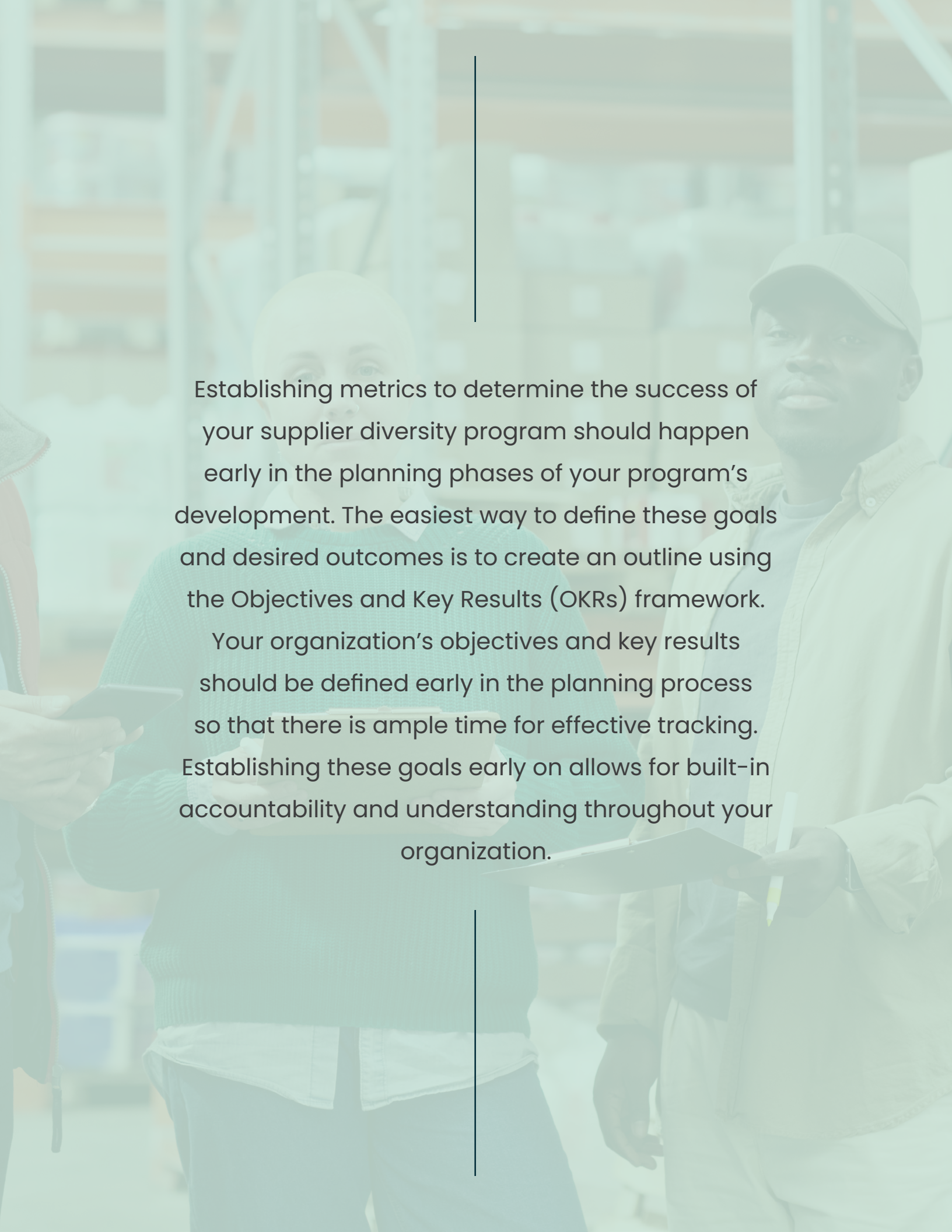


UNDERSTANDING ECONOMIC IMPACT

HOW SUPPLIER DIVERSITY PROGRAM
HELP DRIVE LOCAL ECONOMIES





Establishing metrics to determine the success of your supplier diversity program should happen early in the planning phases of your program's development. The easiest way to define these goals and desired outcomes is to create an outline using the Objectives and Key Results (OKRs) framework.

Your organization's objectives and key results should be defined early in the planning process so that there is ample time for effective tracking. Establishing these goals early on allows for built-in accountability and understanding throughout your organization.

WHAT DOES SUCCESS LOOK LIKE?

