

"Inclusion" Means More Than Just
Your Employees & Shareholders...

Creating Opportunities Through Supplier Diversity

Speakers



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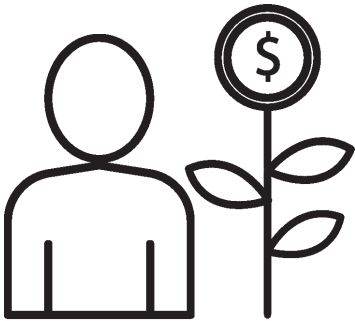


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A Business Case for Stakeholder Capitalism

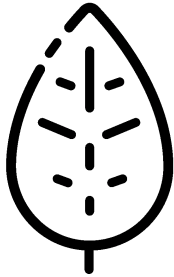
Imagine if more large corporations:



Invested in developing talent, customers, and supplier bases from the communities they serve



Challenged themselves to identify new sources of innovation through underserved populations



Found sustainable solutions to growth by creating virtuous cycles where education cultivates talent that generates its next big idea

These companies have been shown to be:

29%

Less likely to outperform profitability

70%

More likely to capture a new market

Agenda

HP Context:

- Company Overview
- The Business Challenge
- Why JLCC

Project Team Overview:

- Team perspective on the role of business in society
- Broader applications to DEI efforts

HP Final Recommendations:

- Making it a win for both HP and their suppliers
- Implementation
- Learning outcomes & questions



HP aims to become the most sustainable and just tech company in the world.

Economic impact summary of HP supplier diversity program, 2020*

\$1.0 billion overall economic impact**
(up 43% from 2019)

\$557
million

Spending with small and diverse suppliers
(up 49% from 2019)

\$387
million

Incomes earned by employees in the jobs supported by HP's supplier diversity program purchases
(up 44% from 2019)

6,300+

Jobs supported through HP's spending with diverse suppliers***
(up 43% from 2019)

\$325
million

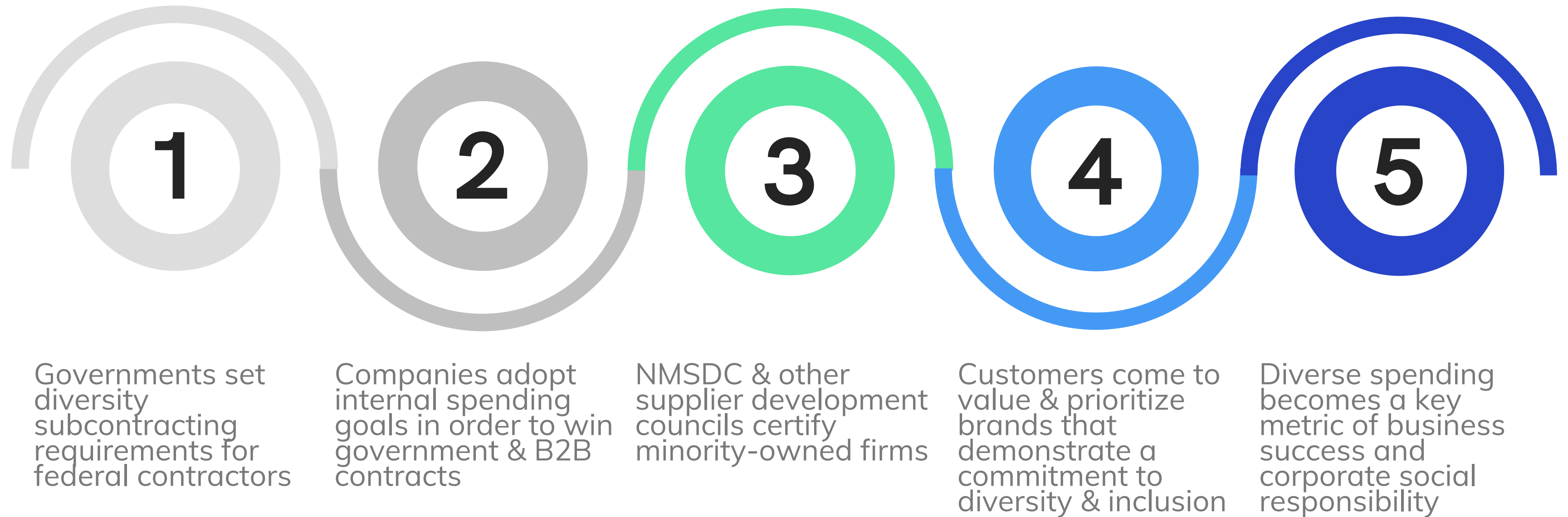
Federal, state, and local personal and corporate taxes generated
(up 44% from 2019)

