

# GETTING A SEAT AT THE BILLION DOLLAR ROUNDTABLE

By: Sharon Castillo

**W**ithin the world of supplier diversity, the most common question is "How do we create the BIG hits?" Everyone is looking for the magic bullet. If it were that easy, supplier diversity would not have evolved into an industry in and of itself. Sure, there are basic things a company must do like develop a corporate policy statement, establish a corporate goal, implement a measurement system to monitor performance and create a cross functional steering committee to drive performance company wide. These are all necessary steps and will help you advance. But, these steps alone may not position you among the best in class.

So, what is needed to really achieve breakthrough performance? To answer that question, we took a look at the best of the best—that elite group known as the Billion Dollar Roundtable. There are currently 15 members of this prestigious group and the list continues to expand every year.



## 2008 BDR Members

AT&T  
Boeing  
DaimlerChrysler  
Dell  
Ford  
General Motors  
Honda  
IBM  
Johnson Controls  
Kroger  
Lockheed Martin  
Proctor & Gamble  
Toyota  
Verizon  
Wal-Mart

In 2008, corporate members ranged from \$379 billion in sales to \$35 billion. The average Tier 1 spend was 10.4 percent in 2008, the median was 7.2 percent.

To be a member of the club, the company must spend at least \$1 billion annually with minority and women-owned suppliers on a Tier 1 basis. In fact, nearly half of the BDR members spend \$2 billion to \$4 billion annually with diverse vendors! So how do they do it? Here are three key strategies that seem to permeate most BDR member organizations.

### *Strategy #1: Develop a customer centric initiative*

This one strategy cannot be overstated - particularly in light of today's economic environment. It is imperative that you understand who your company's customers are by operating segment and look to see where you can leverage your supplier diversity initiative to build brand equity and increase revenue. This applies whether you sell to the government, other corporations or consumers at large. Once you make this connection, you will quickly see numbers associated with increased revenue far outweigh any value added from the supply chain. As an example, here is what a few BDR members are doing:

*AT&T started positioning its process as a revenue generator several years ago ...* The executive director of supplier diversity at AT&T, Joan Kerr, said that in 2006 the company documented that supplier diversity was a factor in generating \$11 billion in revenue. "We were able to show clearly that supplier diversity is helping us in sales enablement and revenue generation," Kerr said.<sup>1</sup>

*IBM's corporate supplier diversity brochure leads with . . .*

1. The marketplace is the driving force behind everything we do.
2. Our primary measures of success are customer satisfaction and shareholder value.

*Dell's process is driven by customer/shareholder value . . .* to the extent that they solicited feedback from and worked directly with more than 90 customers in 2007 to drive added value from the company's supplier diversity initiative.

A word of caution here: You can't just talk the talk, you have to walk the walk - meaning you can't just talk to a link to market share, you have to connect the dots and measure it. If you sell to the government or other corporations, develop a system to track sales associated with each contract where supplier diversity is mentioned and add up the dollars for a measurement on your score card. If you sell to consumers at large, the measure is a little harder to come by, but it is still there. Generally speaking, this link to market share will allow you to secure additional resources to continue to drive your process company wide.

### *Strategy #2 - Build the capacity of targeted diverse suppliers*

Supplier Diversity should not be a paradigm shift from traditional strategic sourcing goals and objectives because those goals are there for

*Continued on page 34.*

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## SPECIAL REPORT — BDR

Continued from page 32.

a reason -- to leverage the relationship with selected suppliers, achieve cost savings, and minimize the overall number of supplier relationships the company has to manage. This same philosophy should also be embraced within supplier diversity to increase the probability of diverse suppliers adding value. The strategy should be to grow targeted diverse suppliers so they can compete nationally and globally.

As a frame of reference, we looked at the number of suppliers required by BDR members in order to reach \$1 billion in spend. Amazingly, most BDR members reached their first \$1 billion with less than 100 diverse suppliers. Keep in mind, many of these companies generate \$2 billion to \$4 billion annually so there are generally hundreds, if not thousands, of diverse suppliers in each company's supply chain. But, to get to that first \$1 billion, they are leveraging less than 100 suppliers. For each company, the largest supplier contributed anywhere from 65 percent all the way down to 5 percent of the billion dollars in purchases, with many hovering in the 15 to 40 percent range, which means the top supplier is generating anywhere from \$150 to \$400 million in sales with one customer.

So, how many diverse vendors do you know that have sales over \$200 million? Maybe not that many. As articulated by many corporations and diverse suppliers themselves, a large portion of these firms achieved success from at least one customer targeting them for growth. Without question, the vendors always added value or they would not have been targeted for growth in the first place. But without being targeted for growth, they may not have achieved their rapid rise to the top. Nearly every BDR member will tell you building the capacity with targeted diverse suppliers is a key strategy. The extent to which this strategy is executed varies widely from one corporation to the next, but, the bottom line is they are all doing it in some fashion.

Amazingly, many of the BDR members reached their first \$1B in Tier 1 spend with less than 100 diverse suppliers.

