

## 8. Supplier categorization

# Purpose, participants and application

- **Purpose**

- To assess which suppliers are most valuable to the company and therefore should receive special attention regarding relationship management initiatives.

- **Participants**

- Responsibles for sourcing.

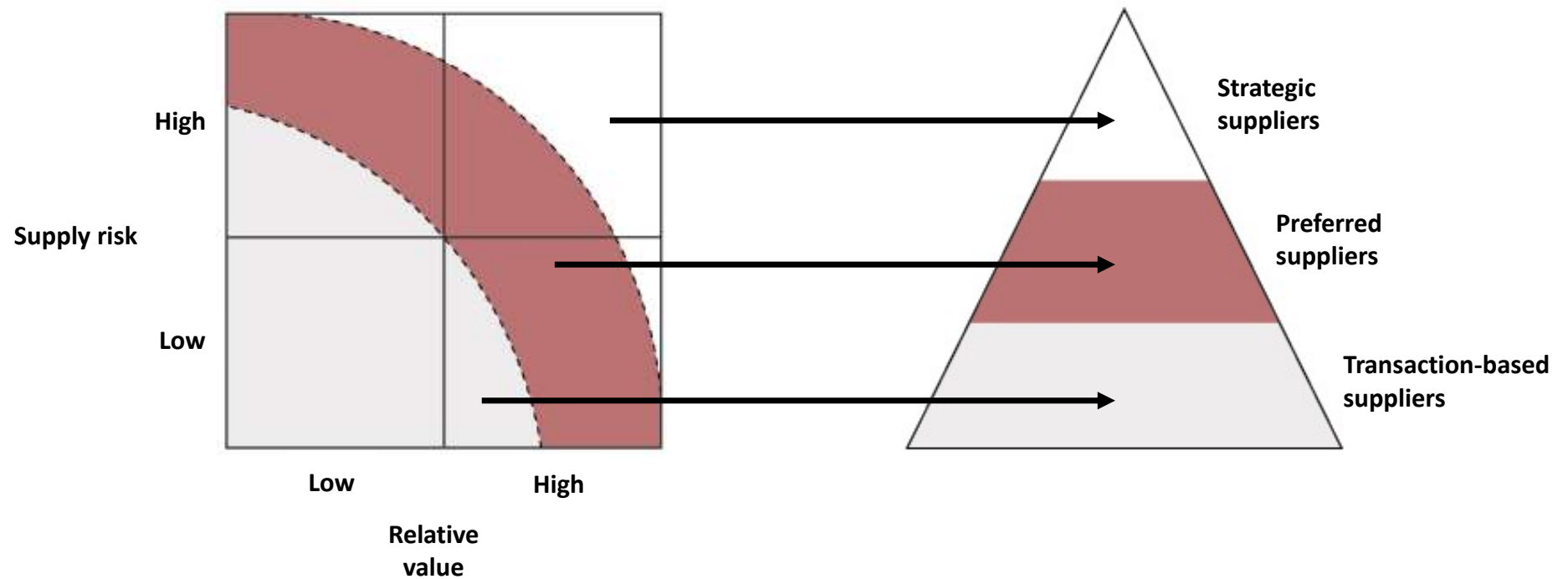
- **Application**

- Can be used in connection with mapping the supply chain in phase 1.

# Procedure

- Generate a list of the company's active suppliers.
- Begin by focusing on the direct suppliers (suppliers of raw materials, materials, components, etc., for the produced products).
- Assess each supplier based on the dimensions:
  - The relative value they add to the company.
  - The supply risk of what the supplier provides.

# Supplier categorization



Source: Cordell, A. & Thompson, I. (2019), *The Procurement Models Handbook*, Routledge, London.

# Three supplier tiers

<b>Strategic suppliers</b>	<ul style="list-style-type: none"> <li>• Relationship of strategic value.</li> <li>• Top-tier supplier, highest value, most critical suppliers.</li> <li>• Usually fewer than 5% of total number, often fewer than 1%.</li> <li>• Targeted relationships for joint working and collaboration.</li> <li>• Relationships that create added-value, continuous improvements, and innovation.</li> <li>• Often characterized by mutual dependence and shared destiny.</li> </ul>
<b>Preferred suppliers</b>	<ul style="list-style-type: none"> <li>• Relationships based on preferred trading terms.</li> <li>• Middle-tier suppliers, mid-value, 'important' suppliers.</li> <li>• Usually 20-30% of total number.</li> <li>• Relationships that require performance management and will generate a degree of continuous improvement.</li> <li>• Often characterized by long-term contracts and contract management activities.</li> </ul>
<b>Transaction-based suppliers</b>	<ul style="list-style-type: none"> <li>• Short-term relationships based on standard terms.</li> <li>• Lowest-tier suppliers, low value, low risk contracts.</li> <li>• Predominantly a contractual exchange with limited extend of 'relationship'.</li> <li>• Trade relationship that require the minimum regulatory monitoring.</li> <li>• Characterized by contractual and transactional terms.</li> </ul>

Source: Cordell, A. & Thompson, I. (2019), *The Procurement Models Handbook*, Routledge, London.