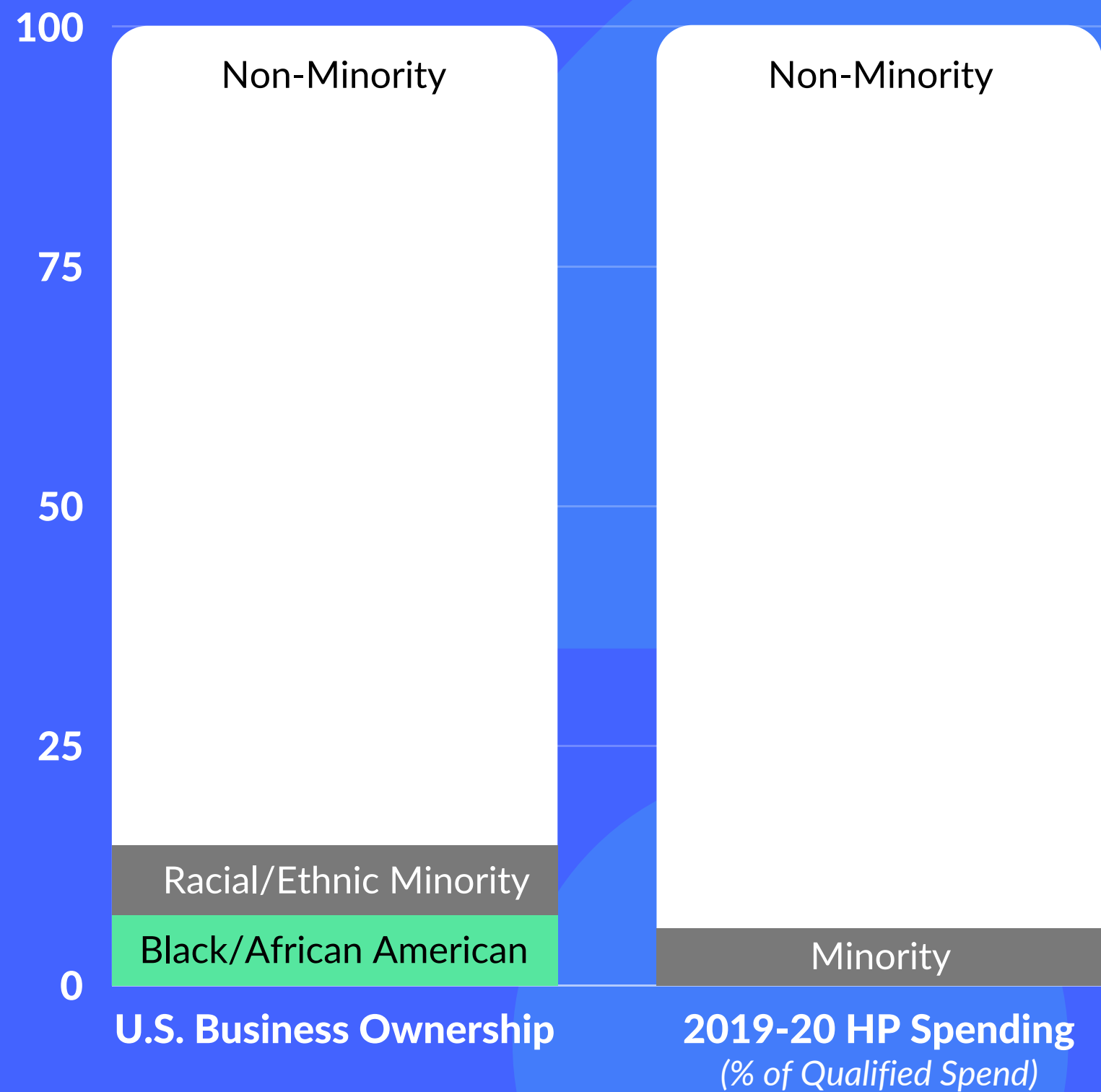
Some current DE&I goals include:

- Achieve 50/50 gender equality in HP leadership by 2030
- Achieve greater than 30 percent technical women and women in engineering by 2030
- Meet or exceed labor market representation for racial/ethnic minorities in the U.S. by 2030
- Maintain higher than 90 percent rating on internal inclusion index for all employee demographics annually
- Reach one million workers through worker empowerment programs by 2030

Supplier diversity is a strategic business program that which encourages the use of historically underrepresented businesses in sourcing.

HOW DOES SUPPLIER DIVERSITY AFFECT MY COMPANY?





