

HISPANIC BUSINESS MAGAZINE - Supplier Adversity

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Michael Bowker, for Hispanic Business Magazine

In this report, Hispanic Business magazine spotlights the Top 25 Supplier Diversity Companies and minority-owned businesses that are battling to keep their contracts as virtually every industry downsizes its operations.

From retail and automobile to construction and technology, the decline of traditionally strong industries has rattled the economy and upended the American work force.

And as unemployment levels climb above 7 percent, longtime companies continue to close their doors, and questions linger over the government's stimulus package, major uncertainty remains heading into the second quarter of 2009.

Among the hardest hit during this recessionary economy are the minority-owned suppliers – the small businesses that contract with Fortune 500 companies to provide an array of services.

Large companies are cutting back to stay alive and their supplier diversity contracts are sometimes the first to get slashed. But amid the upheaval, companies are discovering new business models and ways to innovate as they navigate the rocky financial waters. "We don't rely on any one specific customer," said Elise Hernandez, CEO of Ideal System Solutions in Maple Grove, Minn. "In this economic climate that can be risky. We listen to our customers and they often tell us in which direction we need to go."

For example, the company, hearing a need for temporary staffing from companies that are laying off their own workers, recently opened a branch that offers staffing resources on a project-by-project basis. It also now offers remote monitoring of entire networks to companies that no longer have in-house technicians. "The needs of our customers are fluid right now and we provide whatever is necessary to help them lower costs and be more efficient," she said.

The extent of the challenge facing minority suppliers is still unclear.

Staffs Are Transferred, Laid Off

"Everything right now is anecdotal," said Harriet Michel, president of the National Minority Supplier Development Council in Washington, D.C. "There are no economic figures so far, but we are hearing stories – lots of stories – and they aren't good. We know it is happening because we are hearing from minority suppliers from all over the country, but we don't know yet what the damage will be."

One ominous note is the fact that many major companies are laying off or transferring their supplier diversity staff. "There's no question about that," said Ms. Michel. "It's a free-for-all right now in terms of cutting these departments. That is very troubling to us. If you don't have a dedicated staff of people whose responsibility it is to carry forward the supplier diversity initiative, there will be fewer and fewer contracts for us in the future. We may see the negative effects of these cutbacks for a long time."

The technology sector, among the biggest drivers of supplier business, has slowed, although some companies have managed to dodge the downturn so far. In fact, Ideal System Solutions has actually seen a 20 percent increase in annual revenues in the past 12 months. The company reported revenues of \$30 million in 2007 and were ranked 185 on the 2008 HB 500 list of Hispanic-owned companies.

But Ms. Hernandez knows that she must keep her eyes on the ball because the reality looks perilous. While companies publicly promise they are doing everything possible to preserve their minority supplier contracts, it's clear that the recession is taking its toll.

"Many of the large companies are just trying to survive out there and attention to supplier diversity issues is being overshadowed," Ms. Hernandez said. "There is no question that many companies are now cutting back support and service to minority suppliers."

Some suppliers have simply been unable to stay afloat. Among the hardest hit are auto suppliers. This is especially sobering because Hispanics have made many significant economic inroads in the industry. Four out of the top 10 companies on our 2008 list of the HispanicBusiness Top 500 are auto dealers or suppliers. While the so-called federal bailout should help in the long run, one expert described the recessionary effects on Hispanic auto suppliers as "catastrophic." The Big Three automakers spent almost \$1 billion with Hispanic suppliers in the past few years, according to published reports. A lot of that has evaporated during the free-fall of the recession.

Sectors' Jobless Rates Exceed Nation's

The construction sector has also been battered, as well as manufacturing and retail, all "overrepresented" by Hispanics, according to Pew Hispanic Center. These sectors have seen unemployment top the average 10 percent unemployment suffered by the nation's workforce as a whole in December.

With most minority suppliers clearly hurting, what are major companies planning to do to help them, and will it be enough? "We're doing everything we can, but the recession has forced all major corporations to reduce overall spending," said Don P. Alessi, national minority business development coordinator for Comerica, the banking firm, which was ranked No. 1 on HispanicBusiness' list of top supplier diversity companies. "However, we are continuing to adhere to the goals we established before the recession regarding supplier diversity. ... In diverse communities like Texas, California, Michigan, Arizona and Florida, we are totally committed to our mission of mirroring our supply base to our customer base." The toughest challenge for Comerica and other large corporations in 2009 is to maintain a viable list of diverse suppliers because the economic conditions have caused a serious retraction in the available suppliers, according to Mr. Alessi.

The company is taking a proactive role by accelerating payments to suppliers; encouraging them to become approved "credit card merchants" to increase the ease and speed of purchases; introduce them to the corporation's national suppliers so they can more easily gain contracts as second-tier and subcontractors; and making coaching and networking opportunities available.

General Mills, a top 20 firm on the HB list of top Supplier Diversity companies, is also supplying coaching to minority suppliers and is increasing company communications with them so problems can be more easily resolved, according to James Momon, the company's supplier diversity manager.

General Mills' continued support is vital because the food service sector is an important one for Hispanic suppliers. Our calls and e-mails to nearly a dozen other major corporations went unanswered.

"Are American corporations suffering so much they can't respond or are they using the recession to scuttle their minority programs?" pondered Ms. Michel. "It's an extremely important question."

Waging A Fight For Minority Suppliers

Although many suppliers have already been hit hard by the recession, the major challenges may still be in front of us. The specter of increasing difficulties loom so large that in January, Ms. Michel was persuaded by the council's board members to delay her announced retirement so she and the organization could mount a full-fledged initiative to fight for minority suppliers.

"A group of organizations is meeting right now in Washington, D.C., to develop an agenda to help minority suppliers," she said then. "I don't know when they will announce that agenda, but I know there is tremendous concern that the first economic stimulus that came out for lending institutions set the bar so high that nearly every minority bank was excluded. Hispanics, women, and African-Americans raised so much hell that we have been promised that there will be an amendment to lower the threshold next time around. That is the type of action we have to take to protect suppliers as well."

Ironically, the possible consequence of the massive bailouts – higher taxes -- also has many suppliers worried. "Our biggest economic concerns have to do with the new administration," said Nina Vaca, CEO of Pinnacle Technical Resources in Dallas. "Increased taxes on small and medium businesses and/or new requirements regarding health care could significantly impact us." Ms. Vaca met with President Obama's transition team to express her concerns and hopes to continue the dialogue throughout 2009.

With the number of contracts shrinking, competition will be fierce.

"We have to be able to save the client money and provide them with a serious solution," said Ms. Hernandez. "We have to be able to perform. That's what will get us through."

While minority suppliers battle to stay afloat, the fight in Washington remains important. "We are keeping our eyes on corporate America so it doesn't use the recession to walk away from minority suppliers," said Ms. Michel. "America won't recover unless we all recover."

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