

Operations Practice and the McKinsey Institute for Black Economic Mobility

Expand diversity among your suppliers—and add value to your organization

Companies can unlock more value in their supplier diversity programs by including higher-growth sectors and promoting diversity across the business ecosystem.

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Diversity helps to create better workplaces and to support higher performance and social advancement.¹ That's why governments and companies have focused for decades on boosting the diversity of their suppliers. They are making significant progress in categories such as facilities management, construction, staffing, and food services.²

But in some of the fastest-growing segments of the economy, a gap remains. Sectors such as financial services are often deemed out of scope for today's supplier diversity programs. For the 350 largest M&A transactions that closed in 2021, for example, none of the 118 investment firms serving as financial advisers or the 166 law firms serving as legal advisers were minority owned.³ Filling the supplier diversity gap in these and other professional-services sectors would benefit organizations, society, and the economy.

In this article, we discuss ways to close the gap. Our strategy emphasizes supplier partnerships with minority- and women-owned business enterprises (MWBEs) in sectors that are growing as the United States shifts to a professional-services economy. We also suggest ways to include indirect suppliers as part of the business ecosystem.

Diversity among suppliers benefits the economy

Increasing the diversity of suppliers has become more urgent at a time when social issues strongly influence business growth. Sixty-four percent of millennials say they won't work for companies that perform poorly on corporate social responsibility. Investors prioritize companies with a strong diversity, equity, and inclusion (DEI) strategy: 33 percent of assets under management from 2016 to 2018—totaling \$30-plus trillion—were invested with environmental, social, and governance (ESG) considerations in mind.⁴ The US government is also doubling down on supplier diversity. In 2021, the Department of Commerce made the Minority Business Development Agency permanent and expanded its mandate to coordinate and partner with MWBEs.⁵

Corporations spend 58 cents of every dollar in revenue on payments to suppliers and can therefore benefit by increasing their diversity.⁶ Leading companies know this: they have committed more than \$50 billion to partner with MWBEs over the next decade (Exhibit 1). An estimated 10,000 certified businesses owned by minorities, women, LGBTQ+ people, veterans, and the disabled earn \$10 million a year or

Sixty-four percent of millennials say they won't work for companies that perform poorly on corporate social responsibility.

¹ Sundiatu Dixon-Fyle, Kevin Dolan, Vivian Hunt, and Sara Prince, "Diversity wins: How inclusion matters," McKinsey, May 19, 2020.

² A diversely owned supplier is a business that is at least 51 percent owned and operated by a woman, a racial or ethnic minority, a member of the LGBTQ+ community, a veteran, or a disabled person.

³ Analysis of listed financial and legal advisers in M&A transactions greater than \$1 billion from S&P Capital IQ; the Supplier.io database of US suppliers that are owned by minorities, women, LGBTQ+ people, veterans, or disabled people and had annual revenues over \$10 million as of March 2022.

⁴ Procensus investor survey, April 2020; Rebecca Ungarino, "A new survey of 159 pro investors shows experts are looking to buy stocks again. Here's what 9 of them had to say about where they're putting money to work," Business Insider, April 2, 2020.

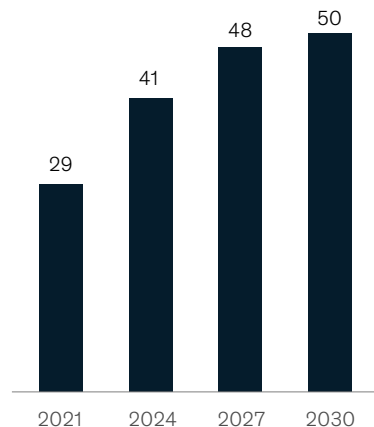
⁵ US Department of Commerce Minority Business Development Agency (MBDA).

⁶ Michael Birshan, Sean Brown, Clarisse Magnin-Mallez, "The corporation in the 21st century," November 12, 2021.

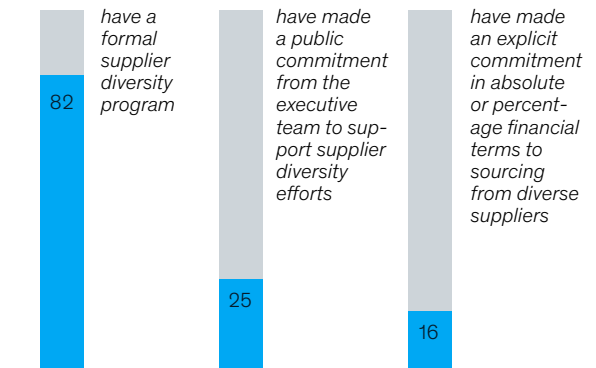
Exhibit 1

US companies have committed more than \$50 billion to minority- and women-owned businesses over the next ten years.