Though African Americans make up more than 7% of U.S. businesses, **most** American corporations struggle to spend a proportionate amount with Black and minority-owned businesses.

Source: HP Sustainable Impact Report, 2019; U.S. Small Business Administration, 2020

125+
student teams

6
corporate sponsors

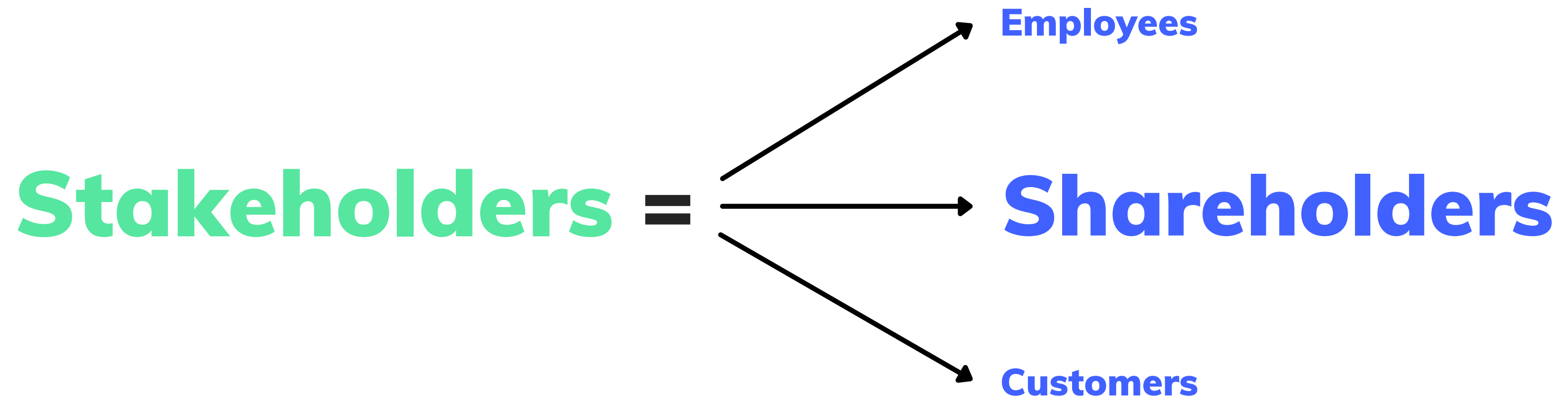
\$20K+
donated to racial justice
organizations



JOHN R. LEWIS
RACIAL JUSTICE
CASE COMPETITION

How can this company best use its various resources to address issues of racial injustice?

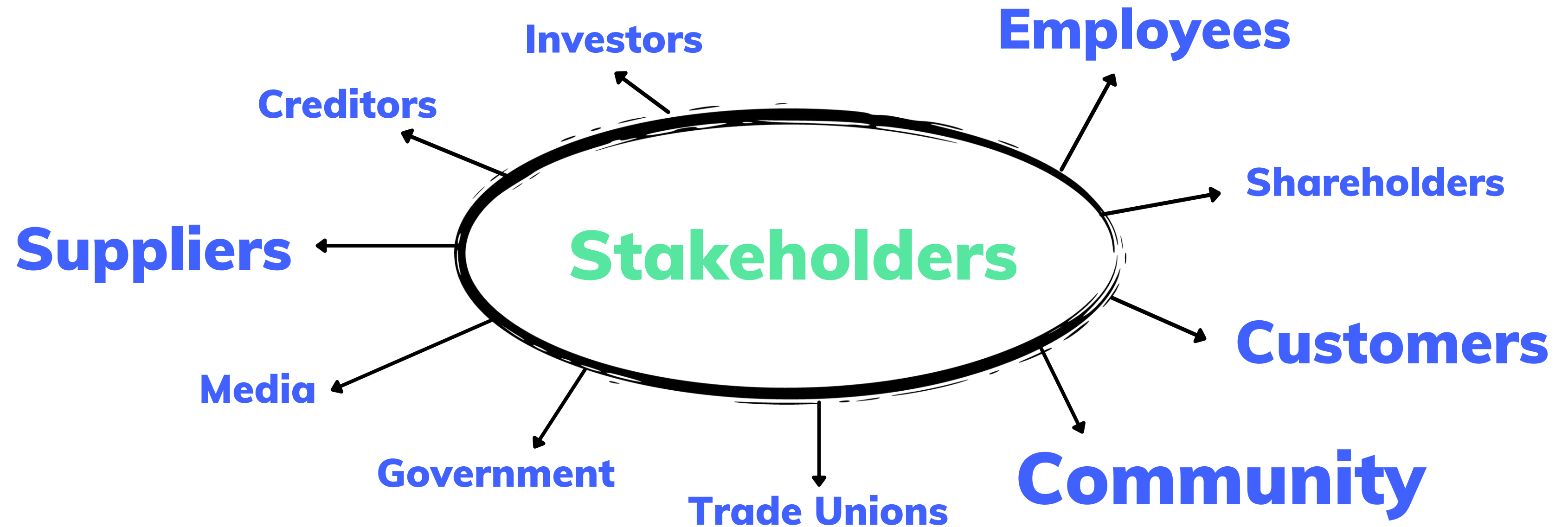
While businesses do have a unique power to shape and influence society, for-profit C-corporations are legally obligated to put the interests of their shareholders first, which has led many companies to prioritize short term profits over long-term racial equity and diversity.