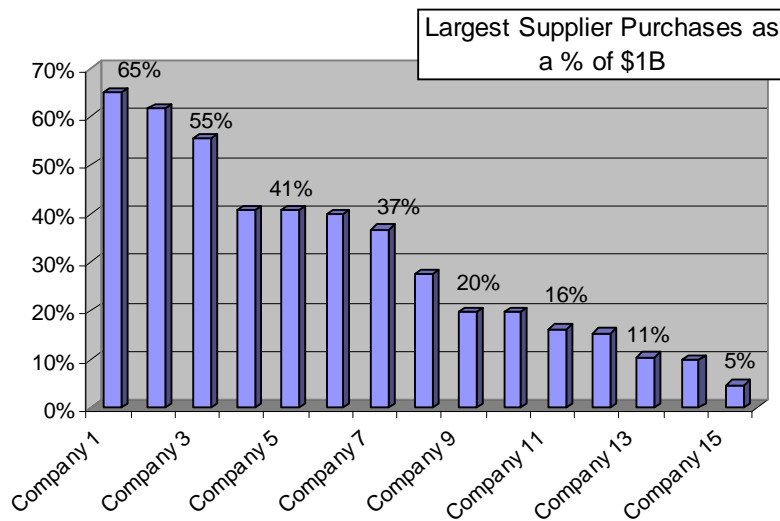
In many instances, the diverse suppliers were there to draw from initially and they have grown with corporate America over the years. However, in some instances, initially there were no diverse suppliers to draw from and corporate America built the diverse capacity from the ground up. When this happens, it starts with the corporate customer saying here's what we need . . . and, if you build it, we will come.

In every case, though, the diverse suppliers would not be able to sustain themselves had they not been adding value to the supply chain. Once in the supply chain, there are only three ways for any company to grow:

- 1) Organically
- 2) Through joint ventures and strategic alliances, or
- 3) Through mergers and acquisitions.

Diverse suppliers have successfully employed all three approaches. Real-life examples include:

- SHI International (formerly Software House International) and Artech Information Systems, which have grown organically;
- Specialized Packaging Group (SPG) and Mas Tec, which have grown through acquisitions;
- Great Lakes Assemblies and Dakkota Integrated Systems which have grown through joint ventures.



Continued on page 36.

*Continued from page 34.*

Once a vendor hits the \$100 million mark, they are playing within the strategic sourcing arena competing for national and global contracts. Successful vendors within this arena generally offer some type of cost savings and/or value add in order to get the business. In effect, the vendor is willing to give up some margin to buy the market share associated with a national contract. Diverse vendors will do the same thing --all you have to do is open the door for them to compete. If you adhere to this school of thought, and a diverse vendor is successful at this level, by default they will be adding value because they, too, will offer cost savings and/or added value in exchange for market share.

Not surprisingly, BDR members within the same industry may share the same diverse suppliers. This is evidenced in the technology, telecom, and automotive industries. Among the top five diverse vendors for the 15 BDR members, nine vendors do business with two or more BDR members. As the diverse supplier grows, their ability to compete nationally and globally also increases and results in a win-win for everyone.

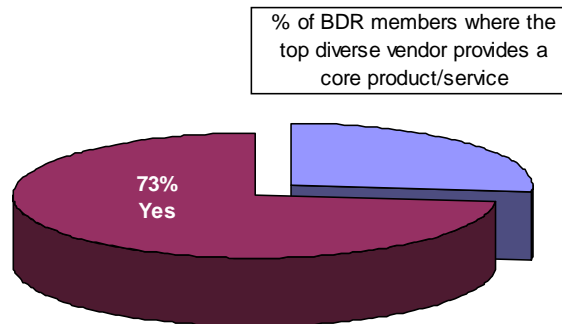
### Strategy #3 - Integrate diverse suppliers into your core areas of spend

For 73 percent of BDR members, the leading diverse supplier provided a core product or service. The definition of "core" varies, but it generally boils down to being directly related to the product or service provided to external customers. Companies usually spend a large percentage of their overall procurement dollars here.

If diverse vendors are large enough to reach and compete at this level, it carries many benefits. For example, the switching costs are much higher, their relationship is more strategic than transactional or tactical, their performance is evaluated on many criteria in addition to cost and they are usually integrated into the organization at many touch points. From a supplier diversity perspective, the chances that the vendors can sustain themselves increase significantly.

To position a diverse vendor in this area generally means you must leverage the link to market share to get the door open on the supply chain side. On a broader level, it means understanding your company's business model (how the company makes money), the organizational structure, the supply chain and where the company is going in the future. With this information in hand, you can target opportunity areas and begin to position diverse suppliers to build their capacity with the ultimate goal of moving them up the supply chain while ensuring they add value.

In summary, once you have built a solid infrastructure for your supplier diversity initiative, focus on developing a customer-centric process. Then leverage these customer relationships to build the capacity of targeted diverse suppliers, ultimately moving them into the company's core areas of spend. Will it be easy? No. But, is it possible? Absolutely!



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i Purchasing Magazine, Supplier Diversity Yields Growth, August 16., 2007.