

# Building the Global Capacity of Minority and Women Business Enterprises through Strategic Partnerships

BY M.V. GREENE

**Policy Statement: Billion Dollar Roundtable Inc.** advocates aggressive initiatives, opportunities and outreach from global corporations and other organizations as a means of building the capacity of diverse firms. BDR recognizes that major corporations can accelerate growth among diverse firms by leveraging strategic business relationships, including mergers and acquisitions, partnerships and joint ventures, along with implementing established supplier diversity best practices. Further, BDR supports the notion of establishing innovative capital financing mechanisms for diverse companies, as a means of creating wealth in minority communities, thereby enhancing economic development and job creation and contributing to the economic health of the nation.

**Purpose of 2011 Summit Summary Paper:** To illustrate practical methods and funding sources for diverse companies to achieve scalability and increase global contracting opportunities with major corporations. The paper reports on the discussions of panelists, participants and guest speakers at the 2011 BDR Summit held July 28 in Redmond, Wash., focusing on their discussions and solutions.

**About BDR:** BDR is among a select group of national organizations advancing corporate best practices for supplier diversity as a key step for building the capacity of diverse firms. As a requirement of membership, BDR members are committed to spending a minimum of \$1 billion annually with diverse suppliers on a first-tier basis.

The organization's mission statement



Don McKneely,  
Chairman Emeritus, BDR and  
Bill Moon, Chairman BDR

is "To drive supplier diversity excellence through best practice sharing and thought leadership." BDR vision statement is "Lead, influence and shape supplier diversity excellence globally."

BDR Chairman William J. "Bill" Moon, former vice president with United Parcel Service, in offering composite data highlighting the impact of BDR, outlined BDR members' commitment to the ideals and principles of supplier diversity. One member spends \$7 billion annually on supply-chain procurement on a first-tier basis with diverse firms, and all members spend a combined \$35 billion, he noted. "Within the Billion Dollar Roundtable, we roll up our sleeves and work side-by-side to achieve our organizational mission to drive diversity excellence through best-practice sharing and thought leadership," Moon said.

**The roster of BDR members is:**

- AT&T Inc.
- Avis Budget Group Inc.
- The Boeing Co.
- Chrysler Group LLC
- Dell Inc.
- Ford Motor Co.
- General Motors Corp.
- Honda North America Inc.
- IBM Corp.
- Johnson Controls Inc.
- Johnson & Johnson Services Inc.
- The Kroger Co.
- Lockheed Martin Corp.
- Microsoft Corp.
- The Procter & Gamble Co.
- Toyota Motor Engineering & Manufacturing North America Inc.
- Verizon Communications Inc.
- Wal-Mart Stores Inc.

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Sharon Patterson,  
President and CEO, BDR

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**Summit History:** Now in its 10th year, BDR summits are held annually and bring together leaders from across the supplier diversity spectrum for a daylong forum designed to spark dialogue on critical policy issues. BDR members comprise many of the world's largest and most important business organizations. One of their objectives is to put aside competitive differences by working together to advocate for best practices and sensible solutions for supplier diversity.

Previous BDR summits have been held in New York City, Milwaukee and Washington, D.C., examining topics in supplier diversity, including advertising and marketing, global supplier diversity and developing integrated solutions to supply-chain inclusion.

#### SUMMIT OVERVIEW

The 2011 Billion Dollar Roundtable Summit, "Building the Global Capacity of Minority and Women Business Enterprises through Strategic Partnerships," convened July 28, 2011, at the corporate campus of BDR member Microsoft Corp. in Redmond, Wash., near Seattle, with more than 140 participants in attendance.

Under the direction of BDR President and CEO Sharon Patterson, the 2011 Summit organizers were co-leaders Fernando Hernandez of Microsoft and Joan Robinson-Berry of Boeing; Ying McGuire of Technology Integration Group, for-

merly of Dell; Sheila Bright of AT&T; Cyndi Hopkins of Dell; Adrienne Trimble of TEMA; Barbara Taylor and Audry Musgrove of Boeing; Donna Boyce of Microsoft; and Jonathan Nimrod of Wal-Mart.

Ying McGuire, vice president of international operations and business development for Technology Integration Group and former supplier diversity executive at Dell, served as moderator for the summit program. Adrienne Trimble, manager, supplier diversity, TEMA, served as host for the summit's networking dinner on July 27 at the Hyatt Regency Hotel in Bellevue, Wash.

The kickoff event formally inducted the summit host, Microsoft, and Johnson & Johnson into the organization. BDR Co-Founder and Chairman Emeritus Don McKneely, president and CEO, Tex-Corp Communications Inc., publisher of MBN USA, congratulated Microsoft and Johnson & Johnson for their inductions on behalf of BDR members. "We now have 18 members, and that is amazing in this economic climate," he said. "But, that is also a testament to what is achievable in this area of supplier diversity."

The summit provided a strategic forum for thought leaders in supplier diversity to explore innovative approaches to position minority and women business enterprises to compete for large corporate global contracts through the building of capacity and scale of diverse firms. Top-level discussions were held among corporate procurement executives, supplier diversity managers, minority and women suppliers, advocacy organiza-

tions, investment bankers, government officials and academics. They examined practical methods for diverse companies to achieve scalability through corporate collaborations, including mergers and acquisitions, strategic alliances and business partnerships and the development of capital funding sources.

James H. Lowry, senior advisor and former global diversity director, Boston Consulting Group Inc., and a seminal figure in U.S. minority business development, highlighted why collaborations with corporations are an imperative for the success of diverse firms and the broader economy.

"Without strategic partnerships, minority businesses can't grow. Period. Bottom line," he said. "The days of the 1960s, 70s, 80s and 90s are over. We're in the 21st century. Unless we have that, many of the minorities businesses that are strong today will be weak tomorrow."

The practice of supply-chain diversity excellence within U.S. corporations, as summit participants noted, has been transformational — from that of largely an altruistic endeavor over more than 30 years to a broad-based, corporate requirement aimed at satisfying global markets, creating shareholder value and generational wealth and fostering economic and community development. Sweeping national demographic changes and an expanding global economy demand the vitality of diverse companies through inclusive business practices, according to speakers and participants.

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Fernando Hernandez,  
Microsoft

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“If we don’t come up with ways to grow minority businesses, it is going to be a disaster,” said Joan Robinson-Berry, director of Phantom Works unit supplier diversity, Boeing Defense, Space & Security Division, and small business liaison officer, The Boeing Co. “Some people believe it is a tsunami brewing. It’s not just about good business. It is not only an industry imperative, but it also is a national security issue — if we are going to be globally competitive.”

Ruben Dario Taborda, chief procurement officer/enterprise supplier diversity medical devices, Johnson & Johnson, said engaging diverse suppliers is central to his company’s approach to the global marketplace. “The more diverse suppliers can understand our customers and come to us with insights that we do not know, the more we are going to want to talk with them,” he said. “Some of the best suppliers I have worked with are the ones that sell to us and sell to our customers at the same time.”

Resonating through these discussions was an implied invitation from corporations to diverse suppliers to “come grow with us” by forging serious strategic business relationships.

“In today’s environment, I tell companies that there is nothing wrong with being a regional company, and there’s nothing wrong with being a national company,” said Michael K. Robinson, program director, global supplier diversity, IBM, speaking on a panel examining

strategic partnerships and their implications within the global economy. “But, you have to make the decision. At some point, there is going to be a fork in the road from a strategic standpoint. Are you going to be a regional company or are you going to be a global company? To go global, you need to establish the partnerships and relationships.”

Angela Marshall Hofmann, senior director, global trade strategy, Wal-Mart Stores Inc., said building the global capacity of diverse firms is central to the retailer’s strategy. “It’s just in our DNA,” she said. “It’s what our CEO calls ‘Next Generation WalMart.’ When you have that top-down buy-in, it just permeates throughout the organization.”