Fortunately, the role of business in addressing racial inequality is not separate from the role it plays in generating profits for shareholders.

In order to achieve and sustain long-term profitability and value creation for *shareholders & employees*, companies must **expand their view of stakeholders and address issues of inequality and injustice.**

Diversity and inclusion programs are not just a step to right past wrongs; addressing racial inequality through long-term strategic planning is a key component in organizations' future success & profitability.

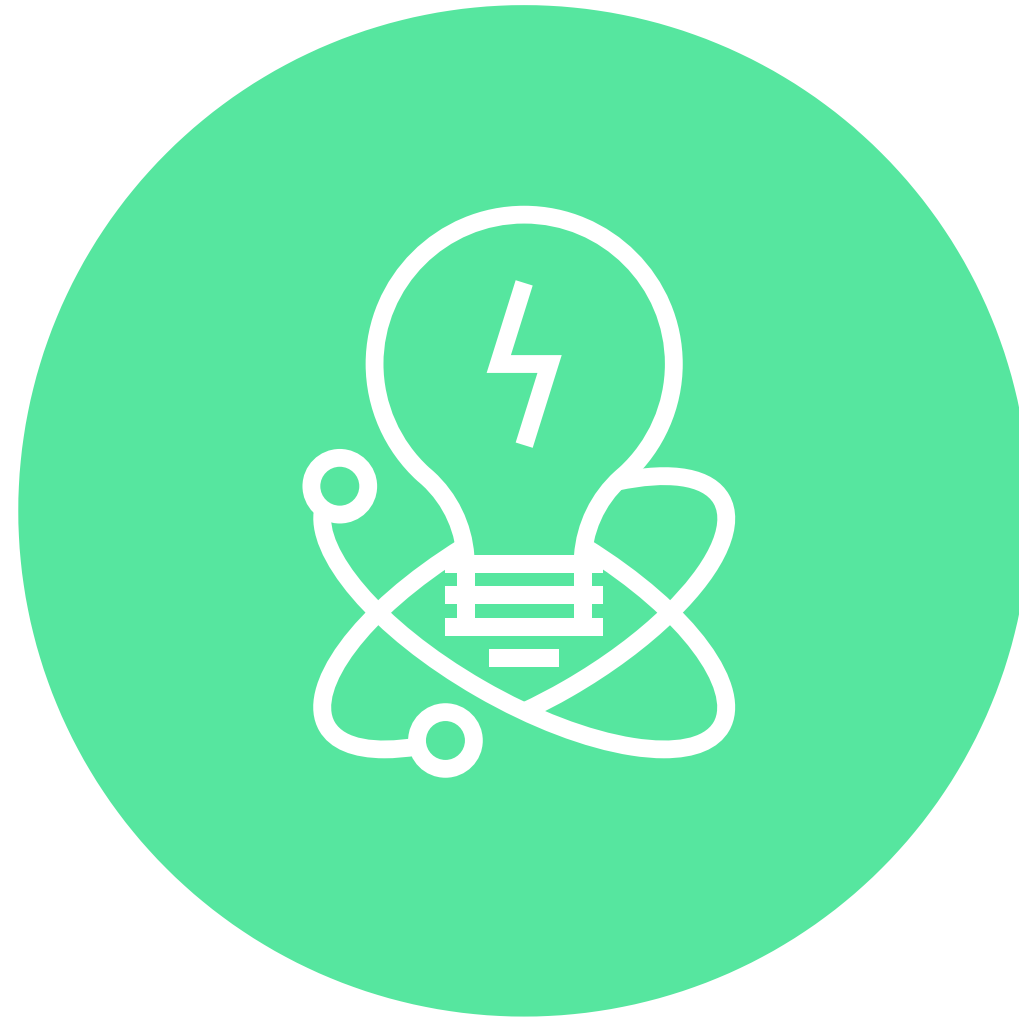


HOW CAN DIVERSITY HELP ACHEIVE OUR STRATEGIC GOALS?



