AGENCY C-SUITE ROUNDTABLES
ON SUPPLIER DIVERSITY

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On September 23, 2009 ten “C-Suite” executives from the advertising industries leading companies participated in a roundtable discussion lead by Kurt Albertson of the Hackett Group. The Hackett Group, a global strategic advisory firm, is a leader in best practice advisory, benchmarking, and transformation consulting services, including shared services, off shoring and outsourcing advice. The roundtable participants represented the following companies: Valassis, *The New York Times*, Mediaedge:cia, Interpublic Group, Verizon, BBDO North America, Saatchi & Saatchi New York, Y&R Brands North America, Leo Burnett USA and Omnicom Group Inc.

As a follow up to the meeting on September 23rd, an additional roundtable discussion was held on April 29, 2010 and moderated by supplier diversity expert, Anita Laney President and CEO of Professional Partnering Solutions, Inc. There were approximately 35 participants in attendance from leading advertising agencies, major corporations, and suppliers. Some companies represented, but not limited to: GSD&M, McCann Erickson, BBDO, DRAFTFcb, Verizon, General Mills, RGA Associates, Saatchi & Saatchi, Global Hue.

The purpose of the AAF roundtables was to discuss the current state of supplier diversity within the advertising industry as well as, address the challenges and opportunities for supplier diversity. In addition, the objective of the AAF’s Mosaic Supplier Development Committee Charter is to, “Create and increase opportunities for diverse suppliers and help strengthen diverse business partnerships with advertising agencies, client companies, media organizations and other industry related businesses.”

**Defining Supplier Diversity**

Supplier diversity is a business strategy to increase an organization’s vendor base by fostering an inclusive procurement system that identifies and develops relationships with certified minority and woman-owned businesses. Generally, the purpose of a company’s supplier diversity program is to affect the mindset of the purchasing body within an organization and to increase the use of under-utilized minority and woman-owned businesses as suppliers. A primary goal of supplier diversity initiatives is to enhance a company’s cost-saving efforts without compromising quality and vendor expertise. In addition, having a diverse supplier pool that reflects the society at large is often viewed as an asset.

Anita Laney, President/Sr. Supplier Diversity Consultant of Professional Partnering Solutions, describes supplier diversity in the following manner, “While all agree that hiring diverse talent is important, it is not the premise of supplier diversity unless the talent owns the business. The sole purpose of supplier diversity is business development of diverse businesses. When we speak of supplier development, we mean new business (contracts) or business growth initiatives for qualified firms.”

**Supplier Diversity and the Advertising Industry**

The advertising industry is in the infancy stage when it comes to supplier diversity. However, these are exciting times. Industry leaders have expanded their inclusion initiatives beyond workforce diversity to include supplier development. Agencies are now creating staff positions that focus specifically on diverse supplier relations. Clients are now requiring agencies to show diversity in their vendor choice. In a short period there has been an influx in the amount to resources dedicated to this aspect of inclusion.
Objectives for Supplier Diversity

There are several business and social objectives for adopting a strategy that increases supplier diversity. From a business perspective, advertising departments and agencies should reflect the customer-base. As America continues to change demographically, with some cities having “majority minority populations,” businesses must ensure that the diversity of the team developing and placing the advertising reflects these populations. These diverse teams will help the advertising business remain relevant by having key insights into the markets’ needs and wants. Employees from diverse cultures tend to be more connected to the trends and what is popular in their culture, therefore making advertising efforts to specific cultures more effective. This approach makes supplier diversity a revenue-driven objective key to the company’s overall mission.

Supplier diversity also enhances a company's ability to deliver efficient and effective services. When teams including suppliers and vendors are diverse, more perspectives and viewpoints are presented, and more creative, richer, unique ideas and solutions to marketing problems and challenges are developed. Using diverse suppliers helps to fulfill a broader mission of creating world-class breakthrough advertising.

Many agencies are also developing supplier diversity strategies because their clients require diversity of vendors. Agencies want to be in compliance with the requirements of their contracts. Such compliance requirements are frequently found in governmental contracts, but increasingly are being found in contracts with corporations, particularly those who have supplier diversity initiatives of their own. Compliance, a business objective, is tied into the revenue stream of agencies.