Two government officials — Alejandra Castillo, national deputy director of the U.S. Department of Commerce Minority Business Development Agency, and Michael Blake, associate director, White House Office of Public Engagement, and deputy associate director of the Office of Intergovernmental Affairs — offered keynote addresses at the summit. Castillo works with MBDA’s Global Export Initiative as part of the Obama administration’s National Export Initiative to double U.S. exports in five years.

In her address at the kickoff event, Castillo said diverse firms can bring several advantages to the global marketplace, notably in the areas of culture and language. Additionally, diverse firms are showing they can be innovative, nimble and open to doing business abroad, she

said. “We have to build scale and capacity. This is something we talk about frequently. It’s a challenge. How do we do that? We ensure that minority-owned companies in particular can create that size and capacity.”

She added, “In order to keep our competitive advantage, we must leverage our diversity. We would be foolish as a nation if we failed to do that. It is because of our diversity that we are able to capture the growing markets around the world.”

Blake struck a similar chord in his address as luncheon speaker. He coordinated outreach to the black and minority business leader community in the White House’s Office of Public Engagement and urged minority suppliers to pursue contracting opportunities within the federal government. Blake noted that federal government contracts total about \$500 billion, including \$403 billion for eligible small firms.

For corporate procurement and supplier diversity managers, along with advocacy organizations, Blake said the federal government is seeking participation from the private sector. “I cannot underscore enough the necessity of you engaging with the federal government,” he said, citing the White House’s Urban Entrepreneurship Forum series, a program of the White House Business Council and U.S. Small Business Administration, an administration initiative that seeks to bolster small and minority business enterprise. One objective of the program is to help small firms achieve scale which is critically important, as nearly 85 percent of the nation’s population live in cities — the most at any time in the nation’s history, Blake said.

Blake challenged more private-sector corporations to find ways to extend their supply chains to diverse firms in the spirit of the BDR. “We can’t help minority businesses get to the scale they need to be without you. A lot of people can be part of the BDR, if they do the right thing,” he said.

“This is not a feel-good conversation,” Blake emphasized. “This is out of economic necessity of seeing where markets are going and seeing where consumers and customers are going collectively as well.”

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## 2011 SUMMIT PROGRAM — BEST PRACTICE DISCUSSIONS AND SOLUTIONS

### The New Realities of Global Supply Chain Procurement

Moderator: Tim McBride, general manager, global finance shared services, and former chief procurement officer, Microsoft Corp.

Participants: Kevin M. Brown, chief procurement officer, Dell Inc.; Timothy S. Harden, president, supply chain and fleet operations, AT&T Services Inc.; Jenette E. Ramos, vice president, operations supply chain rate capability, Boeing Commercial Airplanes, The Boeing Co.; Ruben Dario Taborda, chief procurement officer/enterprise supplier diversity medical devices, Johnson & Johnson Services Inc.; Robert Young, vice president of purchasing, Toyota Motor Engineering & Manufacturing North America Inc.

The engine of globalization has created a monumental shift in the approach that U.S. corporations use to pursue business. From raw-materials sourcing, talent acquisition and establishing markets, corporations understand that a global economy demands new strategies, processes and procedures for remaining competitive in today's highly complex and networked world. Globalization further requires that corporations scale and streamline their operations to meet competitive challenges. That streamlining means tightening and consolidating

supply chains to drive cost savings and seeking greater production efficiencies.

These changes in business have profound implications for diverse firms as well. Their business models also must adapt to the whims of a global economy, if they are to thrive and grow as long-term partners to major corporations. Corporations are identifying suppliers that have the capacity and wherewithal to meet global business needs, potentially creating unprecedented opportunities for growth and sustainability. The survival and next evolution of minority/women business development depends on the ability to discover and develop scalable diverse firms that can satisfy large global procurement contracts.

This summit's panel of procurement executives from BDR members explored new realities of global supply chain procurement, addressing what it will take for diverse firms to prosper on the global stage. More importantly for diverse suppliers, the executives outlined opportunities that their respective corporations are offering to assist firms in becoming competitive suppliers globally. The panel, The New Realities of Global Supply Chain Procurement, also set the stage for further discussions throughout the summit on methods of building capacity through joint ventures, strategic alliances and global business partnerships.

### Emerging global procurement trends

Serving as panel moderator, Tim McBride is responsible for managing the Microsoft global procurement group's

more than \$14 billion in indirect spend, encompassing key areas, such as strategic sourcing, category management, vendor management and procurement professional training and development for a staff in more than 90 countries. Like many large companies, Microsoft procurement governance includes supplier diversity and vendor business development. McBride engaged other procurement executives from BDR members in a wide-ranging discussion of emerging trends in global supply-chain procurement, along with techniques they employ to engage diverse companies in their supply chains.

The practice of outsourced manufacturing is an emerging trend at Dell, said Kevin Brown, who oversees the company's strategic procurement and supply-chain-related initiatives and has led the company's manufacturing operations in the U.S. and Malaysia. What outsourced manufacturing means for diverse suppliers is that technology companies like Dell are seeking greater participation from capable suppliers.

To meet the needs of its customers, Brown said Dell has migrated from being a 100 percent hardware provider to solutions provider, where 80 percent of its manufacturing is outsourced, creating an "end-to-end transition" in its global supply chain. "It's really a change in our DNA from a Dell perspective," he said.

Challenging Dell and other technology companies' supply chains are dramatic changes in global communications, Brown added, naming innovations like cloud computing, mobility and virtualization. "The whole industry has changed drastically. It's a big inflection point in the IT industry creating new procurement opportunities for suppliers," he said.

Over at AT&T, where Tim Harden is responsible for strategic sourcing and purchasing for all aspects of the corporation's business — including wireless, IP-based communications, high-speed Internet access, local and long distance voice, directory publishing, marketing and advertising services — the view is similar. He said AT&T has moved from that of a traditional provider of wireline voice services to mobility and data and video transmission.

As a consequence, Harden is bringing what he called an "operating view

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Tim McBride, Microsoft, left,  
and Mark Harrison BCF

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to sourcing.” A big part of that process, he said, is greater inclusion of supplier diversity in global procurement. Over five years through 2010, AT&T raised its spend with diverse firms to 21.5 percent of total spend to about \$11 billion, Harden said. He called emerging mobile technologies “the sweet spot of how we are spending money.”

Setting goals on diverse company spend levels does present challenges, Harden said. In emerging areas like cloud computing services, lack of an abundance of minority-owned firms competing in the space is an issue, for instance. AT&T’s approach is to examine market segments and what each needs in order to be successful, as global business strategies change, he said.

Integral to AT&T’s solution to build market capacity of diverse firms is to work closely with firms when they are small, developing entities. “Many of our large diverse suppliers started as micro-businesses,” Harden said. “This [mentoring] is about building capability and providing technical assistance to take these microbusinesses to the next level and give them the skill sets that would allow them to grow to be very successful large businesses going forward. We kind of look at this [type of mentoring] as our bench.”

To ensure diverse firms are included in global procurement, Harden said he meets with AT&T business planners early in the planning process to determine where diverse suppliers might be a fit for business. The ability to do global business is vital for diverse firms seeking opportunities with AT&T. “We’re constantly looking for suppliers who can help us internationally,” Harden said.

### Seeking sustainable relationships

In the automotive sector, Robert Young of Toyota Motor Engineering & Manufacturing North America or TEMA in Erlanger, Ky., said his company is seeking to engage diverse suppliers in its supply chain, centering on two overarching objectives:

- An “open door” policy exists between suppliers and the company.
- The goal of collaborations is rooted in long-term, sustainable relationships based on respect.

