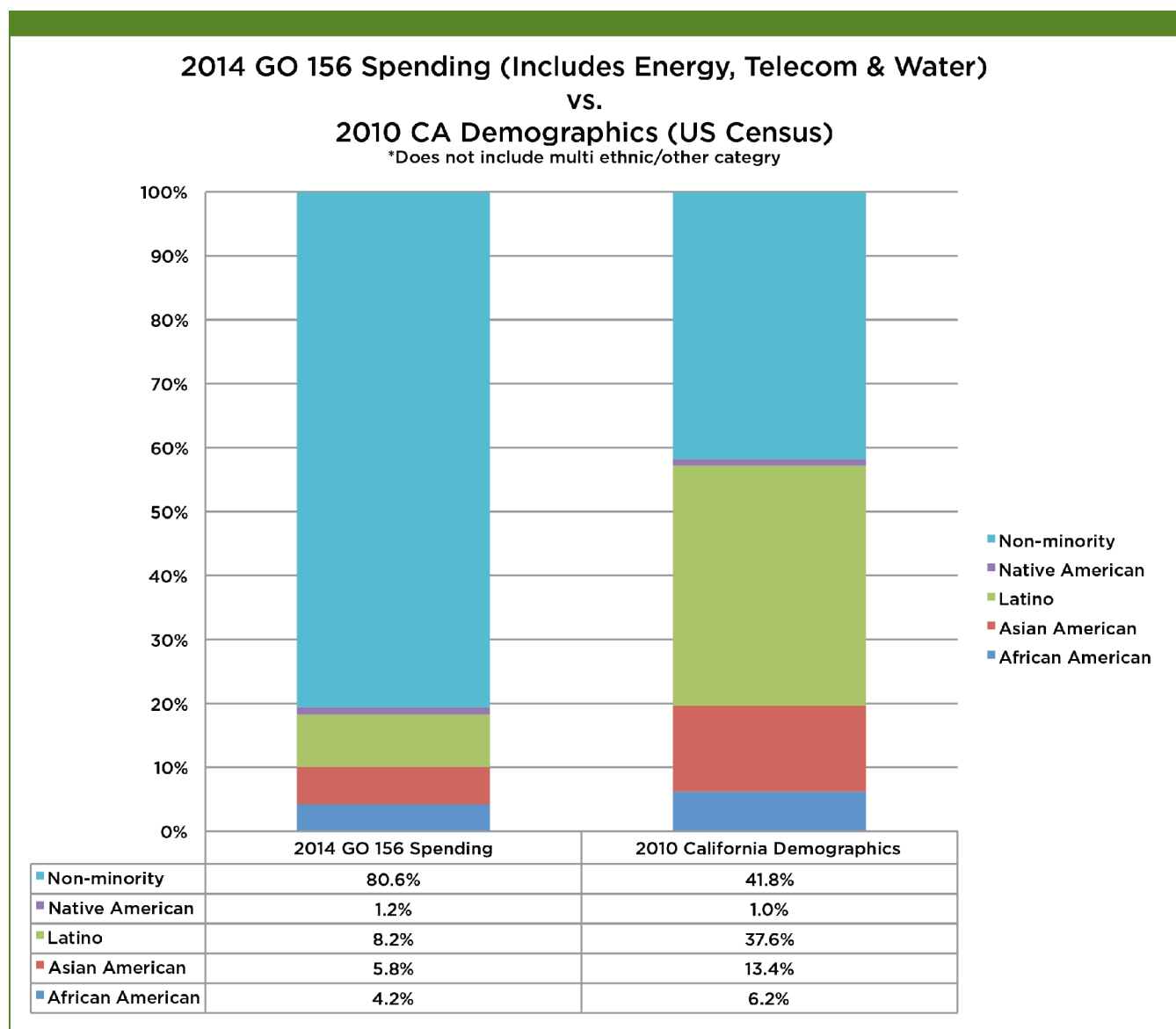


## APPENDIX III: SUPPLIER DIVERSITY AS ECONOMIC STIMULUS AND SMART BUSINESS

The U.S.'s ongoing demographic revolution makes it urgent that all companies adopt robust supplier diversity programs. Communities of color already constitute nearly 60% of Californians, as seen below, and are projected to be the nation's majority by 2044.<sup>1</sup> As these communities of color grow, the customer base of the state's energy, water and telecommunications companies becomes increasingly diverse. Ultimately, how corporations invest in minority business enterprises affects the success of the larger economy and the financial health of their customer base.



When adopted comprehensively, supplier diversity can serve as an economic catalyst for corporations, their diverse suppliers and California's communities. While the recent recession has hurt many Americans deeply, the burden has fallen unequally on communities of color. Although the average rate of unemployment in California was 7.5% overall<sup>2</sup> and 7.1% for white males last year, African Americans and Latinos faced 13.6% and 8.5% unemployment, respectively.<sup>3</sup> Supplier diversity efforts are particularly effective as economic stimulus because they target the communities that need opportunity the most.

Supplier diversity in California is not simply a numbers game. Under GO 156, the energy and telecommunications companies have made serious commitments to develop initiatives that open their supplier networks to new and diverse businesses. By encouraging these diverse businesses to compete with entrenched suppliers, these companies can use market competition to lower prices and increase the quality of the products and services they receive. In the case of the investor-owned energy utilities that receive a guaranteed rate of return, supplier diversity can be one of the most significant drivers of competition. All of this translates into better service and lower rates for California's consumers.

Moreover, supplier diversity efforts are a targeted form of economic development, as they proactively invest in diverse-owned businesses and bring wealth into communities of color. The diverse suppliers that are introduced into the companies' supply chain are not only adept at hiring from underserved communities, but they can also improve companies' ability to engage with the different communities and cultures in their service territories. Additionally, research has shown that among leading companies, supplier diversity facilitates the discovery of new revenue streams. Moreover, procurement departments that focus on supplier diversity achieve 33% more return on investment for procurement than the average.<sup>4</sup>

The voluntary nature of GO 156 illustrates the mutually beneficial impact of supplier diversity in California. Companies reach new levels of competitiveness, and small businesses flourish from new opportunities. Supplier diversity should not be a "feel good" program — it makes business sense for both companies and diverse suppliers.

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<sup>1</sup> U.S. Census Bureau. (March 2015). Projections of the Size and Composition of the U.S. Population: 2014 to 2060. Retrieved from:

<http://www.census.gov/content/dam/Census/library/publications/2015/demo/p25-1143.pdf>.

<sup>2</sup> National Conference of State Legislatures, State Unemployment Rates 2014, available at <http://www.ncsl.org/documents/employ/STATE-UI-RATES-2014.pdf> (last accessed June 18, 2015).

<sup>3</sup> U.S. Census Bureau. (2014). <http://www.bls.gov/lau/ptable14full2014.pdf>

<sup>4</sup> The Hackett Group. (August 17, 2006). The Hackett Group: Supplier Diversity Does not Drive Increased Costs." Retrieved from: [http://www.thehackettgroup.com/about/alerts/alerts\\_2006/alert\\_08172006.jsp](http://www.thehackettgroup.com/about/alerts/alerts_2006/alert_08172006.jsp).