

WHITE PAPER

THE UNDISRUPTED SUPPLY CHAIN

How to prioritize and manage your suppliers



Supply chain disruptions can be devastating. While not unavoidable, the best supply chains understand the mechanisms for minimizing the effect. You can shield yourself from many supply problems simply by using some of the most effective prioritizing techniques developed to drive strategic procurement and utilize resources as efficiently as possible.

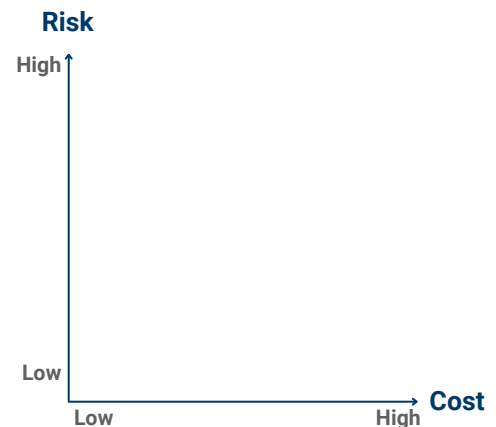
What I will be covering today are the most effective ways to prioritize and manage your suppliers using the concept of Supplier Positioning. While this concept is not new and has been discussed and applied in many different ways over the years, given the changes and disruptions we have experienced across all sectors, applying the principles of effective Supplier Positioning is more crucial than ever. Best of all, it's not the flavor of the day. It's tested and effective, so let's go.

SUPPLIER POSITIONING

Many large companies have thousands of suppliers. It's easy to get lost in managing these suppliers unless you can effectively sort them. There are two subgroups of suppliers:

- The first represents the highest risk to the company. These are the most critical items often, with strict specifications that have the fewest options for securing supply, and therefore, they have the highest impact.
- The second group represents items that have fewer complex requirements. These items may be less crucial owing to a large number of suppliers and relative ease of procurement.

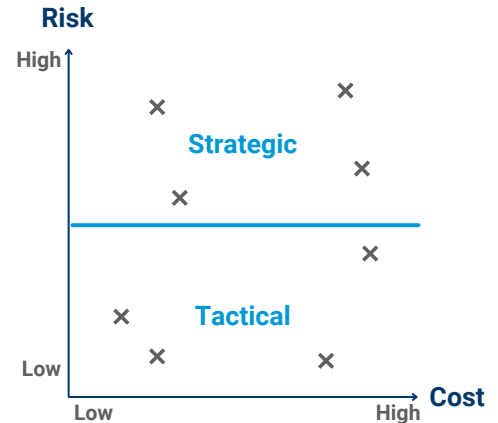
As expected, the approach to these two subgroups varies significantly. If you plot your suppliers on a simple two-dimensional graph with the "Y" axis representing "Risk" and the X-axis representing "Costs," you will be in a better position to establish the control subgroups. The top of the "Y" axis should represent the highest risk, and the far right of the "X" axis the highest costs.



Subgroups

Once you have plotted your suppliers in the appropriate positions on the chart, you will get a clear picture of your subgroups. As mentioned before, there are two subgroups:

- The first is "Strategic." These are the suppliers that occupy the top half of your chart.
- The second is "Tactical." Suppliers that fall into this subgroup occupy the bottom half of the chart.



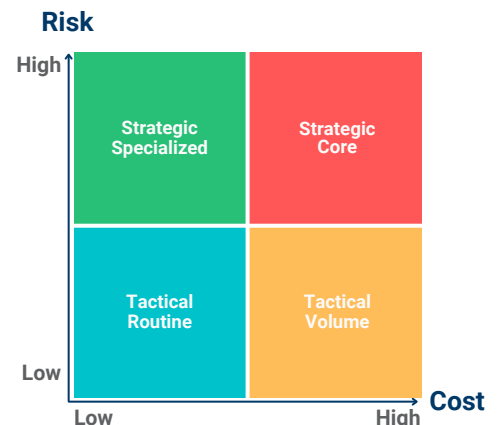
At this point, you will notice that the highest risk suppliers do not always represent the highest cost, and the lowest risk suppliers do not always represent the lowest cost. Therefore the Strategic and Tactical groups are divided again to end up with four equal quadrants where all of your suppliers reside.

The Four Quadrants of Supplier Positioning

Many institutions give these four quadrants different names for suitability to their specific organizations, so I've used tags that I have applied in the aerospace sector.

They are:

- Strategic Core
- Strategic Specialized
- Tactical Volume
- Tactical Routine

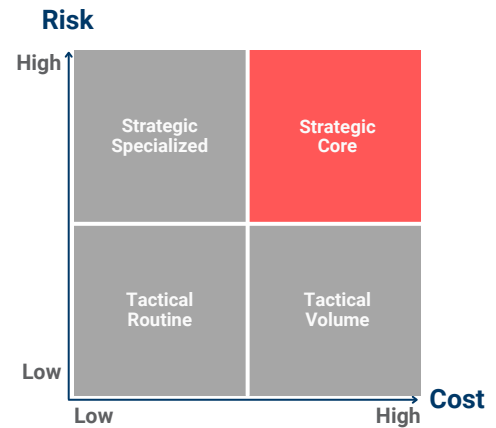


• Strategic Core

Strategic Core represents the highest value, highest risk and has a limited number of suppliers in your supply base. They are crucial to the performance and overall success of the company, so they require the most attention from Supply Chain. It is generally agreed upon that you should spend about 50% of your time managing suppliers in this quadrant. Suppliers in this quadrant are characterized by:

- High Value
- High Risk
- Limited Supply Base
- Performance Critical

Suppliers here may or may not have the most complex specifications. However, the other elements that characterize these suppliers far outweigh the complexities. Your number one objective in this quadrant is to ensure the availability of supply.