### Local procurement is a priority

He said the approach to engagement with diverse firms is intrinsic to what he called the “Toyota Way,” a holistic framework guided by company values and principles that dictates how it conducts business on a global basis. “We’ve been working over the last 20-plus years to try to embed processes into our normal, day-to-day business activities to ensure diversity and inclusion are not person-dependent or leader-dependent, but the way we do business here in North America,” said Young, who oversees all vehicle parts and materials procurement and indirect procurement and production preparation for TEMA. Continuous improvement, respect, teamwork, collaboration, fairness and development of team members and supplier partners all are tenets of the Toyota Way, he said.

As the lone health care company with membership in BDR, Johnson & Johnson sells about \$65 billion annually in health care products and services, Ruben Taborda said. Within his purview is the area of medical devices and as supplier diversity leader for the company, he is responsible for enabling value creation, innovation, risk mitigation and supplier diversity across a \$15 billion spend base.

Where diverse suppliers can bring value to Johnson & Johnson is in innovation, Taborda said. Those firms that can assist with that imperative can be positioned for business, particularly as the company seeks to enhance the services side of its business, he said. “At J&J we are a product company. We’re trying to figure out how to become more of a service-oriented company within the total continuum of care,” such as treatment, detection, prevention and disease management, he said. “We’re trying to play in all those areas.”

Further, diverse suppliers that can offer insights into bringing health care solutions to fast-growth global markets will find a willing partner in Johnson & Johnson, Taborda said. “What insights can you give us in the area of services that maybe we’re not catching?” he asked. “The more you know health care systems outside the United States, that’s the kind of insight we want to see.”

Johnson & Johnson’s emerging model seeks to “wrap” service innovation around its extensive product portfolio by

working with health care delivery companies, he said. Additionally, diverse suppliers are needed to bring market understanding around care for ethnic groups, such as blacks and Hispanics — demographic groups diverse companies know well, Taborda said.

He said that he seeks diverse suppliers who can help the company “figure out how to bend the health care cost curve.” Suppliers who can “co-create value” along the Johnson & Johnson value chain make themselves valuable partners, Taborda said. An example, he said, is in the area of prevention. Seventy percent of health care is in chronic care, and those suppliers that can offer innovation into prevention of illness and disease create an advantage for their firms.

### Supply chains evolve

At Boeing Commercial Airplanes, Jenette Ramos’ work in supplier management seeks to develop suppliers to assist it in meeting customer requirements for production readiness. Boeing’s goal is to develop suppliers who can help the company sustain its business into the future. “We have many global competitors just nipping at our heels,” she said. Boeing operates in some 70 nations and is “challenged with diversity of geography every day,” Ramos said.

In a highly technical business like aviation, the Boeing supply chain is demanding and complex. She cited the emerging 787 commercial airplane as an example. Boeing is designing supply-chain processes for this class of airliner and needs diverse suppliers with the technical and business capability to help it meet those challenges and growth. “We’re looking for not only technical innovation, but also strategic innovation and business innovation,” Ramos said.

Trends shaping Boeing’s supply-chain strategy include vast, complex sub-tier networks that are operationally based, Ramos said, who previously served as director of business operations for Boeing Fabrication, an organization of nearly 13,000 employees that serves as the largest supplier of aerospace components and assemblies to Boeing Commercial Airplanes.

“We’re trying to understand the operational state of each supplier, their detailed plans and how they approach

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sub-tier management,” she said. “We are really inviting everyone to engage early. The approach is we need our team to identify risks in the supply chain, so we can help mitigate them together — whether the risks are financial or operational.”

Within their organizations, these chief procurement officers are going to great lengths to find opportunities to develop mutually beneficial relationships with diverse suppliers. Taborda of Johnson & Johnson, noting that the nature of procurement is to consolidate, said “So, I need people that really stand out and have a point of difference.” Harden at AT&T seeks to determine from diverse suppliers “how broad they may be” in seeking to understand where they can help the company meet its procurement objectives in the global economy. Brown of Dell markets the legend of company founder Michael Dell, whose roots were as a small supplier that developed into a \$60 billion company. TEMA’s Young summed up new realities of global supply chains, “You have to be globally competitive. Suppliers hate to hear it, but the ability to be cost-competitive on a global basis will drive future business.”

### **Build M/WBE Global Capacity Through Partnerships**

Moderator: James H. Lowry, senior advisor and former global diversity director, Boston Consulting Group Inc.

Participants: Angela Marshall Hofmann, senior director, global trade strategy, Wal-Mart Stores Inc.; Tiffany Rogers Bussey, founding director, Morehouse College Entrepreneurship Center; Geoffrey G. Evans, director of advanced services for Boeing Commercial Aviation Services and Global Services and Support, The Boeing Co.; Michael K. Robinson, program director, global supplier diversity, IBM; Michael P. Verchot, founding director, University of Washington Business and Economic Development Center.

Strategic partnerships in business encompass a broad range of activities when two or more individuals or entities come together for the pursuit of profit. The broad objective of the partnership is the sharing of resources to facilitate business for profit for the benefit of the co-owners of the arrangement. The U.S. Internal Revenue Service defines a partnership as

“the relationship existing between two or more persons who join to carry on a trade or business” and whereby “each person contributes money, property, labor or skill and expects to share in the profits and losses of the business.”

Partnerships can take various forms, including mergers and acquisitions, strategic alliances and joint ventures. Additionally, partnerships may be arranged legally in various forms, such as general partnerships, limited partnerships and limited liability partnerships, depending on the goals of the arrangement. In partnerships, each party to the agreement is viewed as an agent of the other.

This BDR Summit panel, Build M/WBE Global Capacity Through Partnerships, draws from leading industry and supplier diversity experts who examined various forms of partnerships between corporations and diverse firms and reviewed methods and funding sources for diverse firms to achieve scalability and increase global contracting opportunities with corporations.

### **Following the customer**

James Lowry, a longtime minority business development advocate, prepared the first major study on minority business enterprise development for the U.S. Department of Commerce in 1978, “New Strategy for Minority Business.” It was the precursor to the creation of the Minority Business Development Agency. Introducing the topic, he broadly outlined opportunities that exist for diverse firms to grow in a global economy.

The forming of viable strategic partnerships is a prerequisite for growth, wealth creation and economic development, said Lowry, co-author of “Minority Business Success: Refocusing on the American Dream” with Dartmouth College Professor Leonard Greenhalgh. The two key factors for diverse companies to find success today are going global and forming viable strategic partnerships, Lowry said.

Michael Robinson of IBM and Geoff Evans of Boeing offered insight into how their respective firms embrace and support opportunities to form strategic ventures with diverse firms. Both highlighted that diverse firms seeking business with large, multibillion-dollar corporations must understand how these enti-

ties serve their own customers and how smaller firms can assist them in meeting that mission.

Robinson, who leads IBM’s global supplier diversity initiatives, noted that IBM, in business for more than a century and with business interests in more than 170 countries, began its history as a computer manufacturer, but now is largely a supplier of technology services. IBM outlines on its website, for instance, that its clients include “many different kinds of enterprises, from sole proprietorships to the world’s largest organizations, governments and companies representing every major industry and endeavor.”

IBM products and services “go to where our customers demand us to go,” according to Robinson. Diverse firms, he said, need to adhere to a similar approach when seeking global business, while leveraging relationships they have established with large suppliers such as IBM. “If you see your customers going to those areas, you should be going to those areas from a growth perspective also,” Robinson said.

Diverse companies that have established relationships with major corporations have an advantage in the global marketplace because they already understand the needs and requirements of large suppliers, he said. Those relationships should be used to benefit diverse companies, Robinson added. Diverse firms should prepare globally the same way they would prepare for U.S. business “and grow the company in those areas,” he said.

### **Understanding the global footprint**

Geoff Evans of Boeing said diverse suppliers have two primary imperatives:

Understand the dynamics of what large corporate suppliers like Boeing are facing in the global marketplace.

