SMEs for us to see. This way we see 20 SMEs that are appropriate to our business, rather than spreading our time trying to sift out the appropriate SMEs from the larger quantities.

Awareness is a key requirement for EMBs wishing to trade with Miller. Potential suppliers need to be able to demonstrate how and where they fit in Miller's supply chain and must also have realistic expectations. The best advice to EMBs wishing to supply to Miller is:



... know your marketplace and what you aspire to achieve as an organisation; know your capabilities and core strengths; where, geographically, you want to operate both in the short and long term. SMEs need to know there are no quick fixes with this. They should seek to use the greater supply chain, for example, second or third tier, to drill down opportunities.

## The Pilots

### Haringey Council

Haringey Council runs a highly successful programme to help local SMEs to get involved with its procurement system. A 'Trade Local' team liaises with local suppliers and has attracted a large number of EMBs. In 2005, 31 per cent of the council's expenditure was with EMBs.

We consider supply diversity to be a situation in which all organisations have a free and fair opportunity to compete for places in the supply chain. There are several dimensions to the concept – SMEs, ethnic minority businesses, the voluntary and community sector and social enterprises. There is also the dimension of locally-based organisations.

Although the rationale for the Haringey programme is based on 'value for money' procurement, social questions and sustainability play their role too. The council must provide a wide range of services to a culturally-diverse community. This requires suppliers who are sensitive to people from various backgrounds and who can respond effectively to the community's needs.

There is a clear business case for encouraging supplier diversity. The more competition you get for your contract, the more chances you have of finding the best possible supplier and achieving value for money. We deliver services to an incredibly diverse range of communities – we have almost 200 languages spoken in our primary schools – and this leads to a business case for encouraging ethnic minority businesses to compete for our contracts.

Local authorities have a legal responsibility to produce and implement a community strategy. Many councils have included within this various priorities such as supporting local business, tackling economic deprivation and facilitating regeneration. Supplier diversity can therefore contribute to implementing a local authority's community strategy.

In reaching out to EMBs, Haringey Council has learned some valuable lessons in communication.

Procurement processes should be organised in a way that is appropriate to the risk of the contract. So you don't have 96 pages of tender documents for a £25,000 staff training contract, for example. Also it is important to give feedback on tender processes, letting unsuccessful bidders know why they are unsuccessful so they can put in a stronger bid next time. Success stories are put on our website to encourage other SMEs and ethnic minority businesses to apply.

Haringey Council encourages its principal contractors to be open about their subcontracting opportunities.

Commitment to wider social and economic aims and objectives can be encouraged through the use of community benefit clauses in tenders and contracts, provided they are entirely linked to delivering the council's community strategy.

The Haringey programme has emphasised the importance of being able to assess progress on diversifying the pool of suppliers. This includes having information on the council's current supplier base and being able to monitor what it spends each year, to weigh up progress against milestones and quantitative targets.

A new procurement and contract management system includes a monitoring and reporting package that will allow us to monitor our spend with ethnic minority businesses, SMEs, local businesses and so on, and also monitor the types of organisations who are bidding for our contracts, but not winning.

The council had difficulty at first working out how much it spends with EMBs, as there are no comprehensive databases of these firms, against which data can be cross referenced. The Haringey pilot, therefore, developed a methodology for collecting the information itself.

Now, we ask procurers, as part of every tender process, to use a monitoring form, very similar to the Commission for Racial Equality (CRE) workforce equalities form, to determine the ethnicity, gender and so on of a company's ownership and control. We are asking the bidders to fill in the monitoring form so that we can monitor the diversity of organisations competing for and winning our contracts.

Overall, the Haringey SME procurement pilot has had a profound impact on the council:

The Haringey SME Procurement Pilot has transformed the way that the Council thinks about its supply chains and positioned procurement firmly as a strategic function, as a driver to delivering the Council's Community Strategy.

### West Midlands SME Procurement Pilot

The West Midlands SME procurement pilot brought together public purchasing organisations and small businesses. Of the SMEs participating, 23 per cent were EMBs, reflecting the regional composition of SMEs in the West Midlands.

The pilot stemmed from a report which looked at barriers SMEs face when trying to access the public sector marketplace. The report came up with 11 recommendations for improving the situation. We chose five of the 11 recommendations, and decided to run the pilot in the West Midlands area to capture the ethnic minority issues.

The rationale for diversity in public procurement is based on value for money.