Fortune 200 US publicly traded companies' spend commitments for supplier diversity,¹ \$ billion



Fortune 200 US publicly traded companies' commitment to supplier diversity,¹ %



¹Commitment dollars reflect public announcements made from Jan 2020 to Mar 2022 from top 200 publicly traded US companies. Commitments are a conservative estimate because not all companies publicize their goals, or publicize only a percentage goal (not included here). Multiyear goals are assumed to ramp up evenly from announcement year to target year and hold steady each year thereafter.

more and are ready to compete for business (Exhibit 2).

MWBEs have shown that they can have a positive impact on the economy. They offer their corporate partners year-over-year cost savings of 8.5 percent,⁷ considerably more than the 3 to 7 percent annual procurement savings that most organizations realize.⁸ A McKinsey survey of 76 MWBEs shows that they are 67 percent more likely to hire minority talent than the average for US companies and to hire more minorities at the highest levels.⁹ SDI International, for example, is a global procurement solutions firm owned by minorities and women. Sixty-five percent of its global management

team are minorities, women, or both. The US average is 38 percent.¹⁰

If spending with certified MWBEs doubled, to \$2 trillion, from the current estimate of \$1 trillion, that could generate \$280 billion in additional income and four million jobs for minority populations and women. About 210,000 of those new jobs would be in executive and management positions—which emphasizes the role MWBEs play in stimulating wealth creation and improving intergenerational outcomes: for example, children from high-income families are six times more likely to graduate from college,¹¹ and families are 58 percent more likely to have health insurance when household incomes

⁷ McKinsey survey of procurement leaders at US corporations with more than \$250 million in revenues (n = 163).

⁸ McKinsey global procurement excellence benchmarking research.

⁹ Based on McKinsey survey of businesses owned by minorities, women, LGBTQ+ people, veterans, or disabled people (n = 76).

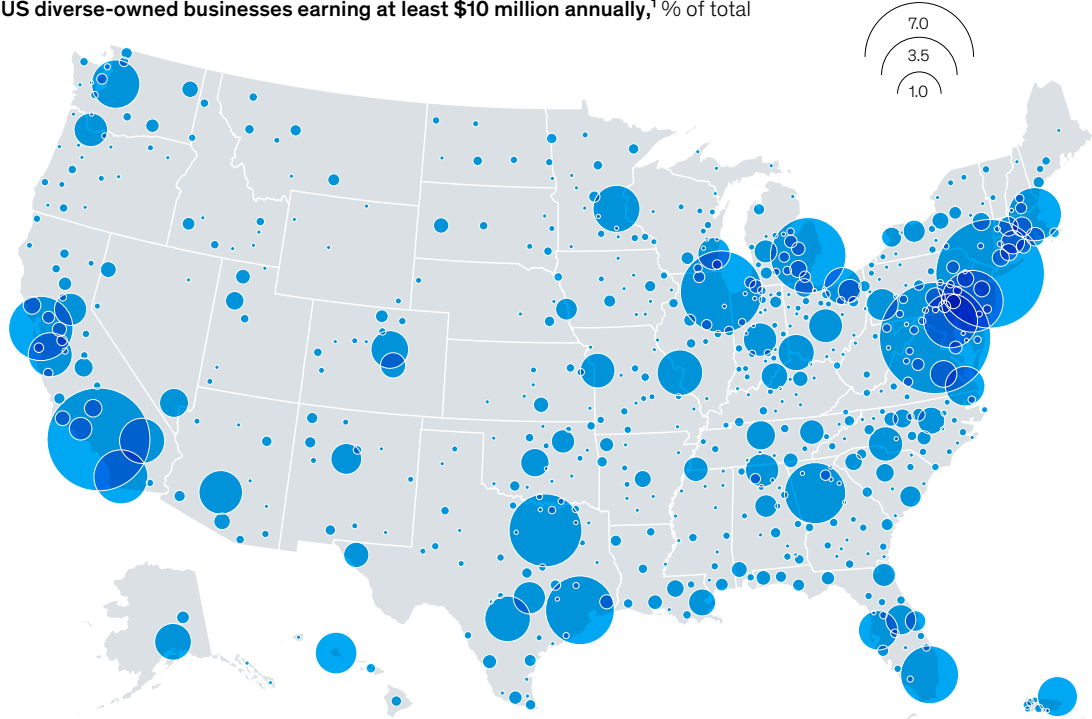
¹⁰ Interview with SDI International, March 14, 2022; US average from *Women in the Workplace 2021*, LeanIn.Org and McKinsey, 2021.