Ensure the diverse firm’s business model and expertise are relevant as a supplier to large corporations.

Determine “the game your customer is playing,” Evans said. “Ask about the competitive landscape.” Suppliers must understand the global footprint of those large organizations they seek to partner with by gaining the necessary business intelligence, in order to understand the competitive landscape.

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“If I have two suppliers coming in the door, the one that knows the most about the business and brings solutions is going to get more of my attention,” said Evans, whose advanced services team at Boeing is charged with spurring growth of core businesses, driving earnings and managing technology investments.

While a company like Boeing is focused on building airplanes and delivering parts for commercial and government sectors, Evans said suppliers need to be aware that about 25 percent of the company’s revenue comes from services it provides to flying fleets — akin to an automotive service department of an automobile dealer whose work begins after the vehicle is sold.

Offering an example of how Boeing drives strategic partnership with smaller companies, Evans pointed to Oregon firm Insitu Inc., founded in 1994 and regarded as a pioneer in the unmanned aircraft systems technology. In forming a relationship with Insitu, he said Boeing underwrote the company’s development, because it had no presence in the unmanned aircraft industry. From the collaboration, Boeing “saw applications for the technology in other areas,” Evans said.

Boeing stepped gingerly into the relationship without an immediate strategy to acquire the company, but instead worked with Insitu for several years during the 2000s. Insitu is now a wholly-owned, independent-operating Boeing subsidiary. The lesson of the Boeing-Insitu collaboration is that large companies can be advocates for smaller firms and help guide them and navigate business for them, Evans said.

### Areas of growth

Other panelists in the discussion offered insights into the rationale for pursuing strategic partnerships in support of business goals. Angela Hofmann of Wal-Mart said the global retailer ties in its strong global efforts in sustainability, corporate philanthropy and employment opportunity to initiatives surrounding supply-chain diversity.

She said sustainability and supplier diversity are two areas primed for simultaneous growth globally. Wal-Mart also sees recent international trade agreements as offering new opportunities for

its suppliers to reach new markets. Hofmann made that point on Dec. 14, 2011, in testimony before the Subcommittee on Trade of the U.S. House of Representatives Committee on Ways and Means.

Hofmann, whose global sourcing business unit facilitates importing and exporting activities for Wal-Mart, among other responsibilities, said sustainability and its relationship to diverse companies are intrinsic to Wal-Mart’s culture and business plan. She said global sourcing works with Wal-Mart’s supplier diversity function to ensure that programs are being replicated in international markets, starting with women-owned firms as a common denominator in most countries.

She noted that certification programs, for instance, do not exist in many of the foreign markets Wal-Mart is entering, so the company is working with partners to identify diverse businesses for supply-chain opportunities. “Once identified, we let them know they can be part of the Wal-Mart supply chain,” Hofmann said, noting breakthroughs with women-owned foreign firms in Chile.

She calls such developments “game-changers,” as Wal-Mart works directly with governments, as well as nongovernmental organizations. Many foreign entities operate in “pockets” of supplier diversity, such as microfinancing, development and capacity-building, Hofmann said, and Wal-Mart is using its imprimatur to pull the various components together. She said a key Wal-Mart initiative is tracking spend and growth in global supplier diversity programs.

### Closing the wealth gap

Michael Verchot of the University of Washington and Tiffany Bussey of Morehouse College offered insight from an academic viewpoint about how diverse companies can succeed on the global stage.

Verchot, whose Business and Economic Development Center was founded in 1985 and has supported more than 700 diverse businesses across Washington state, said according to research, minority- and women-owned firms need three components for success, irrespective of gender, ethnicity, race or other factors:

- Access to capital.
- Management skills.
- Market access.

However, Verchot, a University of Wash-

ington lecturer in marketing and international business, said research also shows that successful entrepreneurship and business creation are central to quickly closing the “wealth gap” in minority communities.

Bussey’s Entrepreneurship Center at Morehouse College in Atlanta provides services to minority-serving institutions, including contract support in the areas of process improvement, organizational management and infrastructure development by assisting minority entrepreneurship through scholarly research, training and consulting.

Bussey said the center offers an example of a changing paradigm at minority institutions like all-male Morehouse. Such schools were founded on developing social leaders and leading social change, but over time that emphasis has shifted to economic empowerment and developing global leaders with a social conscience, she said.

The challenge of entrepreneurship in a global context seeks to encourage students to create businesses and to be business leaders, she said. The center provides management training to this goal and employs strategic partnerships with minority entrepreneurs, such as with Eric Adolphe Esq., a 2011 BDR summit attendee, Bussey said. Adolphe is president of Center Scope Technologies Inc. and was founder and CEO from 1992 through 2006 of OPTIMUS Corp., a federal government technical contractor.

Moderator Lowry advised additionally that diverse firms ensure they seek business relationships through massive U.S. federal government procurement as another vehicle for growth. He said government can help diverse companies grow through programs, such as the U.S. Small Business Administration’s 8(a) Business Development Program. That longstanding program targets help for small and disadvantaged businesses and seeks to help them make a transition as a mainstream business.

### Mergers and Acquisitions

Moderator: Joan Robinson-Berry, director of Phantom Works unit supplier management, Boeing Defense, Space & Security Division, and small business liaison officer, The Boeing Co.

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Joan Robinson-Berry, Boeing

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Participants: Andy Lee, chairman and CEO, Alorica Inc.; P.I. Joy, founder and president, Think Development Systems Inc.; Ric Powell, president and chief operating officer, Versatex LLC; Billy R. Vickers, president and CEO, Modular Assembly Innovations; Robert V. Wingo, president/CEO, Sanders\Wingo Advertising Inc.

Corporate mergers and acquisitions occur when one company takes over the assets and liabilities of a second firm. Usually, the acquiring firm retains its corporate identity, and the firm that is acquired no longer exists. Acquiring firms may buy some or all of the acquired company's assets or buy up its outstanding shares of stock.

Mergers and acquisitions offer a number of potential benefits, including melding like corporate resources, achieving tax advantages, reducing production inefficiencies and enhancing economies of scale. Additionally, an acquiring firm may seek to increase product market share, capture intellectual rights to products and services, improve its weakness in critical business areas or expand into new geographic markets.

Large companies often may acquire smaller firms as a hedge for gaining future value in a particular market area. Smaller firms may seek to merge with larger companies or be acquired as a means for growth and competitive positioning in the marketplace. Acquisitions can be friendly or hostile. In a hostile transaction, the acquiring firm may ten-

der an unsolicited offer for the company's stock from shareholders or initiate a proxy fight to control its voting shares.

This BDR Summit panel answered the question of "How did they do it?" by examining the path of mergers and acquisitions that entrepreneurs employ to boost their companies. The entrepreneurs share their real world experiences and outline architecture of the deals, noting that in today's dynamic global business environment, companies may have to grow to survive by merging with another company or acquiring other companies.

#### Acquisition strategy

Alorica Inc. is an Asian-owned firm founded in 1999 in the service and support outsourcing industry. Its leader, Andy Lee, relied on an acquisition strategy to help the Chino, Calif.-company grow to scale quickly.

In addition to providing service and support outsourcing through his company's proprietary, Web-based enterprise software suite called Helix, his objective was to create efficient, profitable solutions for service organizations seeking guidance through the re-engineering of their business models to integrate technology and service. Lee had long been an entrepreneur starting companies and even left Alorica for a time during the mid-2000s to join Gateway Inc. as its chief information officer.

Lee said the company's acquisition strategy first involved seeking out inexpensive companies to buy, such as those

on the verge of bankruptcy or operating inefficiently. The acquisition goal was to expand the company into other industry areas, including telecommunications, media, health care, sales and customer service to "expand the verticals that we operated in and also expand the service offerings that we provided," he said.

