Strategic Supplier Classification

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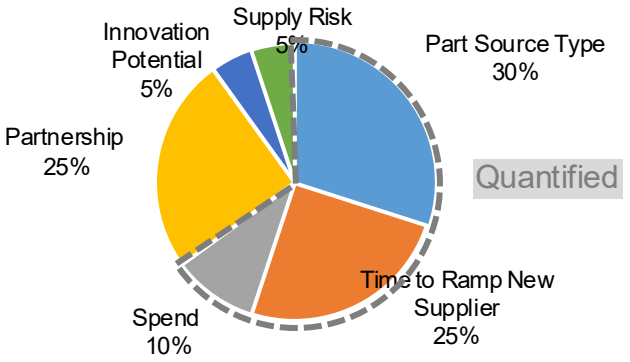
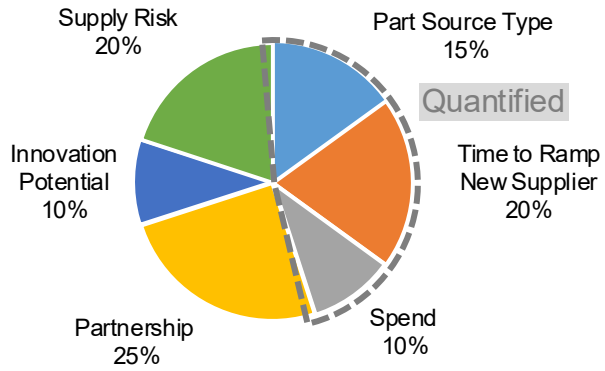
Evolving Segment Methodology Summary

	Before	After	Detail
Criteria	Spend	1) Spend 2) Supply Dependency • Part Source Type • Time to Ramp New Supplier 3) Supply Risk 4) Partnership 5) Innovation	
Weight	Unified	Customized by Unit A and B	
Output	Concentrated on large spend supplier	Fairly allocated across Unit A and B	

Unit A



Unit B



	Unit A	Unit B	Combined	Total
Strategic	25	10	7	42 (4%)
Critical	61	23	16	100 (9%)
Operational	263	48	26	337 (30%)
Transactional	513	109	2	624 (55%)
Exit	6	8	3	17 (2%)
Total	868	198	54	1120

How to Conduct Segmentation?

Segmentation Activities

1. Collect supplier information from SRMs (Supplier Relationship Manager) as criteria

- Collect both quantifiable and qualitative data from SRMs to serve as the criteria for segmentation.
- Categorize data by BU and commodity to pinpoint a supplier's strategic importance across various GBUs and commodities.

2. Develop a standardized equation and customize weights to calculate scores

- Develop a standardized equation that considers all the collected criteria.
- Apply tailored weights for each BU to calculate scores for every supplier.

3. Rank and segment suppliers based on scores

- Rank suppliers in order of their scores.
- Categorize suppliers into segments based on predefined percentage thresholds for each category.

Key Questions to Answer

1. How important is the supplier to you?
2. How complex is it to change supplier?
3. Impact of supplier on future spend, costs and revenues?
4. Are they critical to the business operations and brand?
5. Level of supplier performance and associated risks?
6. Organizational and cultural fit with supplier?
7. Innovative capabilities of suppliers?

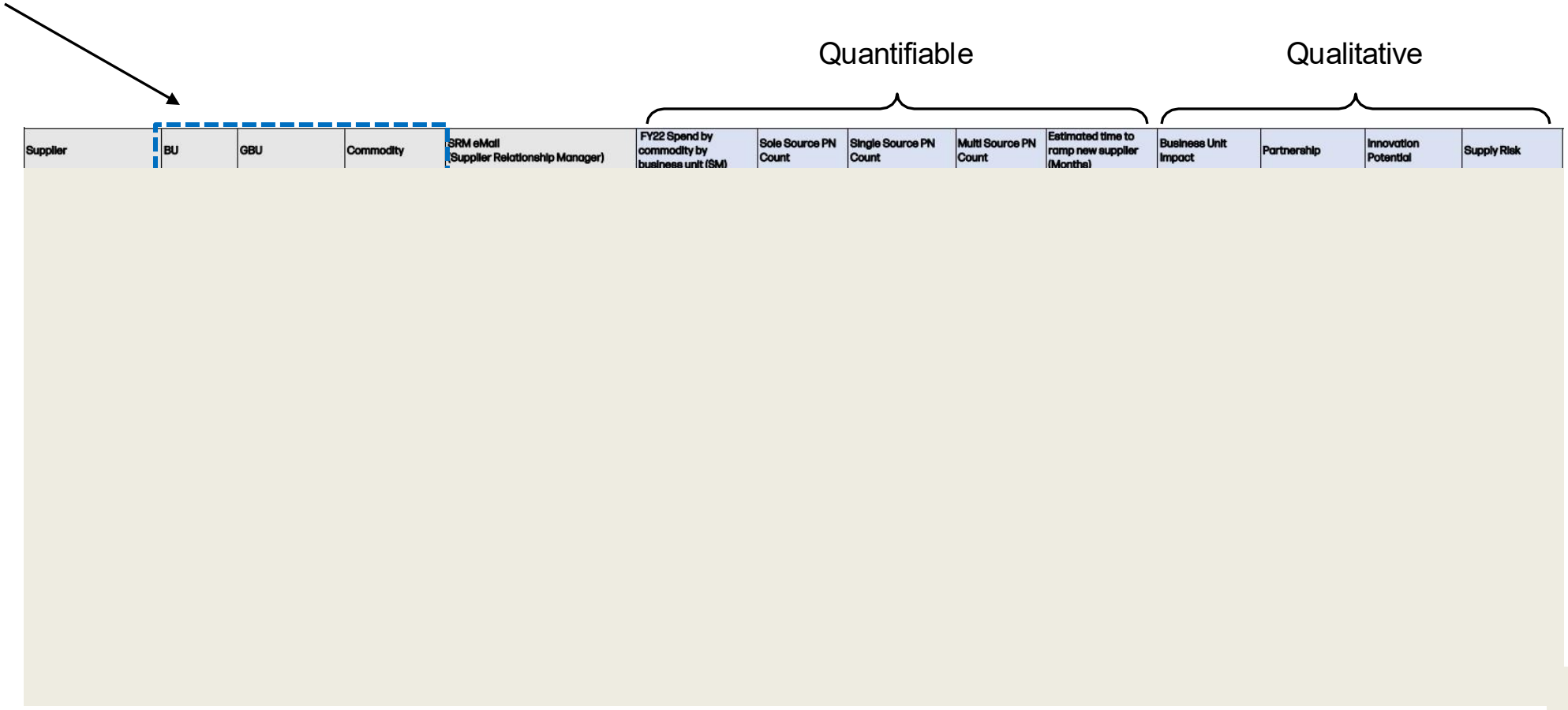
1 Collect supplier information from SRMs as criteria