IMPROVED PUBLIC IMAGE

Individuals who were aware of Coca-Cola's supplier diversity initiatives were 45% more likely to perceive the brand as valuing diversity, 25% were more likely to think favorably about the brand, and 49% were more likely to use Coca-Cola products.



INNOVATION

Companies with a diverse team are 45% more likely to report that their firm's market share grew over the previous year and 70% more likely to report that the firm captured a new market.



INCREASED REVENUE

Companies who dedicate 20% or more of their spend to diverse suppliers can attribute as much as 15% of their annual sales to supplier diversity programs.

"Injustice anywhere is a threat to justice everywhere."

Inequality & Inequity in America

To break the cycle of racial inequality, the team identified 3 key "A" roadblocks to address to improve supplier diversity spend:

1

Access to Capital

82% of small businesses fail because of cash flow problems, & minority-owned firms are over 3X more likely to be denied business loans.

2

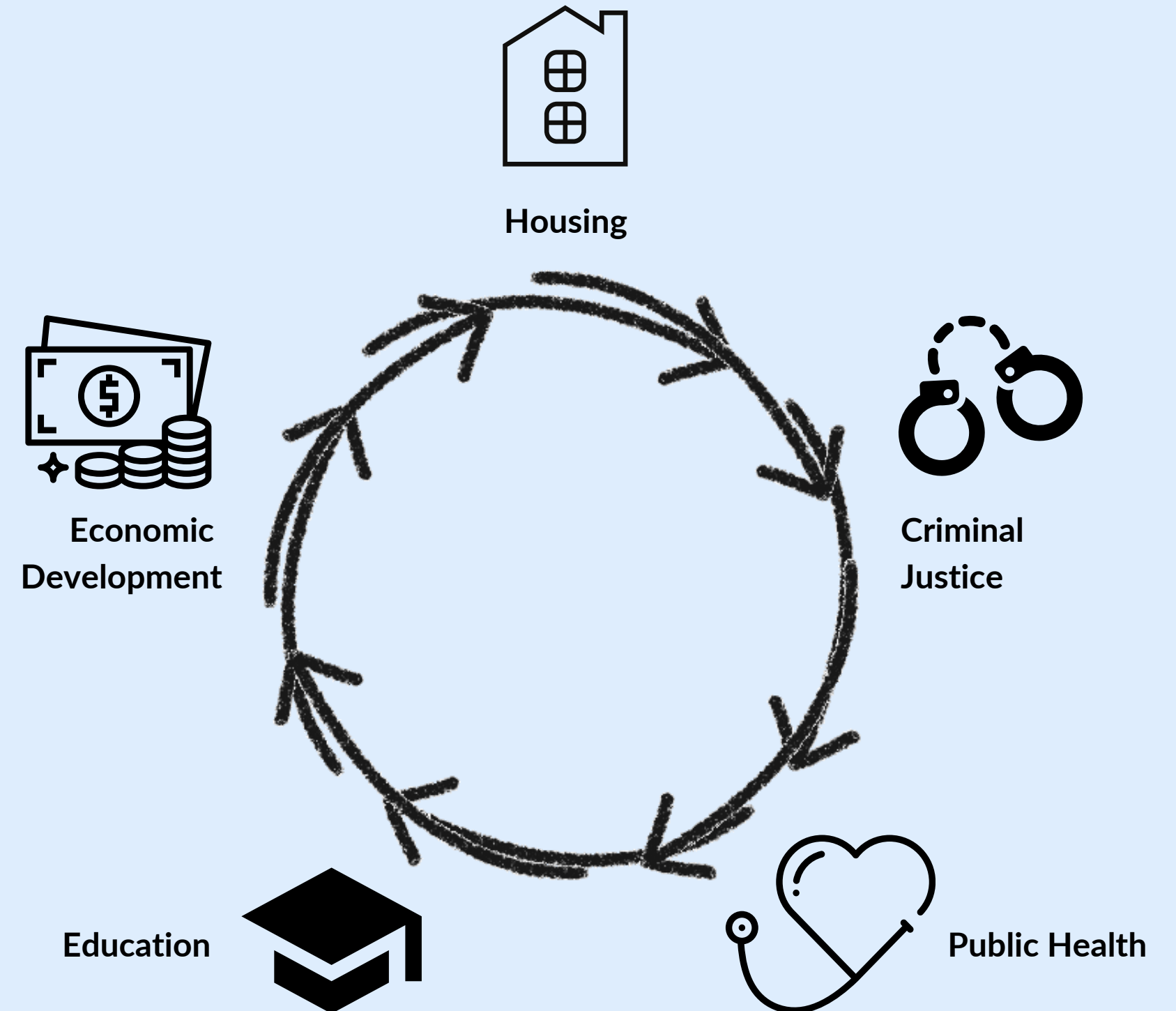
Access to People

Most contract opportunities are filed through networking, but minority-owned firms are less likely to have an HP contact & are discouraged by the traditional RFP process.

