

# Supplier Diversity

# Economic Development

The supplier-diversity movement is gathering steam, and for good reason. Companies that use minority suppliers are learning that there are benefits to the bottom line, while community groups are seeing just how much the success of local businesses can help neighborhoods.

## The Changing Landscape

The effort to get businesses to source supplies from minorities and minority business entrepreneurs (MBEs) grew out of the 1960s civil rights struggle. Once basic rights were secured through the passage of the 1964 Civil Rights Act and the 1965 Voting Rights Act, attention turned to economic development. The initial focus was on education, training, and jobs—factors that remain critical. But today there is increased emphasis on business development.

Minority business development, at first essentially a social program, has morphed into an economic imperative thanks to a growing awareness of the economic clout of ethnic and racial minorities. Whereas corporations once promoted supplier diversity mainly as part of their corporate citizenship goals, today they talk about the business case.

Minorities represent a consumer segment that is hard for businesses to ignore. Consider that Latinos and

African Americans make up more than 25 percent of the U.S. population. The Department of Commerce projects that by 2025, California, New Mexico, and Texas will actually have “minority majority” populations—that is, populations in which traditional minorities are the majority. In New England, the Connecticut and Massachusetts populations are expected to be more than one-third minority in a few years. (See “The Growth of Minorities in America.”)

## Where Differing Needs Meet

The numbers of minorities are growing, and so are their economic resources. In 2007 total Latino income, for example, is expected to top \$1 trillion, with African Americans and Asians close behind. In relative terms, the combined incomes of U.S. Latinos, blacks, and Asians will exceed the gross domestic product (GDP) of all but the largest eight economies in the world. Minorities will increasingly matter to businesses.

## Minorities Need Assets

But economic resources do not necessarily translate to assets, and minorities’ low level of savings has been causing concern. A Federal Reserve study on minority wealth reports that the wealth gap between minorities and whites is signifi-

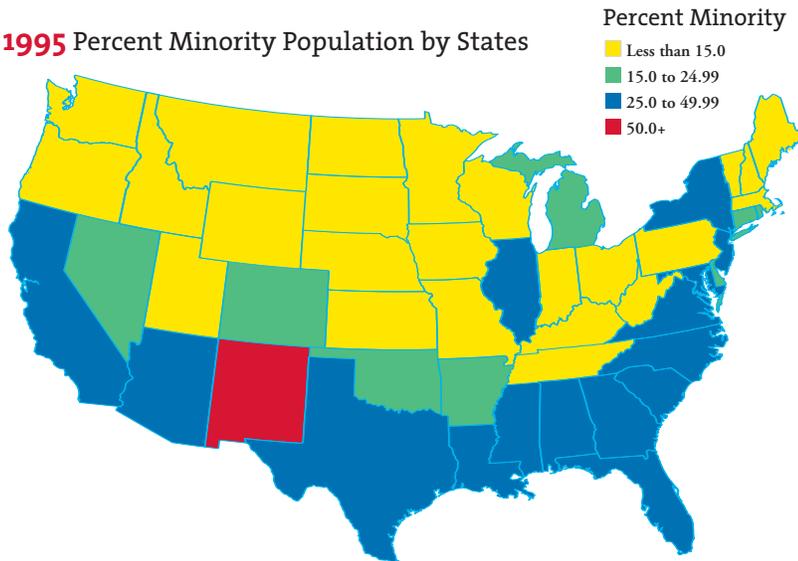
cant and growing. It notes the following disparities in the period 1998 to 2001:

- The gain in financial assets was \$100 for families of color and \$5,800 for white families.
- The net worth of typical families of color fell 4.5 percent to \$17,100, while white families’ net worth rose 17 percent to \$120,900.
- Overall the gap between the net worth of typical white families and families of color grew by 21 percent.
- Families of color added \$3,000 of installment debt, while white families added only \$1,000.<sup>1</sup>

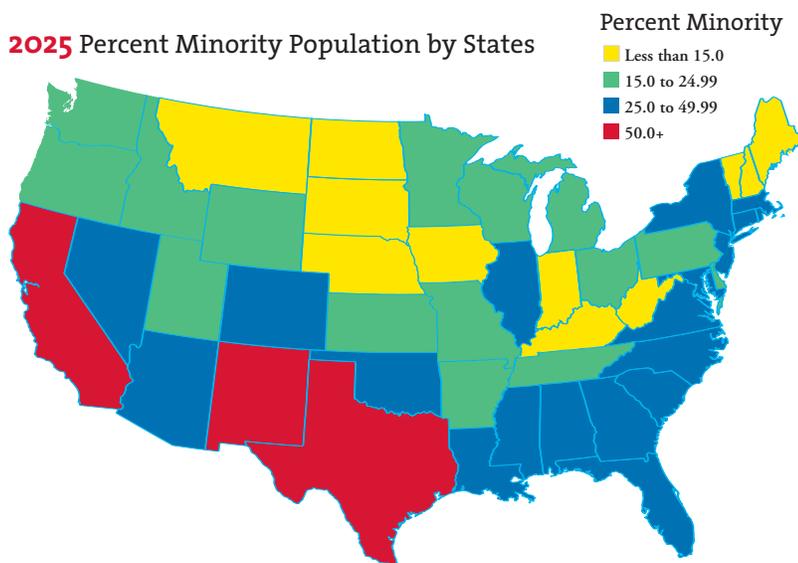
The conundrum of increased minority income combined with a growing wealth gap highlights the need for minority business development. There are many reasons: having equity in a healthy business helps individual families retain wealth; certified minority businesses hire and promote more minorities and thus boost the community; supporting diversity among small businesses may give corporations a better pool of innovators to work with; increasing minorities’ wealth may enable corporations to sell more to them; and a corporation’s corporate customers may prefer working with companies that use minority suppliers.<sup>2</sup>

# The Growth of Minorities in America

**1995** Percent Minority Population by States



**2025** Percent Minority Population by States



Source: U.S. Department of Commerce

## Businesses Need Minorities

Meanwhile, from the corporate point of view, why *not* source from minority businesses if it will help garner minority buyers' loyalty? They do have money to spend. According to the Target Market News, a black consumer market newsletter, black households had \$656 billion in earned income in 2003, an increase of 3.9 percent over the income earned in 2002.<sup>3</sup>

Blacks increased their purchase of big-ticket items in the same year, spending more than \$32 billion on cars and trucks, for example, \$23 billion on food, and \$18 billion on health-care products and services.