¹¹ Martha J. Bailey and Susan M. Dynarski, "Gains and gaps: Changing inequality in US college entry and completion," No. w17633, National Bureau of Economic Research, 2011. This compares families with top-quartile household incomes and families with bottom-quartile incomes.

Exhibit 2

Leaders looking to increase supplier diversity in the United States can choose among thousands of potential partners.

US diverse-owned businesses earning at least \$10 million annually,¹ % of total



¹Minority- and women-owned business enterprises (MWBEs) include businesses owned by women, racial or ethnic minorities (Black/African American, Asian, Hispanic or Latino, Native Hawaiian and other Pacific Islander, and American Indian or Alaska Native), members of the LGBTQ+ community, veterans, and/or disabled persons. Includes businesses certified by 3rd-party councils (eg, National Minority Supplier Development Council, Women's Business Enterprise National Council), and federal, state, and local entities.

Source: Supplier.io database of US suppliers that are owned by minorities, women, LGBTQ+ individuals, veterans, and/or people with disability and have revenues of >\$10 million as of March 2022

rise above \$75,000.¹² And every \$1,000 increase in household income raises the employment levels of young adults in those families by 1 percent.¹³

Corporations have even greater potential to generate value as the United States shifts to a professional services-oriented economy. Professional and business services, real estate, finance, insurance, and IT accounted for about 40 percent of GDP in 2020, up from 35 percent in 2000. Yet some of these high-growth sectors remain low priorities for even the most mature supplier diversity programs: less than

10 percent of companies rank finance and insurance among their top spending areas for supplier diversity, for example (Exhibit 3).

Finance, IT, legal, and engineering are high-paying sectors in which minorities are underrepresented. Black Americans are overrepresented in occupations with the highest rates of displacement by automation and underrepresented in categories with the lowest rates (Exhibit 4). Expanding the scope of supplier diversity would create more jobs for minorities in

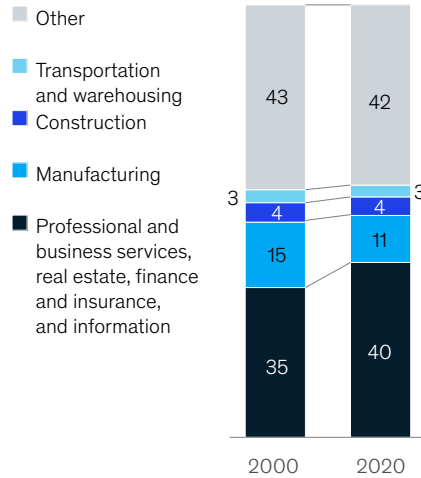
¹² Compared with households earning less than \$50,000. Carmen DeNavas-Walt, Cheryl Hill Lee, and Bernadette D. Proctor, *Income, Poverty, and Health Insurance Coverage in the United States*, Diane Publishing, 2006.

¹³ Additional income earned during years 13 to 18 and employment of young adults 22 to 28 years of age. Jacob Bastian and Katherine Michelmore, "The long-term impact of the earned income tax credit on children's education and employment outcomes," *Journal of Labor Economics*, 2018.

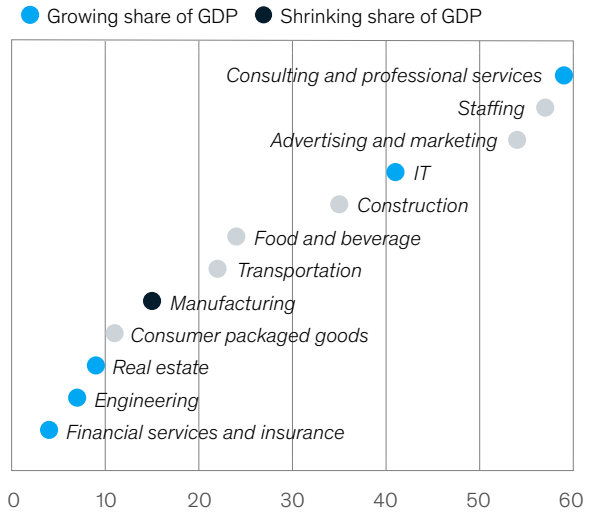
Exhibit 3

Even as the industries that spur US economic growth shift, supplier diversity programs often underweight high-growth sectors.

