



GSD&M

The Multiplier Effect of Supplier Diversity

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INTRODUCTION

For years, researchers have studied the positive impact that diversity in the workplace has on businesses that embrace DE&I policies. The purpose of this whitepaper is to delve into the ripple effect of corporate Supplier Diversity strategies in making an economic impact beyond the bounds of the procuring company by benefiting their communities through the Multiplier Effect. Our goal is to offer empirical evidence and support to those developing corporate diversity strategies by identifying the four pillars of community impact of Supplier Diversity and to provide a road map for identifying industries and metro areas that offer the most direct path to the economic benefits provided by the Multiplier Effect.

By definition, a Supplier Diversity program is a proactive business program coupled with inclusive procurement practices that provide opportunities for and use of diverse and underrepresented suppliers defined as minority-owned, women-owned, veteran-owned, LGBT+-owned, service-disabled veteran-owned, historically underutilized

business and disability-owned, along with the Small Business Administration (SBA) suppliers defined as small business concerns.

Supplier Diversity programs help foster jobs and economic activity in underrepresented segments of the business and customer community. Inclusive procurement practices provide opportunities to diverse businesses that in turn provide greater representation, employment and economic advancement for minority, women, veteran and LGBT+ communities.

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I. THE ECONOMIC RIPPLE EFFECTS OF SUPPLIER DIVERSITY

When the combined effects of these activities are analyzed, the impact of spending with any given company is greater than direct purchases made from the company itself. This is because money spent with that diverse company is spent again on payroll, goods and services, and with other Tier 2 suppliers in its supply chain. Employees use their salaries to purchase goods and services from other businesses. Still, there are additional businesses and their suppliers who similarly invest the proceeds from their sales on their employees and other businesses. A chain reaction of indirect and induced spending continues. This amalgamated spending creates a Multiplier Effect in the local economy through additional purchases made by suppliers and their employees. This helps the communities where they live and work continue to grow and prosper, hence the Multiplier Effect.

In addition, Scott A. Vowels, PhD and author of *Hacking Supplier Diversity* writes that the Multiplier Effect ensures revenue generated turns within the community more than one time. When you hire a diverse supplier, they in turn hire employees and purchase goods and services with revenue that remains in the community. Purchases made by a diverse supplier are representative of other firms that must then also purchase goods and services and hire people to meet the new demand derived from the diverse supplier community. The additional hiring to meet this increased demand means that more people have income that they will use to purchase goods and services for their households and families. A chain reaction and ripple effect of indirect and induced spending continues, thus the Multiplier Effect (see illustration below).

The Multiplier Effect of Supplier Diversity



The process that lies behind the Multiplier Effect is focusing on the extra demand and incomes created.

Hire a diverse supplier, who in turn hires employees. Diverse suppliers then purchase goods and services from within the community. This ensures that the revenue generated turns within the community more than one time.

All of this brings added sales to businesses in the community. The net effect is that diverse supplier sales dollars are recycled in the community through the process of sales once again, requiring additional purchases and increased employment that results in sales for other businesses that must in turn use that money to make their own purchases and hire

additional people. Furthermore, the federal, state and local taxes generated by this cycle of higher wages and increased sales can provide additional economic benefits to the diverse communities where they are being generated, presuming officials are held accountable for the beneficial spending of those tax dollars.

II. METRICS FOR UNDERSTANDING THE MULTIPLIER EFFECT

The Billion Dollar Roundtable (BDR) is an organization created to recognize and celebrate corporations that have achieved spending of at least \$1 billion with minority- and woman-owned suppliers. Since its formation in 2001, the BDR has recognized 28 companies that have achieved this goal. Sharon Patterson, President and CEO of BDR, observes that the importance of measuring economic impact in Supplier Diversity varies from corporation to corporation. “For some, it is a way to demonstrate to public sector stakeholders and the general public the significant impact that corporations are making through their spending. For others, it is a way to demonstrate that Supplier Diversity spend impacts the corporate bottom line by not only saving money but also stimulating additional demand for a corporation’s products and services” (BDR Press Release [June 15, 2020]).

