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Taking Minority-Owned Businesses Under Their Wing

By **Claudia H. Deutsch**

FOUR years ago, Group O Direct, which handles rebates and other fulfillment aspects of customer promotions, was a \$4million-a-year company that barely turned a profit. Michael J. De La Cruz, its vice president for sales and marketing, said that bigotry – the company is owned by Mexican-Americans – accounted for some of the problem. But the bigger part was that Group O Direct, though it has been around since 1974, did not know how to navigate corporate shoals.

Then, in 2001, SBC Communications, seeking more minority vendors, took Group O Direct, in Milan, Ill., under its wing. “They led us through their procurement process, what certifications we needed, how to write a bid, who to contact, how to set prices,” Mr. De La Cruz said. SBC then gave Group O Direct a small contract. A few years later, the Microsoft Corporation helped Group O Direct further “enhance and refine our business processes,” as Mr. De La Cruz put it, then gave the company a contract, too. One result is that Group O Direct’s revenues will probably exceed \$50 million this year.

Many minority suppliers tell similar tales. The same mainstream corporations that have spent decades trying to increase workplace diversity at Microsoft, which spends about 5 percent of its \$10 billion annual procurement budget with minority companies.

That rule is prevailing a more companies, and the demographics explain why. Members of racial and ethnic minorities already outnumber whites in Texas, California, New Mexico and Hawaii, and they make up 40 percent of the population in Maryland, Mississippi, Georgia, New York and Arizona. The Census Bureau projects that by 2050, at least half the population will be nonwhite.

That means that half of the consumers will be nonwhite. “We have to change the perception that baseball is not welcoming to minorities if we are going to keep our stadium stands filled,” said Wendy Lewis, vice president for strategic planning for recruitment and diversity in Major League Baseball’s office of the commissioner, which keeps a directory of minority businesses that local ball clubs can use to find suppliers for products as diverse as coffee and uniforms. Similar thinking went into the Gillette Company’s decision to start a supplier program in 2002.

“Minority suppliers create jobs, and that increases income in their communities,” said Sonia J. Myles, Gillette’s director of global indirect materials.

Minority business advocates know that economics, not philanthropy, is driving the programs. “This is not newfound religion,” said Harriett R. Michel, president of the Minority Supplier Development Council, which matches minority businesses with corporate customers. “Corporate America is realizing that black and brown people are educated, can run businesses and have money to spend and to invest.”

But many do not yet have an understanding of corporate America. While minority-owned companies are proliferating – from 1997 through 2002, the number of businesses owned by minorities grew at more than double the national average for businesses overall – many are small and technologically unsophisticated. And many are bidding against suppliers who learned long ago how to meet a company’s needs.

“The average black or Latino businessperson still starts out with fewer contacts, less access to capital and less financial literacy than the average white person,” said Lucas J. Visconti, co-founder of DiversityInc, a business magazine. But, he said, “there’s a growing list of corporations that are aggressively helping them catch up.”

Indeed, minority supplier development programs, popular in the socially conscious 1970’s, are again moving from exception to rule among Fortune 500 corporations. Unlike earlier versions, the current programs rarely incorporate lower standards, loan or contract guarantees, or cash grants. Instead, they provide introductions, as well as technological and cultural training, aimed at enabling minority suppliers to win contracts and loans on merit.

“Give them chance, and minority suppliers will outperform the general populations in costs savings, quality and delivery,” said Dan Robinson, manager of global purchasing and market access at the Xerox Corporation. Minority suppliers say such recognition is overdue. “I deliver quality and service, and the fact that I was born of African-American parents has nothing to do with that,” said Walter Hill Jr., president of Icon Blue Inc., a Los Angeles company with annual revenue of \$10 million that provides promotional products.

Corporations are spreading that gospel. Many keep databases of minority businesses that are accessible to purchasing people at far-flung locations. Many are depositing money with banks that make loans to minority businesses, or visiting venture capitalists to explain why the minority business would be a good investment.

Many are even throwing rivalries aside. Mr. Hill noted that American Honda Motor is an Icon Blue customer; he was introduced to Honda by people at Toyota. Similarly, Hilton and Marriott often share information about minority suppliers.

Many companies are installing Tier 2 programs, in which their primary suppliers must prove that they are parceling out work to minorities. In fact, many are asking that those suppliers join forces with minority companies that might not have the capacity to handle full contracts.

I.B.M. singles out 10 or so minority companies each year. One chosen this year was the SpringBoard Technology Corporation, a company in Springfield, Mass., that handles computer storage and repair. Anthony F. Dolphin, the company's chairman, said that I.B.M. helped SpringBoard "bridge gaps in capabilities." SpringBoard, with annual revenue of \$15 million, is talking to two suppliers about jointly bidding for business.

Many corporations, heartened by their success in working with existing companies, are even trying to entice minorities to businesses they have traditionally shunned. Hilton, for example, sees "no reason we shouldn't have more minorities among our franchisees," said Floyd W. Pitts, senior director for diversity program. So the chain offers free "hospitality 101" seminars to familiarize minorities with running hotels. Hilton has also been working with historically black colleges to bolster their hospitality programs, and to help them build hotels on their own land.

At Xerox, Mr. Robinson is trying to engineer an alliance between a small African-American-owned company and a large insurance company. His plan: Xerox would give a minority company a contract to provide health and retirement benefits and the minority company would subcontract some of the business to the larger company. "An alliance can give the minority supplier the economy of scale to provide the low costs we insist on," he said.

It is rarely so straightforward. For one, there are psychological barriers to alliances that have nothing to do with race. "These are entrepreneurs, remember, and they want to control their own destiny." Ms. Michel said. For another, some businesses require far too much capital outlay to attract newcomers of any race or ethnicity. Proctor & Gamble, which will spend \$1.4 billion with minority suppliers this year, says it is unable to find a minority-owned pulp and paper business. "We're still looking, but it's confounding us," said Richard A. Hughes, the company's vice president for global purchases.

Joint ventures can also dissolve. For two years, Procter bought packaging items from a venture between a minority and majority company. When the larger company's chief retired, the venture broke up, and Procter buys less from the minority supplier. "It provides a quality product, but it does not have the scale to innovate on its own," said Icy L. Williams, associate director for corporate supplier diversity at Procter.

Still, Proctor and others keep trying. “We will keep looking across all our product lines to identify areas that are not currently serviced by minority suppliers, and we will put together relationships, strategic partnerships and other deals to help them enter,” Mr. Hughes said.

So will I.B.M. About \$1.6 billion of the \$15 billion it spent last year went to minority-owned businesses, “and my goal is to become the first technology company to spend \$2 billion,” said Theo W. Fletcher, I.B.M.’s vice president for supply-chain compliance, security and diversity. Why? “As these businesses grow, they will become our customers,” he said. “ And we want a supplier that looks a lot like our customer base.”

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