The public sector community is driven by efficiency and value for money. Without diverse suppliers you're limiting the market. Really what we are about is creating a market in which there is access for all.

Furthermore, widening participation in public sector procurement can achieve various public policy objectives. The West Midlands pilot took the five steps listed below to draw SMEs and EMBs into public sector procurement.

1. *Training for SMEs*

Training for SMEs makes them more fit to tender. It ensures they understand our processes and requirements and helps them to fulfil those requirements.

2. *Reducing bureaucracy and paperwork*

SME involvement depends on a firm's ability to devote resources to following up opportunities. Especially for smaller firms, lengthy questionnaires make tendering for contracts unappealing. For this pilot a pre-qualification questionnaire was developed for contracts of lower value, which, in some cases reduced the number of pages from 32 to eight.

3. *Training for procurement staff*

It is essential that staff involved in the procurement process are aware of the benefits of having diverse suppliers.

We have helped procurers to understand that there are benefits to supplier diversity. We have to provide them with training to explain the value for money in using a diverse supplier base and to help bring about cultural change where there is less emphasis on risk aversion.

4. *Influencing principal contractors*

It may not always be feasible to engage SMEs and EMBs as first tier suppliers. This makes it doubly important to persuade the main contractors to make sure SMEs know about subcontracting opportunities.

We need to influence our prime contractors to open up their supply chains to include SMEs to ensure we're getting value for money. We need to ensure that it is no more difficult for the SME than it is for a large business to access the market place.

However, using an organisation's main contractors to give SMEs opportunities should not lead to excluding SMEs from direct contracting opportunities.

5. *Web portal*

An important feature of the West Midlands pilot was a web portal, where public purchasing organisations could post notices about any supplies they needed that would be of interest to SMEs, including lower value contracts, and information about future opportunities. There was a named contact for each contract advertised on the site.

If I'm a procurer, and I use the portal, my advertising costs come down, my time involved is reduced, and I get to access a wider supplier base. So, I can actually guard my commitment to value-for-money and I'll get a cost benefit as well.

Although the West Midlands pilot was concerned with public procurement, most of the lessons learned are transferable to the private sector.

### Supplier Development Programme Scotland

The Supplier Development Programme was established to offer eligible small businesses the opportunity to grow and diversify by outlining the scale of the local council public procurement market and potential opportunities. The programme aims to engage as many public and private sector procurement departments as possible in Scotland.

As very few EMB's tendered for council contracts, the programme was set up initially as a pilot to assist EMBs' access and tender for public sector contracts. The programme has now been extended to all eligible SMEs.

The Supplier Development Programme was launched in June 2006 and is a partnership venture between the Economic Development departments of Glasgow City Council, South Lanarkshire Council, North Lanarkshire Council and East Renfrewshire Council.

The main priority for supplier development will be to build awareness and to provide information on buyer and contract opportunities. Education and training in all aspects of winning tenders and procurement processes will be an area that will be continually developed and offered to businesses that are registered with the Supplier Development Programme. This will prepare participating businesses to reach the stage required to tender for public contracts whilst delivering transferable business skills, improving the overall competitiveness and profitability of participating businesses.

SMEs interested in the programme will be offered a combination of workshops, one to one consultancy, on-line diagnosis and information as well as the provision of the latest news via a dedicated magazine to support tender submissions, and requirements.

The following steps have been developed by SDP to assist SMEs:

- **STEP 1**

- **Setting the scene**

- Looking at procurement as a way of growing business

- awareness raising seminars \ publications \ web portal ([www.sdpscotland.co.uk](http://www.sdpscotland.co.uk)); and
      - detailed buyer information for public sector authorities in Scotland.

- **STEP 2**

- **Improving the chances of getting invited to tender: Qualification**

- access advice from key advisory agencies;
    - consider procurement contracts and work towards requirements including health and safety, environmental and equal opportunities policies; and
    - on-line business diagnostic tool.

- **STEP 3**

- **Submitting tenders**

- targeted group seminars on preparing tenders.

- The seminars will provide

- an overview of the tendering process including guidelines, basic requirements, basic tips and the rules and regulations within which the tendering process operates;
      - a workshop taking businesses through tender preparation including initial advice, tender drafting, bid management and the post tender process; and
      - practical solutions to improve procurement performance.

- **STEP 4**

- **Winning tenders and perfecting good practice**

- targeted group seminars on topics such as de-briefing;
    - sharing of good practice and case studies via magazine and web portal; and
    - protecting your interests: the effects of Freedom of Information legislation and your rights to access information.