BDR’s research shows the economic impact of corporate supply-chain investments by creating a doubling of dollars flowing into regions in which diverse businesses operate through job creation, wealth building and community development. Simply stated: “...when our minority businesses succeed and grow, they hire minorities and invigorate communities with indispensable new resources” (BDR Press Release [June 15, 2020]).

In addition, CVM Solutions, a supplier.io company, describes measuring economic impact and demonstrating the Multiplier Effect of partnering with diverse suppliers as a powerful tool for increasing stakeholder buy-in. Demonstrating how economic impact promotes a strong, sustainable supply chain gives

stakeholders compelling reasons to not only support but champion your Supplier Diversity program. It is a measurement of how doing business with small and diverse companies generates revenue, income and jobs and how that activity impacts the local economy captured via the four types of economic impact noted below.

Output Effect

A measure of revenues generated by small and diverse suppliers within your supply chain

Income Effect

A measure of total income generated with small and diverse suppliers within your supply chain

Employment Effect

A measure of the number of jobs created as a result of the business activities of small and diverse businesses within your supply chain

Tax Effect

A measure of federal, state and local business and personal taxes that are supported through economic activity

Many companies are adopting these four economic impact metrics to provide empirical evidence of the difference their Supplier Diversity efforts are making in their local communities. For example, PG&E’s 2019 Supplier Diversity Impact Report underscores the Multiplier Effect and how Supplier Diversity helps foster jobs and economic activity in underrepresented segments within the business environment and customer community. Inclusive procurement practices provide opportunities to diverse businesses that in turn provide greater representation, employment and economic advancement for minority, women, veteran and LGBT+ communities.

Simply stated: “...when our minority businesses succeed and grow, they hire minorities and invigorate communities with indispensable new resources.”

PG&E Impact Report Metrics

OUTPUT EFFECT

In 2019, PG&E’s engagement with small and diverse businesses led to over **\$6.8 billion** in contributions to the U.S. economy.

INCOME EFFECT

PG&E’s **\$2.6 billion** in wages supported the cumulative earnings of the employees in the jobs supported through their Supplier Diversity purchases.

EMPLOYMENT EFFECT

PG&E’s engagement with small and diverse businesses sustained **44,863** U.S. jobs within their supply chains and in their communities.