Corporate social responsibility is another key driver of supplier diversity. Companies want to do well by doing “good”. Assisting women, minority and veteran-owned businesses help society and communities grow and develop.

Similarly, having a supplier diversity strategy enables a company to stand out among its competitors who do not have such a program or have an underdeveloped program. By actively tracking, recruiting and mentoring diverse suppliers and vendors, a company creates a competitive edge. In the age of Sarbanes-Oxley, transparency about the agency’s supplier diversity program becomes an asset and a smart overall social and business objective.

Measuring Supplier Diversity Strategies

Advertisers and their agencies measure the performance of supplier diversity strategies in multiple ways including compliance, quality of work and repeat business.

First is compliance with contracts, which is the price of entry. A number of clients require that agencies report the diversity of their supplier pool and those contracted to work on a specific project. Often this is measured by the specific dollar amount or percentage of the client’s budget.

The second measurement tool is the impact of supplier diversity on the quality of work produced. As content producers, agencies want their suppliers to produce award-winning ideas and solutions that positively affect the client’s bottom line. Receiving industry recognition and repeat business from the client is an indicator of a successful supplier diversity strategy and leads to repeat business for the vendor.

As content producers, agencies want their suppliers to produce award-winning ideas and solutions. Annually, AAF recognizes exemplary vendor relations efforts through the annual Mosaic Awards and the Multiethnic Supplier Partners category. This award recognizes companies and organizations that have made a concerted effort to develop and implement programs to increase their partnerships with minority vendors. MEC and AT&T will be recognized for their partnership.
with SWK during the 2010 Diversity Achievement and Mosaic Awards program. Last year, Draftfcb received the AAF Mosaic Award recognizing its supplier diversity conference that introduced multicultural vendors to Draftfcb. Other winners have included Wal-Mart and Diversity in Promotions, LLC; Toyota Motor Engineering & Manufacturing, North America, Inc. Receiving such industry recognition is an indicator of a successful supplier diversity strategy.

An additional indicator of a great corporate minority supplier initiative is how the company’s minority supplier partners compare to the market’s demographic make-up, as it relates to ethnicity, number of minority suppliers and the services provided.

**Challenges to Supplier Diversity Initiatives**

Supplier diversity initiatives face some challenges such as the size and scope of the projects and lack of business relationships, lack of minority-owned media, small budgets for production and informal procurement procedures.

A harsh reality is that not all suppliers can handle large-scale projects that major corporations or advertising agencies would require. The turn-around on most projects is very quick. Unless a relationship is already established, a new vendor—minority or not—will have difficulty meeting the demands. Therefore, mentoring small businesses so that they can build capacity to handle these projects is critical.

Minority-owned media has been a primary recipient of supplier diversity dollars. However, now many of those dollars go unspent because fewer minority-owned media exist. Many of these outlets have been bought by media conglomerates and therefore do not qualify in the supplier diversity matrix. The percentage of the money budgeted for minority media may go unspent. To address this challenge some agencies are trying to help build and support minority-owned media. There has also been an increase in minority media owners buying back the controlling percentage of their businesses.

To some extent, clients and the general public have an inflated initial sense of what can be spent on minority suppliers. The portion of the budget for the labor and production in advertising is typically about 10%. Many clients, vendors and the general public do not realize how small this portion of the budget is; expectations are often larger than can be realistically met. The popular impression created by the television show Madmen of excessive time and money to spend is outdated. Agencies may not have the money to outsource work to suppliers in general.

An informal procurement procedure can inhibit diversity efforts as well. A formalized procurement operation makes engaging diverse suppliers easier. It also helps to have a full-time staff dedicated to supplier diversity. A team approach between management, procurement, human resources, brand-managers, board of directors, the CEO, communications, legal and business operations is needed. A diversity council within an agency is a helpful tool to emphasize the importance of supplier diversity. Collaboration is key for effective and efficient supplier selection. Many times a supplier is not selected for a project due to a key decision maker not being on board with the selection.

**Opportunities for Successful Supplier Diversity Strategies**

A study conducted by The Hackett Group, stated, “Participation in supplier diversity associations, embedding practices within existing processes and executive level support were identified as having the highest positive impact on supplier diversity success.”