Categorize data by BU and commodity to pinpoint a supplier's strategic importance across various GBUs and commodities.

If a supplier supports multiple commodities, it receives separate scores for each.

In the final evaluation, we consider the highest score as the definitive one.

Collect both quantifiable and qualitative data from SRMs to serve as the criteria for segmentation.



2 Develop a standardized equation and customize weights to calculate scores

$$\text{Score} = \frac{W_0}{100} \times \left(\left(1 - \frac{W_1}{100} \times \left(1 - \frac{[BU\ Impact]}{3} \right) \right) \times \left(W_2 \times \frac{[PN_{sole}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]} + W_3 \times \frac{|PN_{sinssle}|}{[PN_{sole}] + |PN_{sinssle}| + [PN_{multi}]} + W_4 \times \frac{[PN_{multi}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]} + W_5 \times \left(1 - \frac{1}{1 + \left(\frac{[Ramp\ Time]}{12} \right)^2} \right) \right) \right) + W_6 \times \left(1 - \frac{1}{1 + \frac{[Spend]}{100}} \right) + W_7 \times \frac{[Partnership]}{3} + W_8 \times \frac{[Innovation]}{3} + W_9 \times \frac{[Supply\ Risk]}{3}$$

BU	GBU	BU Scale	PN Sole Source Count	PN Single Source Count	PN Multi Source Count	Supply Chain Dependency	Time to Ramp New Supplier	FY22 Spend	Partnership	Innovation Potential	Supply Risk	
	Variable	W_0	W_2	W_3	W_4	Max W_2-W_4	W_5	W_6	W_7	W_8	W_9	Total Score
Unit A	C	100	30	20	1	30	25	10	25	5	5	100
Unit A	D	79	30	20	1	30	25	10	25	5	5	100
Unit A	E	66	30	20	1	30	25	10	25	5	5	100
Unit A	F	61	30	20	1	30	25	10	25	5	5	100
Unit A	G	50	30	20	1	30	25	10	25	5	5	100
Unit A	H	50	30	20	1	30	25	10	25	5	5	100
Unit A	I	50	30	20	1	30	25	10	25	5	5	100
Unit B	J	100	5	5	1	15	20	10	25	10	20	100
Unit B	K	80	5	5	1	15	20	10	25	10	20	100
Unit B	L	60	5	5	1	15	20	10	25	10	20	100
Unit B	M	53	15	10	1	15	20	10	20	9	6	100
Unit B	N	52	5	5	1	15	20	10	25	10	20	100

2 Supplier Score Breakdown

Score

Purple = weight set by core team

Blue = value input by SRM

Business Unit Impact

$$\frac{W_0}{100} \times \frac{[BU\ Impact]}{3} \times \left(\text{Parts Sourced Type} + \text{Ramp Time} \right)$$

Parts Sourced Type

$$W_2 \times \frac{[PN_{sole}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]} + W_3 \times \frac{[PN_{sinssle}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]} + W_4 \times \frac{[PN_{multi}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]}$$

Ramp Time

$$W_5 \times \left(1 - \frac{1}{1 + \left(\frac{[Ramp\ Time]}{12}\right)^2}\right)$$