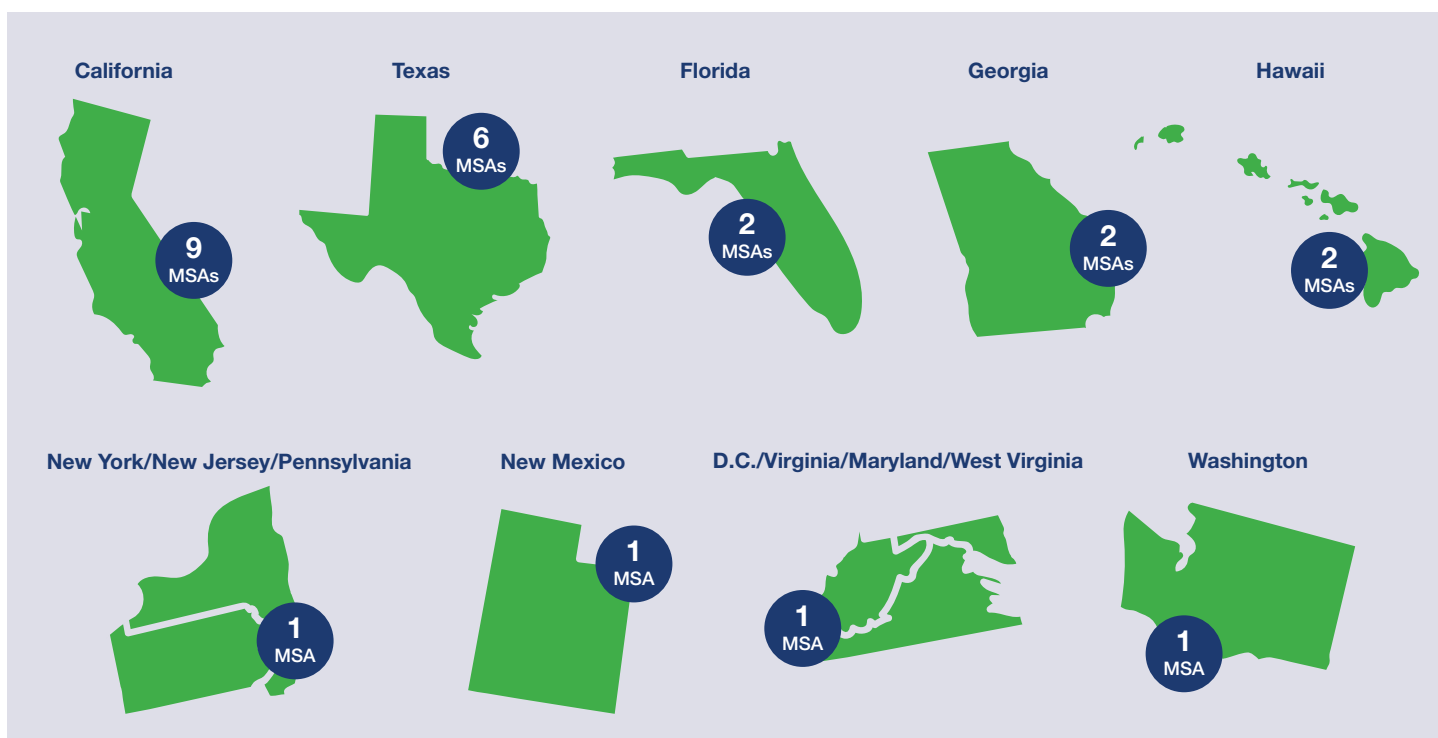
TAX EFFECT

PG&E’s economic activities generated **\$2.4 billion** in taxes in the form of personal and business taxes which in turn supported community investments.

III. METRO AREAS WITH THE HIGHEST CONCENTRATION OF MINORITY-OWNED FIRMS

The following data compiled by EthniFacts—a research, insights and strategic guidance firm—examines where diverse firms are most heavily concentrated and what industries can have the most immediate impact on raising median wages for minority communities in the United States and specifically in the top 25 MSAs with the highest percentage of minority-owned firms per 100K residents.

The top five metropolitan statistical areas in the U.S. with the highest concentration of minority-owned firms fall into four different states. Laredo (TX), Miami (FL), Honolulu (HI), San Jose (CA) and the Los Angeles (CA) MSAs are the top five metros when ranked by number of minority-owned firms per 100K residents in areas with at least 75K minority workers employed. The top 25 MSAs in the U.S. with the highest concentration of minority-owned firms all fall primarily within nine states below:



EthniFacts, in partnership with GSD&M, has tabulated the latest data available from the U.S. Census in the American Community Survey (ACS) and the Annual Business Survey (ABS) and ranked both concentrations of minority-owned firms and the income earned by minority workers in various industries that operate in each metro area.

While the number of minority workers employed in the U.S. is somewhat in line with the percentage they comprise of the total population at about 38% of workers versus 40% of the total population, the median income of minorities lags well behind the total population by about 10%. San Francisco, New York and D.C. have the largest income gaps where minority workers earn only 83% of the total population median income.