The key to acquiring other firms, Lee said, is having the right technology and human capital infrastructure "to be able to integrate different businesses and scale your business." Acquisitions helped the one-time startup grow into a worldwide organization now operating in 35 locations with more than 20,000 employees.

#### Ramping up modestly

As one of the country's innovative advertising and media agencies with campaigns in general, urban and Hispanic markets, Sanders\Wingo Advertising has embraced partnering with larger organizations. But, the company has not been afraid to be painstaking in its approach to building business relationships and allowing them to develop, said Bob Wingo, president and CEO.

Its relationship with AT&T started modestly and developed into a thriving collaboration over eight years, he said. By the end of 2010, its business with AT&T blossomed to \$100 million, according to Wingo.

"If that's not commitment, making opportunities happen for minority-owned businesses, I don't know what is," said Wingo, whose Austin, Texas-headquartered agency now has more than 100 staffers in Austin; El Paso, Texas; New York; Los Angeles; Atlanta; and San Francisco. David Sanders founded the agency in 1958, and Wingo joined in 1983.

Sanders\Wingo's deliberative approach in developing its relationship with AT&T served as a model for future partnerships, Wingo said, including the business model that led to the creation of SWK Partners as a means for increasing opportunities for minority-owned media companies in advertising and marketing.

Launched in 2009, SWK, a joint venture between Sanders\Wingo and Kinetic, is the largest minority-owned, -operated and -controlled out-of-home media agency. Launched in 2009, the SWK venture was facilitated by then managing

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director Renee Milliaressis of global media agency MEC, partner to both, Wingo said. Kinetic, a global media firm, had responsibility for all of AT&T's out-of-home media and Sanders/Wingo had historical ties to AT&T as a minority-owned agency.

The aim of the venture was to satisfy a business need, and the partnership gave New York-based SWK the scale, infrastructure, tools and systems to service Fortune 500 clients in offering full-service media capabilities. Negotiations took about nine months to complete, but the ramp-up period occurred even more quickly — about four and one-half months, Wingo said, adding that the launch benefited the partners by taking the time to know each other.

In 2010, MEC was awarded the American Advertising Federation's Mosaic Award for Multiethnic Supplier Partners for helping with the startup of SWK. "Success isn't instantaneous. Opportunities aren't instantaneous. They come with time," David Sanders said. "It is about developing those relationships."

### Strategic succession planning

Billy Vickers of Columbus, Ohio-based Modular Assembly Innovations said successful succession planning among minority-owned companies can bolster small firms. A former all-time great collegiate running back at North Carolina State University, he credited his mentor, Joseph B. Anderson Jr., with getting him primed for business. Vickers joined Anderson's company TAG Holdings LLC in 2005, and, among other duties, had primary responsibility for establishing TAG's modular assemblies division in 2007.

As president and chief operating officer for the division, which comprised approximately 80 percent of TAG Holdings' revenue, his responsibilities included manufacturing, planning and oversight, strategic growth, profit-and-loss and new business acquisitions and development. Vickers said that Anderson helped a spun-off Modular Assembly Innovations win business with Honda North America for tire and wheel assembly. That helped lead to \$190 million in sales in the first year of operations, along with the ramping up of additional facilities in Alabama and Mississippi, he said.

Anderson was a career military man,

graduating from the U.S. Military Academy in 1965 with a bachelor's degree in mathematics and engineering. Among other credentials, he earned two master's degrees from the University of California, Los Angeles, in 1972 and 1973 and attended the U.S. Army's Command and General Staff College in 1977.

Anderson joined General Motors in 1979, culminating with a June 1990 appointment as general director, body hardware business unit, Inland Fisher Guide Division, a GM business unit with 7,000 employees and revenues of \$1 billion. He left the company in December 1992 to go into business.

Vickers said Anderson, who did not have children, nonetheless wanted to create a legacy of minority business and took Vickers and Modular Assembly Innovations under his wing. "He said, 'I want to create wealth for other minorities.' I was fortunate to work for Joe. He's my mentor," Vickers said, noting that he has been able to evolve the company through Anderson's guidance beyond its core tire and wheel business to include supply-chain management, raw-materials purchasing and research and development design engineering.

### "Stump the Chump"

Besides receiving "a lot of blessing" to get his business recognized by large corporations, Ric Powell of Versatex LLC in Cincinnati, Ohio, joked with the BDR summit panel about using an approach he called "Stump the Chump." Versatex LLC, a d.e. Foxx & Associates Inc. and TTS company, provides sourcing and supply-chain management solutions, with Powell responsible for establishing and executing the strategic and operational direction of the company.

He knows about promoting business ventures. Powell was co-founder and managing partner of Accel Advisors Inc., a strategic sourcing and segment marketing consulting firm, worked in emerging markets at Cincinnati Bell and served in marketing and promotions at Adidas America Inc., covering the states of Kentucky, Tennessee, Arkansas, Mississippi and Louisiana.

Versatex LLC was working with The Procter & Gamble Co. to manage the consumer products corporation's contingent labor force in North America.

Powell credited relationships with P&G procurement and supplier diversity officials, including Rick Hughes, Icy Williams (retired) and Dwain Carver, for giving Versatex LLC an opportunity, when it would be easy for such a large conglomerate to prefer to give its business to bigger, more established suppliers.

It was precisely the opportunity to work with P&G that resulted in Powell's Stump the Chump moniker. What it means for a small, minority-owned firm, he said, is not masking deficiencies demanded in the procurement process, but asking tough questions internally in order to meet the goals of the customer.

"We asked, 'What is it going to look like when the multimillion dollar companies submit their proposals?'" Powell said. "We knew that we had to deliver more. We began to get brutally honest with each other, and we began to talk about how to make financial guarantees and just expose all of the gaps that we had in our overall model." Information gathering was central to the process, he said. Powell's promotion skills convinced the former president of P&G Latin America to come to Cincinnati to advise Versatex LLC, where he was bombarded with questions, according to Powell.

### Searching for next level of growth

P. I. Joy of Think Development Systems, an Asian-American entrepreneur from India, said he has built his software company always on "finding the next level of growth." In a career spanning 30 years in various business segments, Joy, among accomplishments, founded the first Indian-owned television network in the U.S., providing digital broadcasts of news, weather, business, health, sports and entertainment of local mainstream, ethnic Indian and subcontinent Indian cultural programming.

Joy said he seeks to establish businesses that fill a market need and works with large corporations to ramp up. Think Development Systems took root in the Atlanta area in 1998 to provide global software solutions to organizations managing Y2K conversion issues. From there, after developing a range of core competencies, Joy said the company expanded into broader information technology products and services

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to U.S. corporations. The former General Dynamics engineer said he seeks to bring in resources from overseas to help meet the needs of clients.

Following the terrorism that occurred during the events of Sept. 11, 2001, Joy targeted his firm to meet requirements for facial and fingerprint recognition software. "Everyone was concerned about what to do next. Everyone was talking about biometrics," he said. "Security became an emerging market."

Joy said that following initial development work, he partnered with universities and arranged for global alliances to get algorithms incorporated in the company's software platform and tested in India and Sri Lanka. He said he always is thinking about how to develop his company as a mainstream business. The key was already having the technical expertise that would attract partners and suitors, Joy said.

"If you go to the big corporation, and you don't have anything in your hand, how can you ask the billion-dollar company to give you business?" he asked. "You must make sure you have proper knowledge. You have the knowledge, and they have the expertise, so you let them know what you have."

Joy also has aligned with other companies to pursue entrepreneurial activities in next-generation wireless communications, wireless security and cyber security. On top of all his high-tech activities, he founded American United Bank in Georgia, a minority-owned community bank, to assist the regional minority population of Gwinnett County, Ga.