## Ethnic minority businesses

### Universal Service Solutions

Universal Service Solutions (USS) was established in 1995. By 2005, it had a turnover of £950,000 and employed 105 people. It offers a host of services in cleaning, security, and waste management.

Although supplying to a variety of organisations, large and small, helps to promote diversity and decreases the risk of being dependent on a few large clients, there are clear advantages to working with large clients, who can provide better opportunities for growth and economies of scale.

We find we spend as much on administration on a £1,000 contract as we do with a £160,000 contract. If we analyse all of our business, we'd probably find that in terms of man time the smaller contracts were costing us money. Also, larger clients tend to require more services which gives us lots of revenue streams.

Rather than constantly getting rid of bad performers and searching for new ones, purchasing organisations in this sector are looking for good suppliers, who can offer good services and flexibility as partners. USS makes sure it responds to what its clients want, and stays focused. This often entails building partnerships, which is very much part of USS's culture. Staff learn from the outset that relationships matter, and that they should be looking to develop organisational and personal relationships with clients.

We deliver good services and we are successful because we develop very, very good partnership relationships with our large corporates ... But it's not just about the delivery of the service, it's also about the relationship you build with people within the organisation.

Joining a supplier diversity intermediary can help EMBs to make contact with large purchasing organisations (LPOs), find out what they want, and learn how to position themselves so that they meet the LPO's needs. It can also benefit the LPO, ensuring that they get a service that is closely tailored to their needs.

We met the Environment Agency through three workshops. Ultimately, the contract came our way because I understood what they were looking for, the areas that we were going to be monitored and scored on. We developed a bespoke service for them just from the engagement that we had with the process in terms of the workshops.

### Standout Design

Standout Design is a small creative agency, set up in 1999 by its owner-manager. Year on year the company has grown from £55,000 turnover in the first year, to approximately £500,000 in 2005. It specialises in creative design

for print packaging and exhibitions, web design, copy writing, PR and print production. It serves a broad range of customers, most of them SMEs, although its clients include some large corporations, including the AAC group, the BBC and IBM.

Supplying to large corporations is particularly appealing to Standout Design:

The channels of communication, once clearly defined, afford you the opportunity to get things done ... and brought to a conclusion. Payment is assured, there is a consistent revenue stream and you can organise your business around that. Quite often, the large organisations have better budgets, which allows for more challenging and effective work and better profit margins. It brings kudos to the company by association, which helps to perpetuate business.

However, getting the opportunity to become an approved supplier to a large organisation can be difficult, as large suppliers are often preferred. Even talking to the right person can be complicated:

Sometimes we have to speak to people who are not in a position to make decisions. If you cannot get to the right person, you cannot build a relationship with the client.

This is why Standout Design believes that becoming a member of a supplier diversity intermediary can be beneficial, because of the workshops they organise, and the opportunities they offer to meet buyers of large organisations and to get to know about their procurement processes and needs.

We have been in meet-the-buyer events where we have had really positive feedback from large corporates. Some beneficial criticism as well, but, on the whole, positive feedback, and today I think our confidence has probably increased, as a direct result.

EMBs interested in supplying large corporate organisations need to be able to show how they can meet their needs, and add value to their organisations. It is also essential to be professional, and to have the right systems in place throughout the business.

The key success factor is knowing precisely how your product meets their needs and being professional in every aspect. You need to have a sound business. You need to have skilled staff: skilled, trained and motivated. You need to be up to date with regards to technology. And I think you need to have some good systems in place that allow some kind of flexibility.

Many ethnic minority and small vendors think that supplying to a large procurer is out of reach and that buyers of large organisations would be unwilling to deal with them. The first step is to make contact with them, either through a supplier diversity intermediary or by some other means. Standout Design's experience with large corporate purchasers has made the company believe that nothing can hold it back now.

The challenge is communicating with them and initially getting approved as a supplier, but once you have got over that, there is no difference.

## Printank and BS Services

Printank is a printing business based in Leicester, providing a complete professional service from the initial stages of design to final production and finishing. Set up in 1989, it currently employs 19 full-time workers and saw its turnover reach £750,000 in 2005. Printank works very closely with another Leicester EMB, BS Services. Both firms soon realised that if they were to win contracts with large procurers they needed to join forces and provide a complete print solution, combining their complementary skills of manufacturing, marketing and management of customer relationships.