Portion of GDP, by industry,¹ %



Top spend categories for mature supplier diversity programs,² % of companies



¹US Bureau of Economic Analysis, 2000 and 2020 GDP.

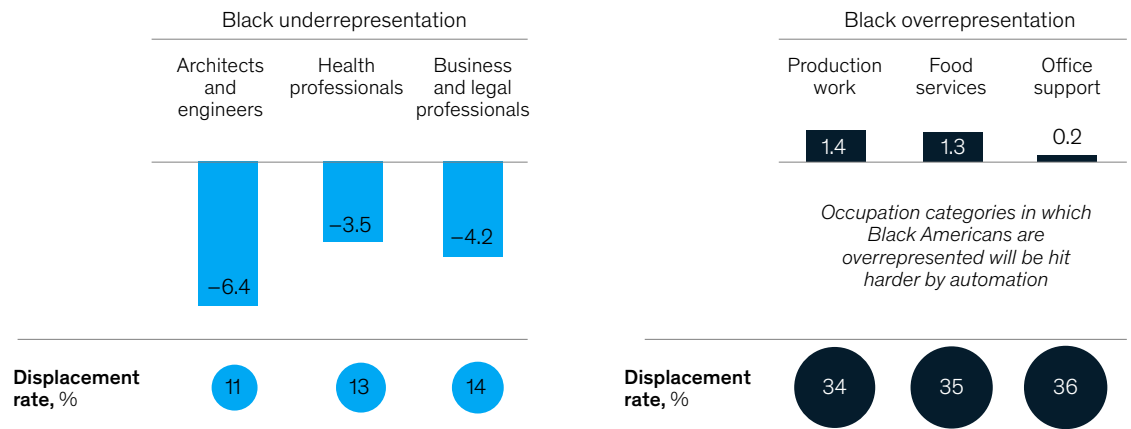
²Mature supplier diversity programs are defined as at least 10 years old.

Source: Supplier.io survey of companies with supplier diversity programs

Exhibit 4

Black Americans are more likely to be in jobs that are vulnerable to displacement by automation.

Black Americans in occupation categories with highest and lowest expected displacement, %



Source: US Bureau of Labor Statistics; US Census Bureau; McKinsey Global Institute Future of Work database

higher-wage sectors and in roles less likely to fall prey to machine learning and AI.

MWBEs do exist in each of the sectors that we suggest prioritizing for next-generation supplier diversity programs (Exhibit 5): for example, 20-plus MWBE investment firms specialize in M&A and more than 50 MWBE law firms list M&A as a practice area. Given the opportunity, some of these could have participated in the M&A transactions noted earlier.¹⁴

When MWBEs in higher-growth sectors are in scope for supplier diversity programs, communities benefit in multiple ways. One is higher incomes. In these sectors, MWBEs pay, on average, 48 percent more than companies in traditional sectors. Communities also benefit through philanthropy: for instance, a Black-owned mutual fund not only operates a public school on the south side of Chicago for prekindergarten through eighth grade but also sponsors financial-literacy programs for the Black community.

Higher-growth sectors account for nearly 40 percent of GDP, so if 40 percent of the \$50 billion that companies have already committed to MWBEs went into these sectors, this would equate to \$20 billion in revenues for MWBEs and generate some 190,000 jobs and \$15 billion in income for minority communities.¹⁵