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METROS WITH AT LEAST 75,000 MINORITIES EMPLOYED	MINORITY-OWNED FIRMS PER 100K RESIDENTS	TOTAL EMPLOYED		MINORITY EMPLOYED		% MINORITY INCOME VS TOTAL
		TOTAL EMPLOYED	MEDIAN WAGES + SELF EMPLOY INCOME	MINORITY EMPLOYED	MEDIAN WAGES + SELF EMPLOY INCOME	
United States	319	193,593,471	31,314	73,208,629	\$28,284	90%
Laredo, TX	1010	137,611	24,243	132,170	24,041	99%
Miami-Fort Lauderdale-West Palm Beach, FL	995	3,563,435	30,304	2,503,860	27,274	90%
Urban Honolulu, HI	936	596,256	36,365	478,949	36,365	100%
San Jose-Sunnyvale-Santa Clara, CA	886	1,193,099	50,507	818,010	48,487	96%
Los Angeles-Long Beach-Anaheim, CA	831	7,804,464	32,325	5,343,348	30,304	94%
San Francisco-Oakland-Hayward, CA	731	2,984,345	50,507	1,773,354	41,921	83%
New York-Newark-Jersey City, NY-NJ-PA	624	11,756,316	40,406	6,140,439	33,335	83%
McAllen-Edinburg-Mission, TX	615	418,864	20,203	395,363	20,203	100%
El Paso, TX	615	453,782	23,233	396,743	22,526	97%
Kahului-Wailuku-Lahaina, HI	612	145,909	32,325	98,091	31,618	98%
Brownsville-Harlingen, TX	580	199,884	21,819	182,328	21,011	96%
Washington-Arlington-Alexandria, DC-VA-MD-WV	557	3,931,520	46,467	2,117,189	38,790	83%
Savannah, GA	522	178,198	25,254	89,233	23,334	92%
Orlando-Kissimmee-Sanford, FL	510	1,502,127	30,203	805,708	25,254	84%
Oxnard-Thousand Oaks-Ventura, CA	500	497,455	33,739	262,743	30,304	90%
San Diego-Carlsbad, CA	486	2,012,016	34,345	1,062,810	30,304	88%
Houston-The Woodlands-Sugar Land, TX	484	4,125,942	32,325	2,567,860	29,294	91%
Salinas, CA	476	282,506	28,587	188,361	25,254	88%
Riverside-San Bernardino-Ontario, CA	457	2,483,712	30,304	1,695,280	28,284	93%
Atlanta-Sandy Springs-Roswell, GA	454	3,575,662	35,355	1,874,343	30,304	86%
Corpus Christi, TX	435	270,064	27,274	175,868	25,254	93%
Vallejo-Fairfield, CA	432	262,017	37,577	159,893	33,739	90%
Stockton-Lodi, CA	428	402,370	30,304	272,315	28,284	93%
Albuquerque, NM	417	543,091	28,284	326,649	25,254	89%
Seattle-Tacoma-Bellevue, WA	414	2,562,192	43,436	940,585	38,386	88%