The size of the minority consumer market is one factor underlying the business case for companies. For example, at a Johnson Controls presentation in 2004, Ford's head of supplier diversity told listeners that after a national magazine ran an ad on Ford's use of certified

MBEs, a minister held the ad up before his large African American congregation and asked, "Why would you buy anything else?"

Similarly, in August 2006 at JPMorgan Chase & Company in New York, as senior executives gave their Fortune 1000 suppliers advice on submitting business proposals, they pointed out that supplier diversity contributed as much as 7 percent to JPMorgan's evaluation. The vice president for supplier diversity stated that 7 percent often made the difference between winning or losing a contract.

So companies are realizing that not only do consumers care about the role that corporations play in local communities but increasing numbers of large business customers consider minority suppliers strategically important. That is one reason the National Minority Supplier Development Council (NMSDC) was established in 1972 with the stated goal "to provide a direct link between Corporate America and the certified minority business community."

Today, the NMSDC and its 39 regional affiliates have 3,500 corporate members and 15,000 certified minority business entrepreneurs conducting more than \$80 billion in business with one another. The Connecticut Minority Supplier Development Council often gets inquiries from companies whose major customers have requested information about their purchasing with certified minority suppliers (MBEs) and who want to identify MBEs.

Nevertheless, according to the most recent national Minority Business Development Agency study, "The State of Minority Business Enterprises," the 4.1 million minority businesses' combined annual receipts amounted to only 8 percent of all business receipts in 2002.<sup>4</sup> There is still a long way to go.

## One Minority Business

The realities of today's marketplace (corporations' outsourcing, lean process management, strategic sourcing, and the like) are forcing minority business entrepreneurs to take on new roles and increase efficiency. Their success will be



istockphoto.com



Rik Pierce



istockphoto.com

instrumental in closing the wealth gap and improving minority communities.

The Community's Bank of Bridgeport is an example of a minority business that is improving neighborhoods both on its own and by being a supplier of services to other banks that help communities. When Fleet Bank (now Bank of America) merged with Bank of Boston in October 1999, several branches were divested, creating an opportunity for Peter Hurst, a former Federal Reserve attorney, to create a community bank. The Community's Bank, which has been certified with the Connecticut Minority Supplier Development Council, is the only minority-owned bank in Connecticut.<sup>5</sup>

The bank's mission is to provide consumers, nonprofits, and small businesses in Connecticut's urban markets with financial and intellectual capital. It offers both brick-and-mortar banking and online banking. It also offers commercial loans to promote entrepreneurship, residential real estate loans to promote home ownership, and a variety of deposit products to promote savings. It provides intellectual capital by sponsoring and leading seminars on financial leadership, first-time home-buying, and wealth creation.

The bank is certified by the U.S. Treasury Department as a community development financial institution (CDFI), signifying that its primary mission is community and economic development.<sup>6</sup> As a CDFI and a member of a nationwide network of community banks called Certificate of Deposit Account Registry Service ([www.CDARS.com](http://www.CDARS.com)), it can supply many depository institutions with services.

The Community's Bank helps Bridgewater Savings in Massachusetts, for example, to make a \$2 million deposit, receive a risk-free return on its investment, become eligible to apply for a Bank Enterprise Award equal to 6 percent of the deposit—and qualify for credit under the Community Reinvestment Act.

The Community's Bank itself received a Bank Enterprise Award in 2004 of more than \$300,000 for its lending activities in distressed neighborhoods of Bridgeport, Hartford, and New Haven.

---

**Fred McKinney, Ph.D.**, is the president of the Connecticut Minority Supplier Development Council, based in Hamden, Connecticut ([www.cmsdc.org](http://www.cmsdc.org)). He serves on the Federal Reserve Bank of Boston's Community Development Advisory Council.

### Endnotes

<sup>1</sup> See <http://www.federalreserve.gov/pubs/oss/oss2/about.html> for 2001 to 2004 data analysis.

<sup>2</sup> Steven D. Jones, "Benefits of Supplier Diversity May Go Beyond 'Social Good,'" *The Wall Street Journal*, August 21, 2006, C3.

<sup>3</sup> See <http://www.targetmarketnews.com/BuyingPower04.htm>.

<sup>4</sup> U.S. Department of Commerce, Minority Business Development Agency, *The State of Minority Business Enterprises: An Overview of the 2002 Survey of Business Owners*, August 2006.

<sup>5</sup> Minority businesses can become certified by completing an application with a regional NMSDC affiliate office, submitting the necessary supporting documents and agreeing to have a site visit done by NMSDC staff. The CMSDC has more than 250 certified MBEs in its council.

<sup>6</sup> For more on CDFIs, see Brandy Curtis, "An Overview of the CDFI Industry," *New England Community Developments*, issue 2 (2006): <http://www.bos.frb.org/commdev/necd/2006/q2/overview.pdf>.