To help build and sustain relationships with vendors, companies ought to find the most talented and knowledgeable person to lead their supplier diversity initiative no matter his or her race, gender or ethnicity. The “director of supplier
diversity” should be passionate about developing the program, tracking vendors and holding other people accountable. He or she should be sympathetic to the needs of diverse vendors and understand their challenges. He or she should be proactive in seeking out and making contacts with potential vendors.

Unfortunately, some companies use a “hey you” approach to managing their supplier diversity initiatives and select a manager based solely on race, ethnicity or gender with no regard to core qualifications. Such an approach is bound to fail.

Another option is to find a consultant or business partner to help cultivate a diverse vendor database for the company or agency. Such a partnership between Professional Partnering Solutions and Saatchi and Saatchi has had great success. In fact, the two have received national recognition from the ADCOLOR® Coalition for having an exemplary partnership.

Strong supplier diversity initiatives will help make clients aware of the quality and quantity of their vendors. Agencies will be better able to identify vendors, introduce vendors to clients, and ultimately use the vendors. An initiative is more than having a list to show clients—it is using the vendors on the list strategically, even when the contract does not specifically call for a minority- or woman-owned vendor.

From a holding company perspective, the ability to share diverse resources within a network is the key to success. Likewise the ability to share best practices with clients and other member agencies can be a helpful indicator of success in supplier diversity.

One of the most important elements of a supplier diversity strategy is that the initiative comes from the C-Suite with buy-in at all levels of the organization; CEOs, CFOs, COOs, CMOs and presidents need to lead the effort by establishing the objective and driving stakeholder demand. Some companies have found that tying executive compensation to minority supplier development has been an effective means to gain the needed buy-in throughout the organization.

A challenge that some agencies face is when a contract calls for supplier diversity, but the brand manager does not buy into the idea of diversity. When that happens, the agency’s team is caught in a bind. Everyone needs to believe in the idea of diversity and supplier relationships need to be cultivated so that when a project has a quick turnaround the supplier will be prepared to do business.

Measuring the personnel who manage the supplier diversity initiative is also important. Some companies tie supplier diversity to performance incentives which are attached to bonuses, just as some companies tie workforce diversity goals to performance incentives. If the managers stick to diversity goals then it becomes a strategic imperative.

To further emphasize the aforementioned points, Cleveland O’Neal, founder and President/CEO, of Connection III Entertainment Corp., an award-winning, Emmy-nominated media producer-distributor (whose licensees and sponsors of its TV series/movies/specials include broadcast and cable networks and national TV advertisers), states that there are production and media opportunities in supplier diversity. O’Neal commented that opportunities exist in the following areas: media content ownership, agency/media buyer education and accountability.

O’Neal stated, “While there are few African American or minority owned network or syndicated TV suppliers, Minority Business Enterprises should strive to own their creative content by developing and producing TV series, specials and made-for-TV movies.” O’Neal further elaborated that, “The industry needs to build a ‘supplier diversity’ bridge by educating buyers on the studio, network and advertising agency sides of the business that are making key buying decisions.”

Regarding the issue of accountability, both O’Neal and members of the Billion Dollar Roundtable agree that in order for supplier diversity programs to be successful, there must be buy-in and a high level of commitment from top
executives within organizations. They believe that organizations must hold buyers and persons managing supplier diversity initiatives accountable by tying their incentives and bonuses to supplier diversity goals. Two top Billion Dollar Roundtable executives commented that they have been very successful linking supplier diversity goals to the incentive plans for director level managers and above across their organizations. One executive stated, “What gets measured... gets done and linking goals drives growth.”

Attendees of the AAF Supplier Diversity meeting in Glendale, California identified the following top solutions and production opportunities in supplier diversity as follows:

- Expose talented people to the business
- Groom talent to start their own companies
- Increase collaboration
- Create a system to increase the number of talented directors

The AAF has taken a lead role in cultivating opportunities for successful supplier diversity partnerships. With a launch date of September 2010, The AAF’s Mosaic Business Partnership Program is designed to cultivate 10 strong vendor partnerships. This 12 month initiative seeks to support the inclusion of minorities in various functions within advertising agencies as well as, to increase the advertising industry’s expenditures with minority and women-owned suppliers. One of the program’s primary roles is to thoughtfully initiate discussion among well-established agencies (serving as coaches) and business participants. Goals of the program are as follows: to build a base of qualified businesses that have the expertise and business acumen to perform a variety of advertising services, to increase the amount of work that minority and women-owned businesses are capable of winning and to increase the stability of these businesses by disseminating their work throughout the print production, broadcast production, interactive and operations sectors of the industry.