Data compiled by EthniFacts from 2019 ACS and 2018 ABS

Highest Indexing Industries for Minority Median Income in that Industry vs. Total Minority Median Income by MSA	Minority-Owned Firms per 100k residents	Median Wages + Self Employ Income for Minorities in Industry Compared to Median Wages + Self Employ Income for Minorities in Metro							
		Mining	Utilities	Admin/ Public Admin	Information	Finance and Insurance/ Real Estate	Military	Manufacturing	Wholesale Trade
United States	319	214	200	164	152	150	125	123	118
Laredo, TX	1010	168	231	176	47	134	--	143	147
Miami-Fort Lauderdale-West Palm Beach, FL	995	93	156	174	148	141	85	108	119
Urban Honolulu, HI	936	506	203	158	97	122	117	93	97
San Jose-Sunnyvale-Santa Clara, CA	886	--	150	125	308	125	108	167	90
Los Angeles-Long Beach-Anaheim, CA	831	183	257	153	167	150	136	113	107
San Francisco-Oakland-Hayward, CA	731	193	173	164	241	157	130	137	108
New York-Newark-Jersey City, NY-NJ-PA	624	152	197	173	182	182	136	115	118
McAllen-Edinburg-Mission, TX	615	294	225	200	120	130	90	200	120
El Paso, TX	615	291	215	188	108	135	135	112	148
Kahului-Wailuku-Lahaina, HI	612	--	99	179	188	96	155	16	144
Brownsville-Harlingen, TX	580	385	144	240	105	144	192	144	96
Washington-Arlington-Alexandria, DC-VA-MD-WV	557	135	156	211	154	146	156	113	99
Savannah, GA	522	--	173	139	106	114	221	104	14
Orlando-Kissimmee-Sanford, FL	510	400	152	160	136	132	--	140	136
Oxnard-Thousand Oaks-Ventura, CA	500	267	292	190	117	167	107	113	107
San Diego-Carlsbad, CA	486	10	267	183	150	150	117	150	133
Houston-The Woodlands-Sugar Land, TX	484	276	207	155	117	129	172	138	121
Salinas, CA	476	--	280	160	188	102	138	116	120
Riverside-San Bernardino-Ontario, CA	457	232	214	179	143	132	136	114	125
Atlanta-Sandy Springs-Roswell, GA	454	154	149	150	140	150	150	113	117
Corpus Christi, TX	435	160	212	168	58	140	152	192	122
Vallejo-Fairfield, CA	432	--	269	174	110	150	180	114	105
Stockton-Lodi, CA	428	200	136	182	64	143	--	125	116
Albuquerque, NM	417	324	175	160	156	128	180	132	160
Seattle-Tacoma-Bellevue, WA	414	92	158	145	316	118	74	132	105

Lowest Indexing Industries for Minority Median Income in that Industry vs. Total Minority Median Income by MSA	Minority-Owned Firms per 100k residents	Median Wages + Self Employ Income for Minorities in Industry Compared to Median Wages + Self Employ Income for Minorities in Metro								
		Health Care	Construction	Transportation and Warehousing	Prof/ Science/ Tech/ Mgmt of Co	Education	Ag/ Forest/ Fishing	Social Assistance	Services	Retail Trade
United States	319	114	108	108	107	100	71	71	71	68
Laredo, TX	1010	71	101	126	91	126	62	80	55	70
Miami-Fort Lauderdale-West Palm Beach, FL	995	119	111	111	106	111	61	67	74	78
Urban Honolulu, HI	936	139	139	125	97	106	31	56	81	64
San Jose-Sunnyvale-Santa Clara, CA	886	123	97	83	177	73	42	42	50	54
Los Angeles-Long Beach-Anaheim, CA	831	127	102	100	106	93	67	67	67	71
San Francisco-Oakland-Hayward, CA	731	120	100	96	164	75	36	53	63	59
New York-Newark-Jersey City, NY-NJ-PA	624	112	110	100	121	115	64	69	73	61
McAllen-Edinburg-Mission, TX	615	80	115	132	78	140	35	75	84	75
El Paso, TX	615	109	110	168	103	135	78	54	67	76
Kahului-Wailuku-Lahaina, HI	612	134	144	117	96	80	72	80	89	65
Brownsville-Harlingen, TX	580	82	120	162	92	173	111	71	67	67
Washington-Arlington-Alexandria, DC-VA-MD-WV	557	102	102	94	146	83	60	57	78	52
Savannah, GA	522	117	107	134	65	173	--	117	87	78
Orlando-Kissimmee-Sanford, FL	510	128	120	116	100	96	48	72	80	72
Oxnard-Thousand Oaks-Ventura, CA	500	117	108	117	117	90	67	60	83	67
San Diego-Carlsbad, CA	486	127	117	93	113	83	65	80	77	67
Houston-The Woodlands-Sugar Land, TX	484	121	108	116	103	100	69	62	69	66
Salinas, CA	476	148	152	140	108	144	80	92	80	72
Riverside-San Bernardino-Ontario, CA	457	132	134	107	96	87	64	69	79	71
Atlanta-Sandy Springs-Roswell, GA	454	120	97	103	117	120	40	73	70	72
Corpus Christi, TX	435	108	120	117	100	127	80	112	83	96
Vallejo-Fairfield, CA	432	135	125	90	144	114	51	36	75	57
Stockton-Lodi, CA	428	156	143	114	103	100	71	81	64	79
Albuquerque, NM	417	136	156	140	124	84	324	80	78	61
Seattle-Tacoma-Bellevue, WA	414	105	118	103	171	88	51	63	63	82