### Joint Ventures & Strategic Alliances

Moderator: Cyndi Hopkins, director, global supplier diversity, Dell Inc.

Participants: Melvin Brown, president and CEO of StarSource Management Services Inc.; John Carter, president and CEO, Carter Brothers LLC; Berto Guerra, CEO, Avanzar Interior Technologies Ltd.; Brian Kernan, senior director, enterprise IT sourcing and vendor management services, The Kroger Co.; Rosa Santana, founder and CEO, Integrated Human Capital LLC.

Today's dynamic global economy demands that companies consider a number of methods for achieving growth and scale, including joint ventures and strate-

gic alliances. The joint venture presents a key opportunity for growth and can bring innumerable benefits to each party in the transaction — whether the goal is capital access, quick entry into new markets, raw-materials sourcing, production synergies or the spreading of risk.

Joint ventures are business enterprises where a business structure is established for specific purposes. The overarching purpose of the joint venture, formed as a legally independent company, is for each side to pool its resources and save on costs. But, to be successful and meet the goals of each party in the transaction, the joint venture must be rooted in sound business needs.

Joint ventures demand meticulous planning and strategy as typically differing corporate cultures, business structures and strategic plans must operate in concert. Each party to the venture should understand what each expects to derive from the transaction and offer a firm commitment to the goals and expected results. Trust, communication and cooperation are vital components of successful joint ventures.

Strategic alliances offer two firms an opportunity for growth by aggregating resources on specific projects for a defined period of time, according to the Association of Strategic Alliance Professionals, a professional association that promotes alliance management. Normally, the strategic alliance does not generate the level of legal involvement as the joint venture, but is nonetheless similar because it requires necessary trust and communication between the parties for the arrangement to find success.

ASAP noted that businesses entering strategic alliances typically do not compete directly against each other in the marketplace, but offer similar products or services to similar audiences. Global strategic alliances are vital today for companies seeking cooperation across national borders, industries and governments.

The key exploration of this BDR Summit panel was how successful joint ventures and strategic alliances are achieved and how diverse companies can gain scale through joint ventures or strategic alliances.

### How joint ventures, alliances form

Panelists leading diverse companies

discussed the nuts-and-bolts process of forming and successfully executing joint ventures and strategic alliances, along with highlighting interesting and intangible twists and turns that inevitably arise when two business entities join forces.

Here are some examples:

Berto Guerra of San Antonio, Texas-based Avanzar Interior Technologies noted how his longtime association and friendship with a national business and political leader set the stage for a joint venture opportunity that would grow into a \$300 million-plus annual business in the automotive sector.

Melvin Brown of StarSource Management Services in Detroit, who leads a company that specializes in laundry/uniform services and distribution, highlighted how diverse firms can win contracts on a simple business proposition — value.

Rosa Santana of staffing firm Integrated Human Capital in El Paso advised that diverse firms not be intimidated in their dealings with large corporate partners when forging business collaborations, recommending that owners and entrepreneurs seek partners with "cultural synergies."

John Carter of Carter Brothers in Atlanta, who founded the electronic security and fire and life safety company with his brother Cris, a former NFL player, said he approaches corporations for collaborations in the role of the "speedboat" to help get them into markets.

### Satisfying markets

Guerra had been working as an executive for SBC Communications, now part of AT&T, when his friend, former San Antonio, Texas, mayor and Clinton administration cabinet official Henry Cisneros, advised him of plans by Japanese automaker Toyota in the early 2000s to site a manufacturing plant in the area to manufacture its Tundra and Tacoma line of vehicles.

The opportunity meant that for the first time in U.S. history an original equipment manufacturer would reach out to Hispanics as a first-tier supplier, Guerra recalled. He retired from AT&T after 27 years and formed Avanzar with Cisneros and others as partners to supply vehicle interior equipment to the plant. But, that was easier said than done. Guerra learned that

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to reach scale to accomplish the work, he needed a partner — and \$83 million.

Meantime, then President George W. Bush, the former governor of Texas, suggested that established U.S. companies also be involved in the project, and Guerra was introduced to Johnson Controls, the Milwaukee, Wis., automotive interiors supplier to Toyota, in what he termed a “shotgun wedding.” He said it turned out to be a good move for his fledgling company to partner with Johnson Controls because of its market might and credibility.

“The automotive industry is very capital-intensive. So, we had to figure out a way to find \$83 million. Our biggest obstacle was money and getting to know each other as partners,” Guerra said. Marshalling the training and relationships he had received during his career with AT&T, he was able to scrape together the necessary investment dollars to complete the deal, and by 2005, was working side-by-side on the Toyota project with Johnson Controls.

Guerra said that deal has helped to put Avanzar on solid footing, and by 2011, the company was generating \$300 million a year plus another \$120 million at an affiliated San Antonio Toyota dealership. His efforts epitomize how diverse companies can boost wealth creation and economic development in minority communities. Avanzar and the dealership support nearly 1,000 employees, Guerra said.

### Bringing value to the deal

In 1998, StarSource Management Services established a joint venture with ARAMARK Uniform Services, a \$2 billion global manufacturer and supplier of protective clothing and laundry/uniform services. StarSource CEO Melvin Brown said the joint venture serves as an example of how a transaction can create scale and capacity. The partnership with ARAMARK thus positioned StarSource as a Tier 1 supplier with automotive giant General Motors.

Brown had taken a circuitous route to entrepreneurship. A trained scientist, he worked at companies such as Goodyear Tire & Rubber and DuPont. At Goodyear, he held two patents for processes to recycle chemical reaction waste into

reusable solvents and at DuPont helped introduce the use of Kevlar fabric into automotive tires, ballistic fabrics and industrial products.

StarSource emerged in 1987 when Brown owned 51 percent of a janitorial chemical products company formed with a large Michigan-based, nonminority-owned, janitorial-sanitation distribution company. Joining in the venture with ARAMARK, where he held a 51 percent equity stake, enabled General Motors to recognize StarSource as a Tier 1 minority-owned firm.

By 2003, StarSource became 100 percent minority-owned, as Brown acquired ARAMARK’s 49 percent equity, and StarSource, soon after, was awarded its first sole-source General Motors corporate contract. Partnering with ARAMARK meant not having to “reinvent the wheel of the inventory, distribution and ownership of the supply chain. That’s what the \$2 billion partner brought to the table,” he said.

Central to StarSource’s success with General Motors, Brown said, has been his company’s penchant for providing value to the arrangement. That meant “taking costs out of the system” by removing inefficiencies, he said, noting laundry and uniform services hardly was a core business for General Motors. Bringing value to the table, “that’s the baseline,” Brown said. “What value are you going to be able to provide for that customer? You have to understand what that value is and what that need is for the customer.”

Brown said his biggest challenge was getting General Motors managers to accept that “the tail could wag the dog” as StarSource could help General Motors drive top-line revenue growth through the diversity channel at a substantially reduced cost. The opportunity provided StarSource a resume for contract opportunity with other large firms, including Johnson & Johnson, Kodak, General Mills, Ford and Delphi Automotive, driving StarSource revenue past \$100 million, he said.

### Cultural synergies

During her corporate career, Rosa Santana served as vice president and director for two of the large global staffing companies. Amid downsizing, she founded her own company, Integrated Human Capital.

Having achieved success in the corporate business world, Santana had distinct ideas about how joint ventures and strategic alliances should work.

She directs the sales and operations functions of her El Paso, Texas-based firm and affiliated companies in the United States and Mexico, forming several strategic alliances with majority- and minority-owned companies to offer services globally. Hispanic Business magazine ranked Integrated Human Capital as the 10th-fastest growing Hispanic-owned company for 2010 and the firm was ranked No. 189 on the Hispanic 500 list for 2010.