For [Printank's] part, basically the important thing is that I am very good at corporate relationship development and communication, whereas the other firm [BS Services] has a very unique set up. This removes the barrier of producing work, or any speciality or anything required that can be handled. So, it is logical for us to enter into some sort of strategic partnership when we pitch for large contracts.

The foundation of this strategic alliance is the element of trust, born out of a strong business relationship. At the same time, both firms have signed a formal agreement, which clearly states their respective roles, responsibilities and profit-sharing arrangements.

We have been working together for the last 15 years, since we started the printing business and we have a strong relationship. As a team, we are a stronger force; basically, we can provide a better service to clients.

Both firms have had some good experiences from working with large purchasing organisations. Both agree that, although getting that first contract with a large organisation was the biggest hurdle, joining a supplier diversity helped intermediary them to negotiate it. In a recent job, the buyers were very pleased with the companies' organisational set-up, quality of equipment and the quality of their work. Following a visit by the client, Printank and BS Services were asked to provide a price structure and were subsequently taken up as a preferred supplier.

Joining a supplier intermediary has opened a lot of doors for us. It would have taken years of trying to approach those people in the right way. In that respect it's been fantastic, it has given the opportunity to talk to the right people and also learn about how to win business. Then it is up to the buyers to see if we can provide a service which they require. Just taking that initial step of getting in front of the right people is a fantastic opportunity.



## Appendix 2: Supplier diversity intermediaries

### Centre for Research in Ethnic Minority Entrepreneurship (CREME)

Led by Professor Monder Ram, CREME is a joint venture between De Montfort University, Leicester, and the East Midlands Development Agency. Since 2004, CREME has run a supplier diversity programme, which aims to increase participation by EMBs in mainstream supply chains by providing a platform where LPOs and EMBs can meet and explore business opportunities. The American National Minority Supplier Development Council (NMSDC), one of the leading supplier diversity intermediaries in the USA, is a partner in CREME's initiative. NMSDC's success was achieved not by lowering corporate purchasing standards – in fact, these standards have got much tougher in recent years – but by discovering qualified minority firms and giving them the opportunity to win contracts on a competitive basis.

After a successful two year pilot CREME's supplier diversity programme has evolved into an independent corporate controlled organisation called Minority Supplier Development UK (see below). CREME will continue to influence the development of supplier diversity in the UK through its role as a centre of excellence for research into ethnic minority entrepreneurship.

#### **Centre for Research in Ethnic Minority Entrepreneurship**

De Montfort University, Bosworth House, The Gateway, Leicester LE1 9BH  
 Tel: 0116 2506512  
 creme@dmu.ac.uk  
 www.creme-dmu.org.uk

### Minority Supplier Development UK (MSDUK)

MSDUK is a not-for-profit organisation founded in July 2006 to continue the work of CREME's supplier diversity programme. The primary mission of MSDUK is to provide a direct link between corporate members and minority businesses to enable the building of mutually beneficial business relationships. MSDUK holds procurement events throughout the year, providing ethnic minority businesses with the opportunity to meet senior buyers from large corporations to both understand corporate procurement processes and discuss real business opportunities.

#### **Minority Supplier Development UK**

M1.7 Innovation Centre, 49 Oxford Street, Leicester LE1 5XY  
 Tel: 0116 207 8539/8559  
 diversity@msduk.org.uk  
 www.msduk.org.uk

## European Supplier Diversity Business Forum

The European Supplier Diversity Business Forum is a pioneering initiative that promotes supplier diversity in Europe. Supplier diversity is concerned with ensuring that under-represented businesses, including (but not limited to) race, disability and gender, have the same opportunities to compete for the supply of goods and services as other suppliers.

### **European Supplier Diversity Business Forum**

C/o Migration Policy Group, 205 rue Belliard – Box 1, B – 1040 Brussels,  
Belgium  
Tel. + 32 2 230 5930  
Fax + 32 2 280 0925  
info@migpolgroup.com

## Procurement Development Programme

The Procurement Development Programme is a three-year programme that seeks to create opportunities for small and medium-sized enterprises to access the contracts offered by major public sector and statutory bodies within London.

The main beneficiaries will be small and medium sized businesses driven by people from ethnic minority backgrounds. The Greater London Authority (GLA) has recognised that this group is significantly under-represented in its current procurement patterns, and that SMEs owned and run by people from ethnic minorities are amongst the fastest growing drivers of economic growth within London.