In addition, the AAF’s Mosaic Vendor Fair is designed to create opportunities in supplier diversity through the “C-Suite” roundtable discussions as well as, via business development workshops. This successful AAF program provides diverse and women-owned vendors the opportunity to connect with advertising agencies, advertisers and media companies.

In closing, if the advertising industry does not begin aggressively addressing supplier diversity and capitalizing on the opportunities that exist, then tighter government regulation could force the issue or negative public pressure could be applied. The advertising industry should want to be seen as leaders and stay ahead of the curve. The reality is that Congress is watching the industry closely. Companies should not approach diversity out of a negative sense of obligation, but engage in a positive and aggressive search for partners with unique and/or multiple capabilities. By doing this, companies will provide clients with world class creativity that only diverse suppliers can deliver—creating a win-win scenario.
Certification and Classification Standards in Supplier Diversity

In order for advertisers and advertising agencies to properly execute supplier diversity initiatives, they must have a clear understanding of vendor classifications. The following classifications are offered by the U.S. Small Business Association and can be found on their website at www.sba.gov/contractingopportunities/owners/glossary/index.html

**Small Disadvantaged Business Concern (SDB/DBE):** A Business Concern that has received certification as a small disadvantaged business concern consistent with 13 CFR 124, Subpart B and is listed on the register of small disadvantaged business concerns maintained by the SBA.

A small disadvantaged business concern is a small business concern that is at least 51 percent owned by one or more individuals who are socially and economically disadvantaged, or a publicly owned business that has at least 51 percent of its stock owned by one or more socially and economically disadvantaged individuals and that has management and daily business controlled by one or more such individuals.

**Woman-Owned Small Business Concern (WBC):** Women-owned small business concern means a small business concern that is at least 51 percent owned by one or more women. In a publicly owned business, at least 51 percent of the stock of which is owned by one or more women and the management and daily business operations are managed by one or more women.

**Woman-Owned Business Enterprise (WBE):** Certified women-owned businesses that are at least 51% owned, operated and controlled by a woman or women and is not a small business concern. The business has received minority certification from a third party certifier such as the city, state, or a regional women’s business council.

**HubZone Small Business Concern (HUBZone):** HUBZone Small Business Concerns are located in distressed communities in an effort to promote private sector investment and employment opportunities in these areas.

**Small Business Concern (SBC/SBE):** Small business concern is a concern, including its affiliates that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualified as a small business. In addition, a small business concern means a small business as defined pursuant to Section 3 of the Small Business Act and relevant regulations promulgated pursuant thereto. The company’s SIC or NAICS code determines whether annual revenues or number of employees is used to determine SBA “small business” should be referred to the following websites: www.sba.gov/size/ or contact the SBA Office of Size Standards at (202) 205-6618.

**Minority Business Concern (MBE):** A minority-owned business is a for-profit enterprise, regardless of size, physically located in the United States or its trust territories, which is owned, operated and controlled by minority group members. “Minority group members” are United States citizens who are Asian, Black, Hispanic and Native American. Ownership by minority individuals means the business is at least 51% owned by such individuals or, in the case of a publicly owned business, at least 51% of the stock is owned by one or more such individuals. Further, the management and daily operations are controlled by those minority group members.
Defining the Tier Structure in Supplier Diversity

As noted in the second roundtable meeting on April 29, 2010, there was vibrant discussion regarding defining the tier structure as it applies to vendors and prime suppliers in supplier diversity initiatives. For clarification purposes, the following lists the definitions of the tier structure agreed upon by roundtable attendees:

- **First Tier** Prime Supplier (A business that provides goods and services directly to a company).

- **Second Tier** Vendors they do business with. (A business that provides goods and services directly to a first tier supplier)

- **Prime Contractor** A business that provides goods and services directly to the government and their spending is reported as a direct spend by the government.

- **Subcontractor** A business that provides goods and services directly to the prime contractor but indirectly to the government. Their spending is reported as indirect spend by the government.