3

Accountability

HP currently lacks the goal-setting & reporting structure needed to motivate employees throughout the company to seek out diverse suppliers.



Access to Capital

82% of small businesses fail because of cash flow problems. Extended-term pay policies allow large corporations to profit at the expense of small and minority businesses.

The Pay Term Problem Explained

Corporations often implement extended-term pay policies that allow them to delay paying suppliers for 30, 60, 90, or even 120 days as a source of credit.

HP negotiates its pay terms with every new supplier.

However, small and minority-owned businesses **generally lack the bargaining power to negotiate shorter payment terms** and are left to find ways to bridge the cash-flow gap to meet payroll, pay vendors, and cover taxes while HP collects interest on the cash.

Among firms with gross receipts under \$500,000, minority-owned firms are

3X more likely to be denied business loans.

99.9%

of minority-owned firms are small businesses.

\$4,500,000,000,000

U.S. businesses have \$4.5 trillion of trade credit outstanding. **1/3 to 1/2 of that burden is borne by small businesses.**

Access to People

A lack of access to traditional business and MBA networks, failure of internal company standards to mandate outreach to small and diverse businesses, and the complex Request for Proposal ("RFP") process all contribute to many Black vendors having difficulty connecting with corporations.

NETWORKING

As many as 85% of jobs and contract opportunities are filled through networking.

85%

However, white applicants and potential vendors report having an internal contact more often than their Black counterparts.

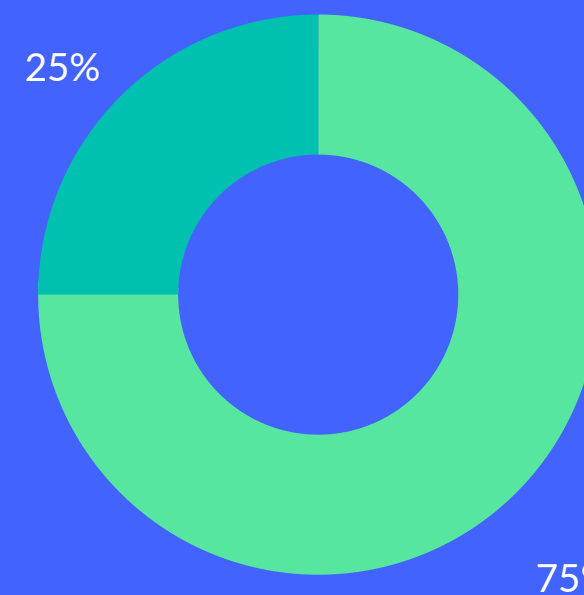
65% vs. 56%

White applicants with an internal contact

Black applicants with an internal contact

OUTREACH

75% of supplier diversity programs rely on NMSDC and other certification agencies to find diverse suppliers.



While this can help with some contracts, this method limits HP to suppliers in NMSDC's database and does little to build relationships with potential suppliers.

RFP PROCESS

Contracts that are not awarded through networking are subject to the RFP process, which historically prioritizes the lowest cost bids and discourages small and minority vendors from participating.

Average cost to win a bid

\$5000

Average response deadline for a new vendor, vs. weeks for an incumbent or past vendor

7-10 days

Accountability



HP *does* have diversity-related performance goals in place for executives under its Management by Objectives program.

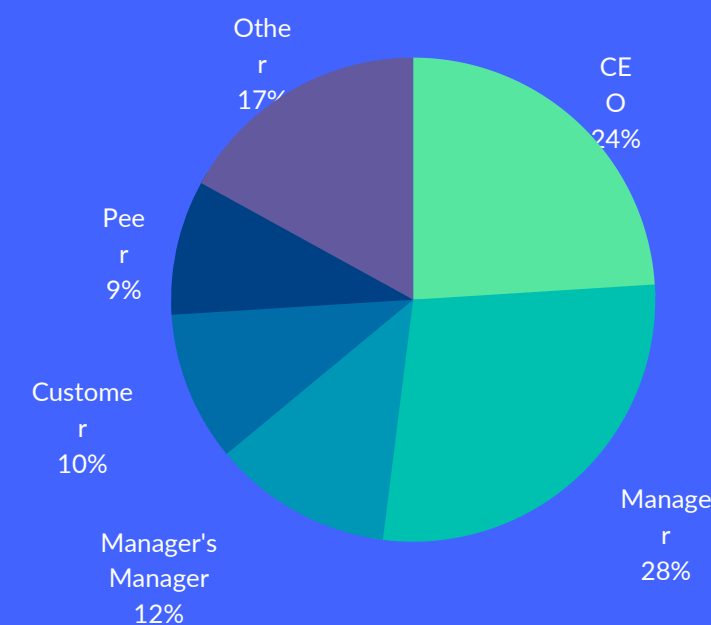
However, the company lacks the goal-setting and reporting structure to motivate employees throughout the organization to seek out diverse suppliers.