Data compiled by EthniFacts from 2019 ACS and 2018 ABS

IV. INDUSTRIES PROVIDING THE GREATEST IMPACT ON MINORITY WAGES

If the Multiplier Effect of Supplier Diversity is to have the long-term desired effect of raising the median income level of minority workers, there are certain industries that are accomplishing that goal much more rapidly than others. We created an index that shows the effect of employment in certain industries for minority workers in that industry versus median minority income within each of the top 25 MSAs with high concentrations of minority-owned firms. Industries such as mining (214—read as 114% higher than the median minority income), utilities (200), administration (164), information systems (152), finance/insurance/real estate (150), military (125), manufacturing (123) and wholesale trade (118) are providing minorities with incomes well above the median level of all minority occupations in the total U.S.

The Multiplier Effect is clearly in play in these industries and making a difference in minority income levels. However, there are lower-paying industries where the cycle of low-paying positions necessitating multiple jobs to make ends meet are perpetuating the cycle of lagging incomes. Industries such as

retail trade (68—read as 32% lower than the median minority income), services (71), social assistance (71) and agriculture/forestry (71) all lag the median income for minorities and are driving income levels down for minorities living in these metro areas. An emphasis on Supplier Diversity initiatives in higher-paying industries can have an immediate effect on income levels for minorities in the U.S., as can living-wage initiatives in the industries that fall well below the mean for paying minority employees in communities of color.

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CONCLUSION

Further analysis of individual MSAs where income gaps are largest provide a road map to industries that can make the biggest difference in minority median income levels. Jobs in the utilities industry in New York, information systems in San Francisco and administration in D.C. all have the highest indices for minority employee pay above the median level. Diverse supplier and employee initiatives in these metros in these industries can accelerate the Multiplier Effect and have the greatest impact.

The vicious circle of lower-paid jobs in too many industries perpetuates the cycle playing itself out in too many metro areas while higher-paid jobs in industries that overindex can help lift the community out of that cycle. Supplier Diversity initiatives in all industries, but especially in those industries where minority median incomes are much higher than the norm, can provide the

vehicle to increase minority jobs, income, spending power and tax contributions. The economic benefits of Supplier Diversity programs through the Multiplier Effect are clear, and companies that embrace these initiatives can make an impact in minority communities with far-reaching benefits.

Supplier Diversity initiatives in all industries, but especially in those industries where minority median incomes are much higher than the norm, can provide the vehicle to increase minority jobs, income, spending power and tax contributions.

About EthniFacts



EthniFacts is an insights provider focused on the role of culture in consumer behavior. Psychological science, statistical and demographic tools, and cultural savvy allow us to provide clients radical yet practical knowledge about today's volatile consumer environment.

We produce creative segmentation models that accurately unravel consumer behavior. Our thought leadership includes new paradigms on the CulturEdge,SM the dynamic spaces where culture sustainability, sharing, parity and rerouting are the new social currency.

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About GSD&M



In 1971, some recent University of Texas graduates didn't know you couldn't open a national ad agency in a little college town known primarily for hippies and armadillos. They hustled their way into some presentations, came up with some smart ideas and learned how to make money doing what they loved. And it worked. This courageous group helped the U.S. elect a president, launch an airline, turn Walmart into a global retail force and even gave Texas its rallying cry. Their bravery is now our modus operandi. Today we are a global agency in the music, food and "weird" capital of the world. We've won the Super Bowl, cleaned up at Cannes and continue to help iconic brands win every day. We live by our core values and believe an agency should be able to think like the diverse, multicultural world that it's talking with. We think it's better to be honest than cool. We also play foosball in the agency bar and eat breakfast tacos for dinner.

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