Partnerships with MWBEs create value

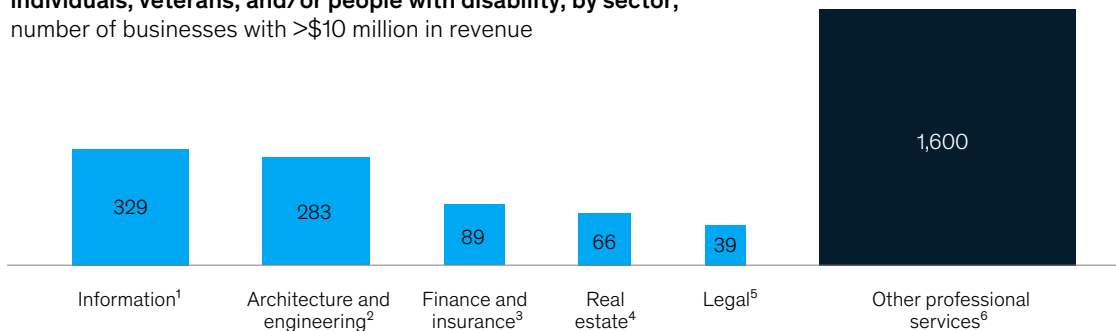
In the business ecosystems of many companies, not all players are direct suppliers. Inviting more MWBEs to compete for this business increases innovation, competition, and resilience throughout the value chain and unlocks additional value. Partnerships in a business ecosystem can take various forms, including these:

Channel partners. Diversely owned resellers sell or distribute a company's products to end consumers. For example, SHI International, an MWBE technology reseller, partnered with a leading commercial-insurance company to migrate its voice

Exhibit 5

Companies can find many diverse suppliers in historically underrepresented sectors.

Business enterprises owned by minorities, women, LGBTQ+ individuals, veterans, and/or people with disability, by sector, number of businesses with >\$10 million in revenue



¹North American Industry Classification System (NAICS) industry: information. ²NAICS industry: architectural, engineering, and related services. ³NAICS industry: finance and insurance. ⁴NAICS industry: real estate. ⁵NAICS industry: legal services. The National Association of Minority & Women Owned Law Firms also lists more than 200 law firms of varying sizes. ⁶NAICS industry: professional, scientific, and technical services, excluding legal services and architectural, engineering, and related services. Source: Supplier.io database of US suppliers that are owned by minorities, women, LGBTQ+ individuals, veterans, and/or people with disability and have revenues of >\$10 million as of March 2022

¹⁴ Supplier.io database, March 2022.

¹⁵ Based on analysis from a McKinsey survey of businesses owned by minorities, women, LGBTQ+ people, veterans, and disabled people (n = 76).

Expanding the scope of supplier diversity would create more jobs for minorities in higher-wage sectors and in roles less likely to fall prey to machine learning and AI.

and contact-center legacy solution to 8x8, a cloud communications platform.¹⁶

Platform partners. Companies highlight their MWBE business partners on their platforms—for instance, major retailers promote products from Black-owned brands on their websites and in their stores.

Strategic relationships. MWBEs can provide complementary services. EQ Office, for example, recommends vendors for leasehold improvement projects before customers move into office spaces. “There are huge opportunities for real-estate owners and investors to share resources that influence that decision: we definitely have a role to play in qualifying, recommending, and increasing the opportunities for diverse businesses,” says Charlie Hobey, managing director of product and operations at EQ Office.

Joint ventures and investments. These can take a variety of forms, such as partnering with MWBEs to build new business ventures, directly investing in and helping MWBEs to grow, or partnering with MWBE investment firms. For example, Rush Group, a minority-owned enterprise, and Faurecia, a major French automotive supplier, have formed a joint venture to take over interior-trim production for key Ford vehicles.¹⁷

Industry groups. As industry organizations and coalitions convene corporate members, there is an opportunity to promote the success of MWBEs within or adjacent to that industry so that they can become partners for corporations.

A diverse business ecosystem has multiple benefits for corporations. MWBE partners can help companies access more geographies, demographics, and contracts. MWBE-owned products on retail shelves can attract consumers. A retailer offering products from MWBE-owned brands can appeal to \$300 billion in unmet spending demand from Black consumers.¹⁸

What’s more, MWBE partners help drive innovation. When the COVID-19 pandemic hit, an automotive manufacturer came to V2Soft, a minority-owned IT services and consulting firm, for help building a platform to start selling the manufacturer’s vehicles online. V2Soft helped launch a portal for multiple brands of vehicles, and sales increased by 10 to 15 percent through the online platform. “It is one indication of how we as an MBE¹⁹ were able to innovate and bring in a solution to help a large company manage their sales and help their bottom line,” says Varchasvi Shankar, V2Soft’s CEO.

¹⁶ “Case Study: Leading U.S. commercial insurance provider improves customer experience with 8x8 cloud solution,” SHI International Corp, accessed April 2022.

¹⁷ “Rush Group and Faurecia announce joint automotive manufacturing venture in Detroit,” PR Newswire, May 3, 2012.