+

Spend Impact

$$W_6 \times \left(1 - \frac{1}{1 + \frac{[Spend]}{100}}\right)$$

+

Partnership Impact

$$W_7 \times \frac{[Partnership]}{3}$$

+

Innovation Impact

$$W_8 \times \frac{[Innovation]}{3}$$

+

Supply Risk Impact

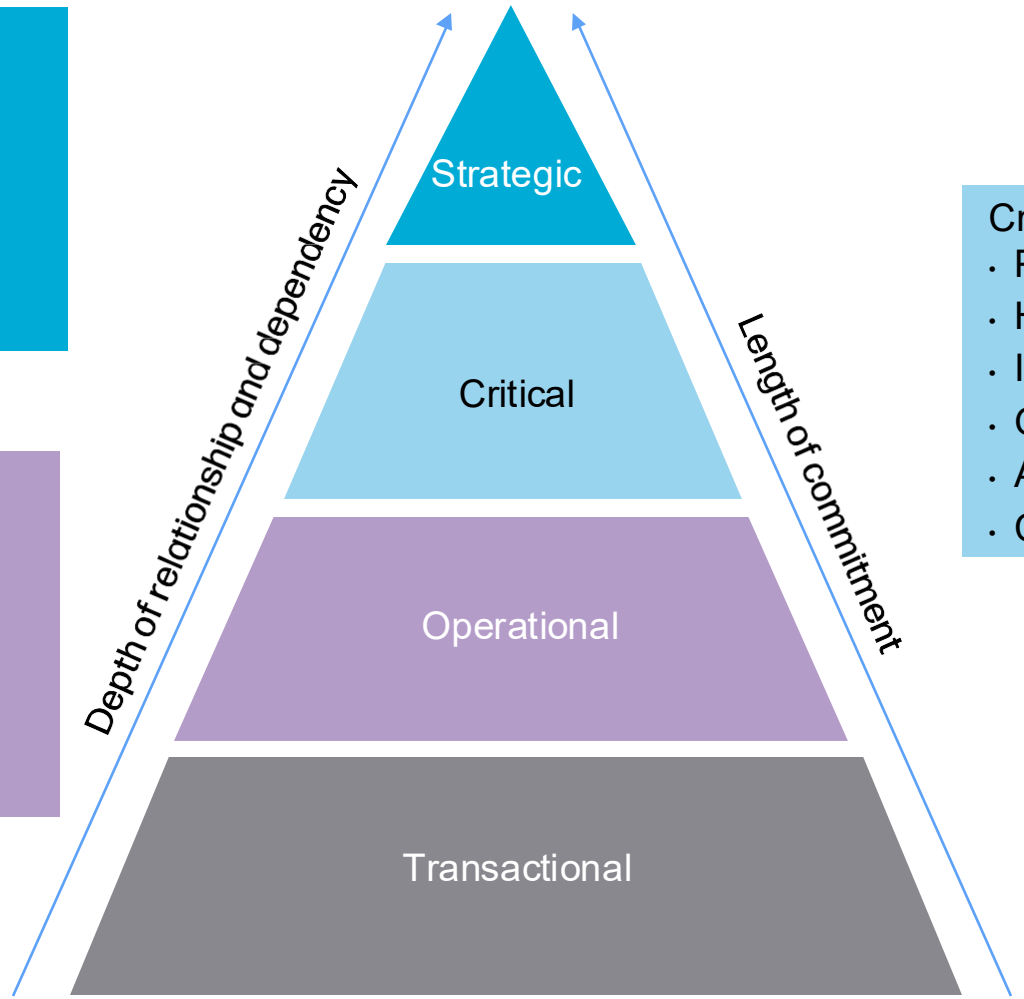
$$W_9 \times \frac{[Supply\ Risk]}{3}$$

$$\text{SSSSSSS} = \frac{W_0}{100} \times \frac{[BU\ Impact]}{3} \times \left(W_2 \times \frac{[PN_{sole}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]} + W_3 \times \frac{[PN_{sinssle}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]} + W_4 \times \frac{[PN_{multi}]}{[PN_{sole}] + [PN_{sinssle}] + [PN_{multi}]} + W_5 \times \left(1 - \frac{1}{1 + \left(\frac{[Ramp\ Time]}{12}\right)^2}\right) \right) + W_6 \times \left(1 - \frac{1}{1 + \frac{[Spend]}{100}}\right) + W_7 \times \frac{[Partnership]}{3} + W_8 \times \frac{[Innovation]}{3} + W_9 \times \frac{[Supply\ Risk]}{3}$$

3 Sort suppliers by scores and segment them using preset percentage thresholds

Strategic –<5%
- High dependency
- High expenditure and complexity
- High switching costs
- Alignment of long-term goals

Operational –40%
- High expenditure and complexity
- Quality, delivery performance, and supply flexibility are key factors
- Highly competitive supply market/several alternatives
- Difficult to influence



Critical –15%
- Potential to be partner in future
- Highly specialized
- Infrequent demand (seasonal)
- Good business fit
- Ability to influence is high
- Company is highly attractive

Transactional –40%
- Low risk to the organization
- Many alternative suppliers
- Switching suppliers is relatively easy
- Includes low performers