Getting these key metrics in order can be done by figuring out what success looks like for your organization. Every industry and individual organization has specific requirements and benchmarks for supplier diversity. When using an OKRs framework, the main objective will define your organization's reasoning for creating a supplier diversity program. It will most often be an objective like increasing the percentage of diverse suppliers by a certain percentage or by meeting your organization's industry standard.

HOW IS SUCCESS MEASURED?

Success is most often measured quantitatively regarding the success of your organization's supplier diversity program. Key results should always be measurable benchmarks that are reached to achieve the program's goals. What organizations track will vary, but the process most often looks something like this:

- 1 Set your quantitative diverse supplier development performance goals. These goals can be the overall number of diverse suppliers your company has engaged, increased spending with diverse supplier groups, and the like.
- 2 Track your cost savings with diverse suppliers or cost reduction contributions. Diverse suppliers generally offer a more competitive price point and are more adaptable to market fluctuations.
- 3 Select your return on investment (ROI) model.



HOW DO I TRACK SUPPLIER DIVERSITY DATA ACCURATELY? THIS IS A LOT OF DATA!

Indeed, this is a lot of data! Establishing a diverse supplier tracking system is often very time-consuming. While personnel should be allocated to track this data, it's often the case that the solution needed is far more intricate and robust for one person to deal with traditionally. Your organization must track diverse supplier spend by business unit/department, buyer, commodity, geographical area, ethnicity, gender, cost reduction, and all the other metrics you've identified prior. Your organization will also need to keep a record of each transaction it has with a diverse supplier.

TRACKING AND REPORTING ECONOMIC IMPACT

Supplier diversity has traditionally focused on promoting growth within underserved and underrepresented communities. One of the main challenges is translating this qualitative goal into quantitative numbers that can be used to measure value. While measuring and reporting direct-spend dollar growth is important, understanding how your organization affects its local economic environment helps paint a complete picture.

Economic impact tracking and reporting help your organization more fully understand how its procurement practices affect the local economy. Economic impact is simply how your organization's business practices affect the economy. In the case of supplier diversity, economic impact is a measure of how doing business with local small and diverse suppliers supports local revenue, income, and jobs.



HOW TO TRACK AND REPORT ECONOMIC IMPACT

There are four types of economic impact:



Output effect measures revenue created by small and diverse suppliers within your supply chain. This is tracked simply by recording every purchase your organization makes from a small or diverse supplier. Your organization directly impacts the supplier's revenue by purchasing from a small or diverse supplier.



Employment effect measures the number of jobs created due to the business activities of small and diverse suppliers in your organization's supply chain. For instance, if your organization purchases large quantities of a product or service from a diverse supplier, that supplier may need to hire additional staff or purchase additional supplies from their suppliers to fill your order. In turn, these secondary suppliers may also need additional hires.



Income effect measures the total income generated with small and diverse suppliers within your organization's supply chain. This is where organizations can see how their supplier diversity program impacts the broader economy. When diverse suppliers have to hire additional employees to meet demand, income paid to these new employees positively affects the local economy.



Tax effect measures local, state, federal, and personal tax dollars generated by your organization's engagement with diverse and small businesses. For example, suppose your organization hires a diversely owned marketing company to launch a nationwide marketing campaign. When a campaign specifically for Chicago is launched, that campaign will support state, local, and personal income taxes in that particular municipality.

THE COMPOUNDING EFFECTS OF ECONOMIC IMPACT

One of the most powerful measures of your organization's supplier diversity program is how the money spent with diverse businesses continues to have an impact beyond the initial spend. This compounding effect is technically known as the multiplier effect.

The multiplier effect is most easily seen through the vehicle of job creation. When your organization contracts a small, diverse supplier, jobs can and do result further down the supply chain. When your organization spends money with diverse suppliers, that money gets used on payroll, other suppliers in the supply chain, and other operational costs. Downstream suppliers do the same thing, thus creating the multiplier effect.

MEASURING ECONOMIC IMPACT IS POWERFUL

Measuring and reporting economic impact and showing how the multiplier effect operates are hugely important for stakeholder buy-in. Economic impact reporting clearly demonstrates how engaging small and diverse suppliers creates a more robust and sustainable supply chain for your organization and can help ensure adoption and accountability for the supplier diversity policy and program throughout your organization.

When your organization is exhausted from too many Excel spreadsheets and too much data, take a look at our easy-to-use, all-in-one, cloud-based solution for tracking your supplier diversity program.