¹⁸ Michael Chui, Brian Gregg, Sajal Kohli, and Shelley Stewart III, “A \$300 billion opportunity: Serving the emerging Black American consumer,” McKinsey, August 6, 2021.

¹⁹ Minority Business Enterprise.

Finally, partnering with MWBEs showcases a company's commitment to diversity, equity, and inclusion. It fosters goodwill (for instance, employee satisfaction and a positive brand reputation) and satisfies regulatory scrutiny while strengthening a company's impact and presence among diverse communities.

How to create a supplier ecosystem with MWBEs

Several organizations help businesses form partnerships with MWBEs. Further, a range of best practices can advance traditional supplier diversity efforts. Industry certification bodies and nonprofits provide best-practice playbooks to increase the impact of these efforts. Here are some important levers to consider:

Everything is in scope. Take a step back and examine categories that have traditionally been out of scope or deprioritized for inclusion in supplier diversity efforts. Also, examine your current partnerships in the broader value chain to identify where you could engage MWBEs.

Track the diversity of your business ecosystem. In addition to tracking traditional supplier diversity measures, understand and publicize how your organization is forming partnerships with MWBEs across the entire value chain. These may not always be direct supplier relationships or a single budget item.

Rethink governance and resourcing. Ensure that your organization, operating model, and resourcing are set up to promote partnerships with MWBEs across the entire value chain, not just with suppliers. Establish accountable leaders, targets, priorities, and reporting cadences that encourage diversity in all types of business partnerships.

Improve your existing supplier diversity efforts. Take stock of where your program is today and where you can have the greatest impact by expanding beyond your current efforts—for example, improving the management of your program and

increasing expenditures for products and services from MWBE tier-two suppliers.

Build MWBEs in areas of economic growth. As the economy shifts in new directions, look for opportunities to partner with and foster MWBEs in emerging areas of growth, where new players will be needed. “We have to build a much more diverse supplier base in areas where there's room to add players—it can't be a commodity industry that's so squeezed that no diverse business is ever going to overcome the inherent scale disadvantages they have from 50 or 100 years of all that's gone on in the past,” says E. Scott Santi, chairman and CEO of Illinois Tool Works and chair of the Commercial Club of Chicago's Civic Committee.

Invite more stakeholders to the table. While procurement and DEI teams are most often the locus of supplier diversity programs, spending decisions are made across the organization. Invite functional leaders outside DEI to be the company's face of supplier diversity in internal and external forums.

Form long-term partnerships. Supplier diversity is akin to business development: much as your existing supplier relationships took time to develop and grow, not all MWBE partnerships will be quick wins. Commit to building relationships through mutual learning, smaller-scale pilots, and, eventually, broader partnerships.

At Merck, for example, a minority-owned managed-services provider handles employee benefits. The engagement started as a pilot on a small project before being scaled up. “They have been amazing to work with,” says Raul Suarez-Rodriguez, Merck's director of global economic inclusion and supplier diversity. “Savings have been put on the table. Risk factors were mitigated. There's truly tremendous success.”

Review internal barriers that may preclude MWBEs from competing for your business. MWBEs come ready to compete. However, you should recognize the unintentional barriers they may face. Smaller MWBEs can satisfy rigorous information security

requirements, for example, but may need more time to do so during the request-for-proposal process.

“We continuously seek to identify internal barriers to entry for diverse suppliers in our supply chain and help them through those barriers,” says Vonshe Jenkins, senior vice president of global supplier diversity and responsible sourcing at Bank of America. “For example, like many large financial institutions, our vendor-onboarding process includes rigorous information security requirements. These requirements can pose time and resource challenges for diverse businesses and can be detrimental to their ability to compete most effectively during vendor selection. The requirements also created a false perception that diverse vendors couldn’t meet our information

security standards. To address this, we implemented tactics to help diverse vendors on the information security path early in the process, so that when it’s time for them to compete, they are ready to go.”

No doubt, traditional diversity programs generate considerable corporate and socioeconomic benefits. But the US wealth gap will widen if MWBEs cannot compete in areas that have often been deemed out of scope or deprioritized for them. Best-in-class organizations should consider expanding their focus to MWBEs in sectors related to the professional-services economy and forming supplier partnerships with MWBEs across the entire business ecosystem to magnify the benefits to corporations, to MWBEs, and to communities alike.

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