Santana said working with large corporations can present challenges for diverse firms given the differences in the size and scale of the partners, but advises minority- and women-owned companies to be diligent in how they develop the relationship. She said it helps for the partners to be “culturally the same,” because if “you are ‘here’ and they are ‘there,’ the relationship is not going to work.” One of her major partners is Berto Guerra’s Hispanic-owned Avanzar Interior Technologies.

Most importantly, according to Santana, it is vital that minority firms establish wide-ranging relationships throughout the organization because major corporate partners will have many layers of management. “You have to have relationships with your partner companies at different levels. You need to make sure that you have the relationship at the very top level and at a couple of other different places. If that top person leaves...then, you have to start all over again selling the value of what you are doing,” she said.

The key is insisting that terms of the alliance agreement be followed through, she said. Through the years, Santana, a board member of the Southwest Minority Supplier Development Council, has acquired a keen interest in minority business development and has dedicated countless hours mentoring other diverse firms.

### Guiding a speedboat

Brothers John and Cris Carter formed Carter Brothers in 2001, placing a premium on the experience of the executive management team, counting more than 100 years of expertise in electronic security and fire and life safety. John Carter

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said Cris challenged him to apply the corporate growth and sales acumen he had acquired over the years to build a winning company. His vision and ability for business performance is credited with positioning Carter Brothers as a fast-growth company in the fire and security industries.

As president and CEO, John Carter is responsible for the execution of the corporate vision, strategic-growth initiatives, customer satisfaction and day-to-day operations. Carter Brothers has developed business relationships with some of the nation's top corporate brands, including Wells Fargo, Tyco, General Electric, Frito-Lay, Standard Register, BP and Grainger.

John Carter said his vision has been to position the company as a "speedboat next to an aircraft carrier," assisting large corporations that may have trouble traversing market opportunities because of their corporate girth. "If you can enter into a partnership with them, you can act as that channel to help them go to market and have a quicker turnaround," he said.

Forging alliances is part of what John Carter calls the company's "playbook," taking a page from Cris Carter's stellar NFL career. The playbook is the foundation of the platform for the company's growth, John Carter said. It also levels the playing field between diverse firms and large corporations when competing for business, he said.

John Carter cited, as an example, the business relationship the company began with General Electric, whose managers asked how a small firm like Carter Brothers could compete for major contracts. John Carter said his strategy was to outline the wherewithal supporting the company through its various business relationships and how that positioned it to compete.

"Those partnerships and strategic alliances allowed us to start a relationship with GE," he said. "The philosophy is being able to bridge the gap, so you are playing on the same scale, and if we can kind of level off the playing field, that is going to give us more opportunities as minority businesses."

### Establishing trust

In his role with Kroger, Brian Kernan is responsible for information technology

sourcing and governance, IT procurement, vendor and contract management, telecommunications expense management, negotiations, asset compliance and building management. In working with vendors to bring third-party services to Kroger, he emphasized that trust is what corporations seek with partners in joint ventures or strategic alliances.

Kernan said Kroger eagerly seeks opportunities to collaborate with diverse firms as part of the company's strategy to control IT costs, augment internal staff and enhance sourcing strategies. He said the key to relationships is having corporations and vendors "step down the same path."

Flexibility on the part of suppliers working with corporations is another key attribute to developing successful supply-chain collaboration, according to Kernan. "A lot of times when you have an agreement, everybody has a different agenda to make their company successful. But, having a similar agenda where you are on the same page is important," he said.

Kernan pointed to Kroger's relationship with Ascendum Solutions LLC, a minority-owned global IT solutions provider where Kroger holds a minority stake. Ascendum's approach seeks to use a combination of strategy, people, processes, technology and infrastructure to assist clients to meet specific business challenges. He said the company has helped Kroger reduce costs and embark on a quest to establish a quality-driven IT culture that will enable even greater success in the highly competitive retailing market. "We want to partner with companies with similar values," Kernan said.

### Investment Banking

Moderator: Tarrus Richardson, CEO, IMB Development Corp.

Participants: Michael J. Kehres, vice president, Dearborn Capital Corp.; Daphne Dufresne, founding partner and managing director, RLJ Equity Partners; Derek Jones, managing director, Credit Suisse Customized Fund Investment Group; David Perez, managing director, Palladium Equity Partners.

Acquiring capital always has been a challenge for diverse companies. Whether the need is to fund an expansion, purchase inventory, ensure payroll or enter new markets, minority- and women-owned companies complain often that a

lack of capital through traditional financing sources hurts their effort to grow their companies to scale.

Yet, many financial professionals and supplier diversity advocates believe diverse firms must begin to consider alternate sources of capital funding beyond traditional bank lending, for instance. For diverse suppliers to reach the next levels of growth and build operating capacity, alternative financing sources, such as venture and equity funds, must be brought to bear in greater concentrations.

Advocates believe that financing of diverse firms is a national imperative. Monika Mantilla, president and CEO of Altura Management, a New York firm that supports the emerging money manager space, said minority firms historically have not been part of the investment management and financial services industries to the detriment of minority entrepreneurs, minority communities and the nation.

"It requires capital to build capital, and it requires access to build capital," Mantilla said. Her company assists institutional investors, such as pension funds, in understanding how to work with smaller and diverse investment management firms that support diverse firms.

As a source of financing, Mantilla and other financial experts believe that public pension funds and corporate dollars need to flow to diverse investment management firms, as a means of providing needed capital to diverse firms. Institutional investors are "only fishing in a certain portion of the tank," she said, and such barriers need to be broken down if diverse firms are going to succeed.

"It's a close business. It's a business of relationships. It's a business where consultants love to work with large firms," Mantilla said. "There are a number of barriers that we are trying to overcome to, ultimately, achieve the goal of corporations opening themselves to professional services and value-added services — the areas where, ultimately, minorities need to grow."

A Kauffman Foundation study, "Venture Capital Funds Investing in Minority-Owned Businesses: Evaluating Performance and Strategy," by Timothy Bates, professor emeritus, Wayne State University, and William Bradford, professor

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of finance and endowed professor of business and economic development, University of Washington, published in September 2008, noted the “strong performance” of minority-oriented private equity funds in the 1990s as a source of capital for diverse firms. The study found that the internal rate of return on investments to diverse companies that were initiated after 2001 and realized by year-end 2006 was an impressive 29.1 percent.

This BDR Summit panel of top-level investment banking experts who manage funds geared to diverse firms discussed funding opportunities for companies to build scale and increase contract opportunities. Additionally, the panel discussed the role of institutional investors and corporations in identifying and securing funding and opportunities.

#### **\$30 billion on table**

In opening the critical discussion on originating funding sources for diverse firms, moderator Tarrus Richardson offered that \$30 billion of capital was “represented at the table” comprised of this panel. But, he said, “We haven’t figured out how to spend it. If we can’t figure out how to unlock this capital for this market, it is sort of shame on us all. We want to spend money. That’s how we make money.”

Richardson’s IMB Development is an investment holding firm focused on buying, converting and building small- and middle-market businesses with revenues of \$10 million to \$100 million into value-added minority business suppliers to government and Fortune 1000 corporations. With more than 20 years of experience in private equity, mergers, acquisitions and community leadership, Richardson has co-founded or served as CEO of five companies: ICV Partners, a \$440 million private equity fund; Chung’s Foods, a \$20 million Asian food company; Gold Coast Securities Ltd., a \$4 million investment bank in Ghana; and Harvard Business School Cleaners.

Richardson said equity firms want involvement with financing diverse firms and sought to assuage entrepreneurs’ perceptions about equity practices, including the notion that such firms have a reputation for taking over an owner’s company, as a summit participant related during a question-and-answer period.

The questioner suggested that firms do more to educate entrepreneurs about financing and change underwriting criteria on deals.