43%

Nearly half of supplier diversity programs do not have a metric in place for measuring financial ROI.

An employee recognition program can boost performance by up to 44%.

44%



Nearly 1/4 of employees report that their most meaningful recognition came from the CEO.

Team Recommendation

STEP 01

PROBLEM

Access to Capital



SOLUTION

Accelerated Pay Terms to Relieve Diverse Suppliers' of Strains on Cash Flow

Rather than the current End-of-Accumulation-Period system that could leave suppliers without pay for months, work towards a Net-10 pay structure for diverse vendors.

STEP 02

PROBLEM

Access to People



SOLUTION

Strategic Training & Networking Standards to Improve Access to Buyers

Implement company-wide trainings on the business value of supplier diversity & require buyers to proactively connect with diverse firms.

STEP 03

PROBLEM

Accountability



SOLUTION

Department-Level Goals & CEO-Led Communication to Motivate Buyers

In addition to setting company-wide goals for diverse spend, break down responsibility to the department & category level & report directly to the C-Suite on a regular basis.

STEP 04

PROBLEM

Long-Term Sustainability



SOLUTION

Partnership with Other Industry Leaders for Supplier Development Program

To ensure diverse suppliers continue to build capacity and grow along with HP, launch a supplier development program to close educational gaps and provide diverse vendors access to capital and people.

Recommendation: Favorable Pay Terms

The JLCC team proposed that HP improve Black vendors' access to capital by paying diverse suppliers sooner through a modified pay policy.

The Pay Term Problem Explained

Corporations often implement extended-term pay policies that allow them to delay paying suppliers for 30, 60, 90, or even 120 days as a source of credit.

However, small and minority-owned businesses generally lack the bargaining power to negotiate shorter payment terms and are left to find ways to bridge the cash-flow gap to meet payroll, pay vendors, and cover taxes while HP collects interest on the cash.

Current
EOAP

Accumulation Period
(ex: 30 days)

Aging Period
(ex: 60 days)



Short-Term Example:
Diversity Pay Terms
2/10 EOAP 60

Accumulation Period
(ex: 30 days)

Discount Period
(ex: 10 days)



Aging Period
(ex: 60 days)



Long-Term Example:
Diversity Pay Terms
Net-10

Aging Period
(ex: 10 days)