### **Procurement Development Programme**

London Development Agency, Devon House, 58-60 St Katharine's Way, London  
E1W 1JX  
Tel. 020 76802000  
Fax. 020 76802040

## Appendix 3: Ethnic Monitoring

### Ethnic Monitoring Categories

The ethnicity monitoring categories suggested below are based on those used in the 2001 census.

ENGLAND AND WALES	SCOTLAND
<p><b>A White</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> British</li> <li><input type="checkbox"/> Irish</li> <li><input type="checkbox"/> Any other White background Please write in ...</li> </ul> <p><b>B Mixed</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> White and Black Caribbean</li> <li><input type="checkbox"/> White and Black African</li> <li><input type="checkbox"/> White and Asian</li> <li><input type="checkbox"/> Any other Mixed background Please write in ...</li> </ul> <p><b>C Asian or Asian British</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Indian</li> <li><input type="checkbox"/> Pakistani</li> <li><input type="checkbox"/> Bangladeshi</li> <li><input type="checkbox"/> Any other Asian background Please write in ...</li> </ul> <p><b>D Black or Black British</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Caribbean</li> <li><input type="checkbox"/> African</li> <li><input type="checkbox"/> Any other Black background Please write in ...</li> </ul> <p><b>E Chinese or other ethnic group</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Chinese</li> <li><input type="checkbox"/> Any other Please write in ...</li> </ul>	<p><b>A White</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Scottish</li> <li><input type="checkbox"/> Other British</li> <li><input type="checkbox"/> Irish</li> <li><input type="checkbox"/> Any other White background Please write in ...</li> </ul> <p><b>B Mixed</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Any Mixed background Please write in ...</li> </ul> <p><b>C Asian, Asian Scottish or Asian British</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Indian</li> <li><input type="checkbox"/> Pakistani</li> <li><input type="checkbox"/> Bangladeshi</li> <li><input type="checkbox"/> Chinese</li> <li><input type="checkbox"/> Any other Asian background Please write in ...</li> </ul> <p><b>D Black, Black Scottish or Black British</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Caribbean</li> <li><input type="checkbox"/> African</li> <li><input type="checkbox"/> Any other Black background Please write in ...</li> </ul> <p><b>E Other ethnic group</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Any other Please write in ...</li> </ul>

**NOTE**

Some areas in Britain may contain relatively large numbers of people from ethnic groups that are not included in the 16 broad categories used in the 2001 census. To capture the full range of local businesses run by people from ethnic minorities, you should therefore make sure your monitoring form reflects local circumstances. The CRE recommends adding extra categories as sub-groups of a broader category; for example, Gypsies and Irish Travellers under the category 'Any other White background'. The categories that Haringey Council uses in its ethnicity monitoring form on the next page show the specific ethnic groups that are predominant in its locality, such as Greek-Cypriot, Turkish-Cypriot, Turkish, Kurdish and East African.

## Haringey Council's Ethnicity Monitoring Form

### Equal Opportunities Monitoring

As an Equal Opportunities employer, Haringey Council is keen to monitor the make-up of its supplier base; it would be of great assistance if you would indicate below the category appropriate to the ownership of your company. This information will only be used for statistical purposes.

White	Mixed	Asian or Asian British	Black or Black British	Chinese or other ethnic group
<input type="checkbox"/> British	<input type="checkbox"/> White and Black Caribbean	<input type="checkbox"/> Indian	<input type="checkbox"/> Caribbean	<input type="checkbox"/> Chinese
<input type="checkbox"/> Irish		<input type="checkbox"/> Pakistani	<input type="checkbox"/> African	
<input type="checkbox"/> Greek-Cypriot	<input type="checkbox"/> White and Black African	<input type="checkbox"/> Bangladeshi		
<input type="checkbox"/> Turkish-Cypriot	<input type="checkbox"/> White and Asian	<input type="checkbox"/> East African Asian		
<input type="checkbox"/> Kurdish				
<input type="checkbox"/> Turkish				
<input type="checkbox"/> Any other White background	<input type="checkbox"/> Any other Mixed background	<input type="checkbox"/> Any other Asian background	<input type="checkbox"/> Any other Black background	<input type="checkbox"/> Any other ethnic group
Please write in	Please write in	Please write in	Please write in	Please write in
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

What is the gender?

Male

Female

Does the person(s) who has a majority control consider they have a disability?

Yes

No

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## CRE mission statement

We work for a just and integrated society, where diversity is valued. We use both persuasion and our powers under the law to give everyone an equal chance to live free from fear, discrimination, prejudice and racism.