• Strategic Specialized

Strategic Specialized represents lower value items. But, they tend to have complex specifications and requirements or other specialized needs. The items in this quadrant also have a limited number of suppliers. It is generally agreed upon that the items in this quadrant should occupy only about 10% of your time. Suppliers in this quadrant are characterized by:

- Low Value
- Special needs or complex specifications
- Limited Supply Base

Given the shorter amount of time allocated to these low-value items, longer-term contracts would be more appropriate.

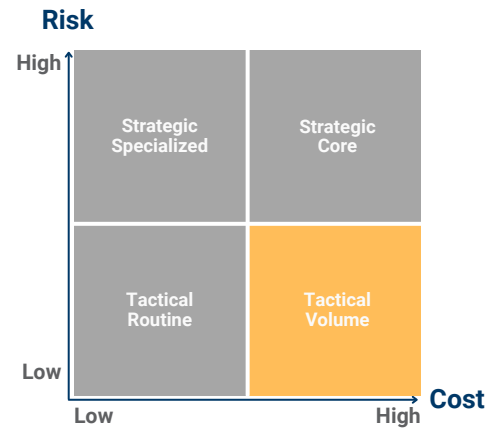


• Tactical Volume

Tactical Volume represents higher value items with no relative complexities. The items in this quadrant have plenty of suppliers and no significant complexities. However, given their high dollar value and importance to proper cost management, it is generally recommended that Supply Chain professionals allocate 30% of their time managing these items. Suppliers in this quadrant are characterized by:

- High Value
- No special requirements
- Many suppliers in the supply base

Given the costs associated with these items and the amount of time allocated to managing them, shorter-term contracts may be more appropriate with special attention to competitive bidding and unit price.

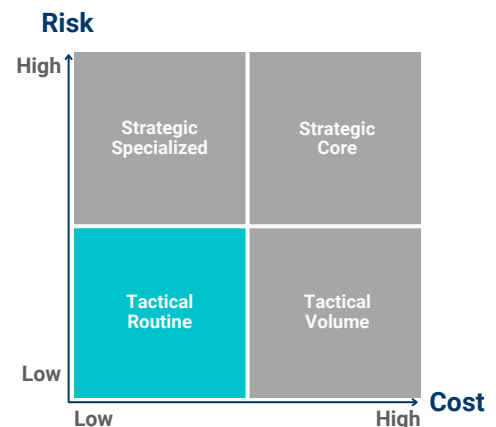


• Tactical Routine

I like to affectionately call this quadrant the "convenience store" of categories. These are items that are low in value that you can get pretty much anywhere. It is recommended that Supply Chain professionals allocate about 10% of their time to this category. Suppliers in this quadrant are characterized by:

- Low Value
- No special requirements
- Many suppliers in the supply base.

When you look at the costs and complexities associated with the items in this quadrant, using strategies such as consignment stock focusing on budgetary control becomes more prevalent.



So, these are the four quadrants of Supplier Positioning. As a member of the procurement community, with responsibility for many suppliers, it's easy to see how this valuable tool allows you to allocate the necessary time to the most important aspects. You will note that the time allocations in the four quadrants add up to 100% and that you will spend 80% of your time on the items of the highest value. Spending too much time on quadrant Tactical Routine takes away from your most critical elements and puts your whole supply chain at risk. For people new to the supply chain, understanding these concepts is indispensable.

SUMMARY

Strategic
Specialized

Strategic
Core

While there's no such thing as the undisrupted supply chain, there are ways to manage the time spent with your entire roster of suppliers to the disruptions to a minimum and provide supply chain resources the time to focus on keeping the most critical things on track.

The effectiveness of proper supply chain positioning can't be understated. What I like the most about this concept is its simplicity people can easily understand and relate to it. The most important responsibility of a Supply Chain professional is to secure the supply chain.

I learned the principles of Supplier Positioning years ago when I was in the airline industry. It proved valuable countless times when allocating time to many suppliers. It allowed me to be on-site with only the most critical suppliers providing the most expensive and complex components. It makes time management that much easier.

ABOUT THE AUTHOR



Graeme Elliott

Graeme is a retired Director in the airline industry having spent a major part of his career at Air Canada in the area of aircraft programs management and leading BFE (Buyer Furnished Equipment) management for new aircraft acquisitions.

Graeme has over 35 years of experience in both the airline and aircraft manufacturing sectors holding management and senior management positions in both. He is currently attached to Global Partner Solutions Inc. providing consultation and representation services to its aerospace customers.

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