Implementation: Dynamic Discounting

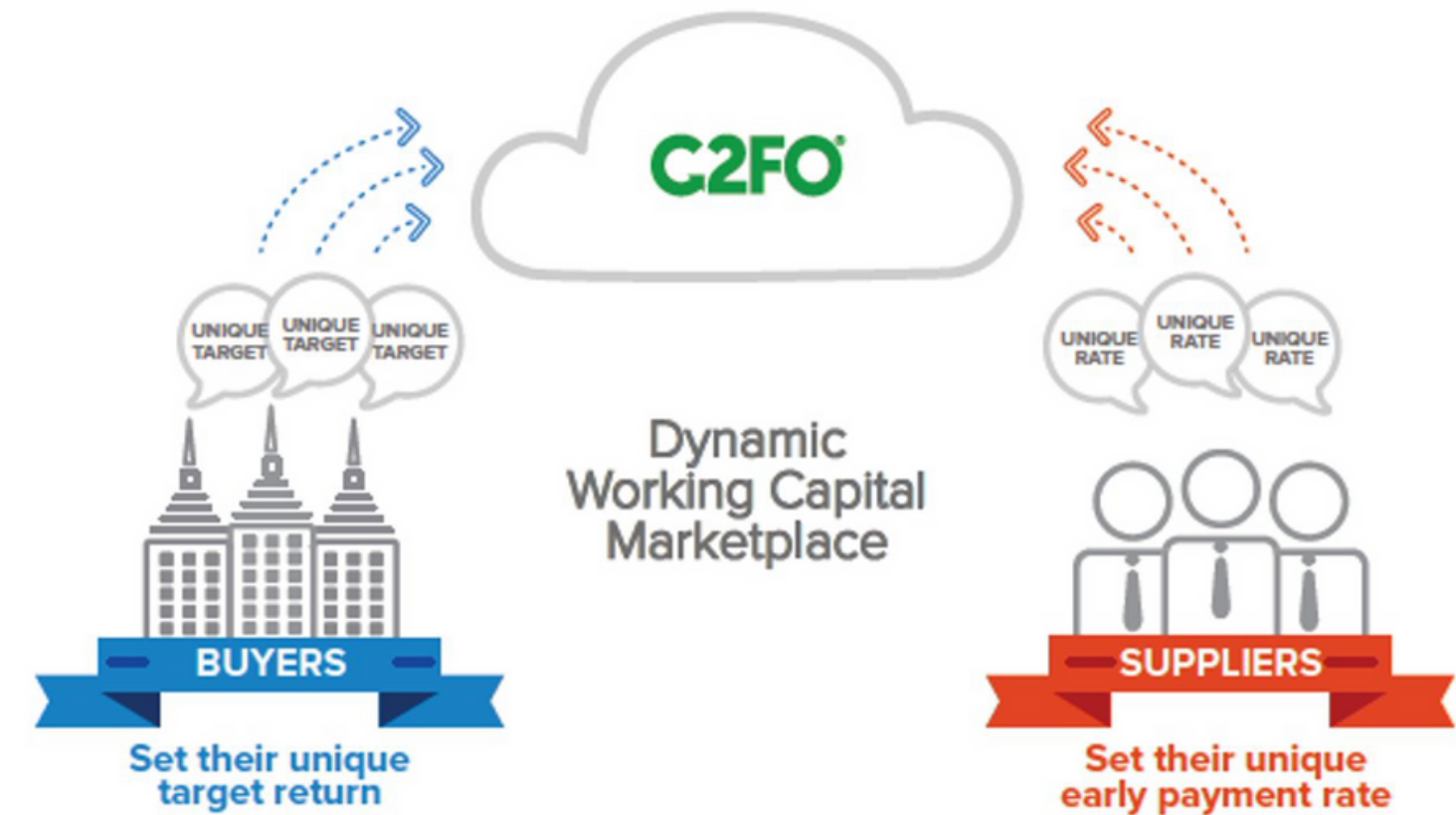
HP plans to begin offering accelerated payment terms to diverse suppliers in August, which will begin to dismantle some barriers to entering HP's supply chain by improving companies' access to capital.

Problem being addressed



How it works

Name your rate with C2FO



Why It Matters

For every \$1 million of HP spending with minority vendors, 8.5 jobs are created by diverse businesses.



Access to liquidity

Diverse Suppliers may potentially need more support than Non-Diverse Suppliers

Current Program

Participation rate is at 7% for Diverse Suppliers which is 2X Non-Diverse Suppliers



Discounts paid

Small Suppliers, including many Diverse Suppliers pay **3X more** than Large Suppliers



Rates

Diverse Suppliers are paying 9.6% APR at a 100% award rate

Cost

\$77K per annum at a 0.5% fixed rate



Stable

Eliminate liquidity uncertainty for Diverse Suppliers

Visibility

Make data driven decisions across segments



Proactive

Opportunity to leverage processes for ongoing similar initiatives in sustainability/ESG



Conclusion

if not us, then who
if not now, then
when

-John Lewis



Questions?

"Nothing can stop the power of a committed and determined people to make a difference in our society."

John Lewis





Appendix

Elements of a Successful Supplier Diversity Program



In order to grow its supplier diversity program, HP must address three major roadblocks that are keeping it from reaching its spending goals.

In addition to consulting formal academic and business studies and reports, we interviewed 30+ supplier diversity and procurement professionals, minority business owners, and NMSDC representatives to gain an understanding of what is keeping corporations like HP from reaching their spending goals with Black/African American businesses.

The most prevalent issues can be divided into 3 main categories:

Accountability

Openly committing to racial justice is just the first step a company can take to dismantling systemic inequities.

"Accountability" solutions refer to:

- Financial Incentives & Compensation Plans
- Company-Wide Goal-Setting
- Annual Trainings & Education

Access to Capital

Minority-owned businesses often struggle with access to financial resources. "Access to Capital" can be broken into two main categories of issues:

- Capacity Building/Scale
- Cash-Flow Management

Access to People

"Access to People" encompasses a minority-owned business's ability to connect with HP. Issues include:

- Networking
- MBE Certification Processes
- Internal Standards & Processes for Procurement & Purchasing