As an example, Richardson offered how the late Baltimore-born entrepreneur Reginald F. Lewis was able to leverage equity funds to acquire Beatrice International Foods, a \$500 million European conglomerate in food processing and distribution, in 1987. Lewis, who died in 1993, rocketed to the status of the most prominent black businessman in the United States with the purchase, which he financed with less than \$10 million in capital, Richardson noted. The purchase of Beatrice was then the largest offshore leveraged buyout in the history of American business. Richardson challenged diverse company owners to ask what equity investors are doing wrong in order for entrepreneurs and corporations to consider them a viable funding option.

#### **Leveraging available funds**

Derek Jones of Credit Suisse advocated an increased role among corporations in funding diverse companies. Despite increasingly diverse corporate workforces today, money from pension funds amounts to only a two percent investment in minority- and women-owned companies, he said.

As a managing director of Credit Suisse’s Customized Fund Investment Group, which manages more than \$27 billion of private equity commitments, Jones is responsible for managing client relationships and conducting due diligence on both fund investments and direct co-investments. He said corporations can do more to fund minority-owned firms, adding that private equity is the most potent, powerful form of capital in the marketplace.

Jones suggested that corporations and the U.S. Treasury Department seek closer coordination between efforts at diverse-company funding. “There is a huge opportunity to be as inclusive as possible, so that we are capturing all the talent,” he said.

He also oversees his firm’s emerging domestic manager practice that has invested more than \$1.1 billion dollars with a focus on women and minority private equity managers. Jones said managing pension fund money reflects

diversity in society, since the funds are entrusted with the retirement savings of public workers, such as firefighters, police officers and teachers.

Jones has been a part of Credit Suisse’s EDM network for approximately 20 years and was an active director and former treasurer of the National Association of Investment Companies, the longest-serving organization representing private equity firms that invest in the EDM space. He also is a founder and former board member of The Marathon Club, a network of black and Latino executives focused on accessing capital, developing talent and creating deals.

“We are looking for best-of-breed, best-in-class, women and minority private equity managers,” Jones said of the EDM practice. “It’s not a social program. We get paid by returning our capital, plus a return.”

#### **Catalyst for growth**

Daphne Dufresne of RLJ Equity Partners, founded by black businessman Robert L. Johnson, known for creating the Black Entertainment Television brand and The Carlyle Group, said equity investors want to be a catalyst for growth. Among her four portfolio companies are a Brazilian tour operator, debt collector, vinegar company and precision-machining firm.

“When we invest in a business, we want to look for opportunities to grow the business. We are looking for minority operators” with proven management teams to enhance value through strategic capital infusions and operational involvement, said Dufresne, who is responsible for her firm’s sourcing, executing and monitoring investments, management and fundraising. Typically, RLJ Equity Partners provides executive help to the company as a board member, advisor or mentor to the CEO in an effort to grow top-line revenue, she said.

As part of the evaluation process, Dufresne said she looks carefully at noncore assets that may need to be sold or spun off as a means for improving the company’s balance sheet. She also examines what she calls “extra stuff” that founders may have embedded in the business, such as relatives on the payroll. “We’re looking at bottom line. We’re looking at profitability,” Dufresne said.

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Succession planning is also on the radar of equity investors, Dufresne said, as a means for stabilizing the company for continued and future success. However, like Richardson, she said the goal of the deal is not to compromise ownership of the company, but to grow, so everyone benefits.

“We don’t always have to take a control position,” Dufresne said. “We can take a minority position, but we do want to be at the table. So, there is going to be a sharing of decision making. That can be a scary thing for a lot of owners. That can be an impediment.”

### Role of equity

Dearborn Capital Corp., a Ford Motor Co. subsidiary licensed in 1978 by the U.S. Small Business Administration to do business as a specialized small business investment company, offers an example of how corporations can assist minority suppliers to become viable, independent mainstream suppliers. SSBICs utilize their own capital and funds borrowed at favorable rates through the federal government as profit-motivated businesses. A major incentive for SSBICs is sharing in the success of the small firms they help to grow and prosper.

In the case of Dearborn, the goal is to help those suppliers serve Ford through support of Ford’s minority supplier development program. Michael Kehres, vice president at Dearborn Capital, said the fund is relatively small with maximum loans of \$1 million or less to assist early-stage firms acquire capital equipment or provide expansion dollars for mature businesses.

Financial assistance consists typically of five- to seven-year term loans at market interest rates. Suppliers also receive management assistance and business advice based upon operational analysis. Dearborn also monitors the financial results of portfolio companies. Ford senior-level managers make up Dearborn’s board of directors.

Kehres said minority suppliers often are reluctant to consider venture funds for financial assistance, preferring to seek funding from their own banks. But, what occurs, ultimately, is the bank process becomes time-consuming, and suppliers may miss manu-

facturers’ production schedules. According to Kehres, then, they seek help from a venture fund at “almost past the point of no return.” Banks “tell you all the right things, until it is time to sign the papers,” he added.

Kehres agreed with other panelists that owners are worried about funds taking an equity stake in the business and losing leadership control. However, he called it a misconception that venture funds singularly want to gobble up companies. In Dearborn’s case, the ultimate objective of taking equity is that the supplier becomes a stronger partner with Ford, Kehres said.

### Hispanic market opportunity

David Perez of Palladium Equity Partners, a private-equity investment firm with committed funds of approximately \$1 billion, said his company seeks out companies for investing that generate \$5 million to \$25 million in cash flow. He said his focus is on the growing Hispanic market in the U.S.

The firm manages several funds, including Palladium Equity Partners III L.P., a buyout fund with \$775 million in committed capital that targets companies in the Hispanic demographic. Palladium has invested more than \$2.5 billion of equity in more than 65 investments over 20 years. Perez, chairman of the board of directors of the National Association of Investment Companies in 2010, noted recent U.S. Census statistics that highlight that while Hispanics make up one-sixth of the U.S. population, they account for only one-fifteenth of U.S. gross domestic product.

Using the Hispanic food item salsa as an example, Perez said Palladium is seeking Hispanic-centric products that have the opportunity to be mainstream. What equity funds seek is to add value to promising opportunities, he said.

“You grow revenue; you streamline your costs; and you add capabilities to the company,” Perez said. “Capabilities mean you add leadership, or you take it to a new market or new areas where the company wasn’t before. If you do all of those things, you have a shot.”

Like other panelists, he called it a myth that equity funds are focused on buying control of companies, despite their in-

sistence on influencing company leadership in exchange for the stake. But, Perez said, “We’re also comfortable buying a minority stake in the company, injecting capital to get it to the next level.”

Moderator Richardson concluded the discussion by asking audience participants what equity funds were doing wrong. He asked participants to consider the question of how diverse entrepreneurs and corporations can consider them as viable funding sources.

### CONCLUDING SUMMARY

Statistics support that minority-owned firms would be formidable, if fully capitalized. Some six million minority-owned companies in the United States generated \$1 trillion dollars in gross receipts and contributed 5.8 million jobs to the economy in 2007, according to the U.S. Census Bureau’s Survey of Business Owners for that year.

The latest available Census statistics were released in June 2011 and published by the Minority Business Development Agency of the U.S. Commerce Department. Statistics also underscore the growth and potential of minority-owned companies.

MBDA’s analysis shows that between 2002 and 2007, the growth of minority-owned firms exceeded that of nonminority firms in gross receipts by 55 percent to 21 percent and in job creation by 24 percent to -1 percent. Additionally, minority-owned firms were more likely to be global exporters than nonminority firms, according to MBDA.

In staging its 2011 Summit, “Building the Global Capacity of Minority and Women Business Enterprises through Strategic Partnerships,” Billion Dollar Roundtable Inc. continues to support aggressive engagement from corporations, investors, government and others to lead in ensuring the growth and building of capacity for diverse firms in the global economy. ■

### About M. V. Greene

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