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**1. DESIGN SUPPLIER NETWORK ARCHITECTURE:**

1. DESIGN SUPPLIER NETWORK ARCHITECTURE:						
<b>DEFINITION:</b> Design the size, structure and composition of the supplier network to ensure the efficient creation and delivery of value to all enterprise stakeholders, focusing on the customer.						
<b>Diagnostic Questions</b>	<ul style="list-style-type: none"> <li>Does the size, structure and composition of the supplier network reflect the enterprise vision and make-buy strategy?</li> <li>Does the design of the supplier network reflect a proactive effort to balance in-house capabilities with supplier-based core competencies to optimize the creation and delivery of best value?</li> <li>Are cross-functional commodity teams established for streamlining and selecting suppliers?</li> <li>Is supplier process capability measured and effectively utilized?</li> </ul>					
<b>Lean Indicators</b>	<ul style="list-style-type: none"> <li>Structure and composition of supplier network are linked to corporate vision and strategy.</li> <li>Make-buy and strategic sourcing decisions are firmly grounded in integrated set of criteria reflecting strategic corporate objectives.</li> <li>Supplier network strategy reflects a differentiated strategy designed to maximize value creation.</li> <li>Core competencies are aligned throughout the extended enterprise.</li> </ul>					
<b>Potential Metrics</b>	<ul style="list-style-type: none"> <li>Percent of direct suppliers selected on past performance or best value basis</li> <li>Ratio of total number of lower-tier suppliers to major suppliers</li> <li>Percent of direct purchase dollars placed to preferred or certified suppliers</li> <li>Percent of total end-product cost consisting of supplier-provided parts, components and materials</li> <li>Trends in the total unit cost of the enterprise's primary product (in constant dollars)</li> <li>Trends in the profitability of the supplier network (in constant dollars)</li> </ul>					
Key Enabling Practices	Capability Levels					Scores
	LEVEL I TRADITIONAL	LEVEL II ADOPTER	LEVEL III PERFORMER	LEVEL IV REFORMER	LEVEL V TRANSFORMER	4.0
1.1 Assure supplier strategy linked to corporate vision, goals and objectives	<ul style="list-style-type: none"> <li>There is little or no evidence of a supplier strategy linked to well-defined corporate vision, goals and objectives.</li> <li>Supplier strategy focuses mainly on reducing the cost of discrete procurement functions (e.g., order placement, invoicing, inventory management, materials handling).</li> </ul>	<ul style="list-style-type: none"> <li>There is limited linking of supplier strategy to corporate vision, goals and objectives.</li> <li>Supplier strategy is seen as an enabler of improving cost and quality performance.</li> <li>There is very limited sharing of a common vision or commitment across suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Supplier strategy is linked to corporate vision, goals and objectives.</li> <li>Supplier strategy is seen as an important enabler of improving competitive advantage.</li> <li>There is spotty sharing of vision and commitment across the supplier base.</li> </ul>	<ul style="list-style-type: none"> <li>Supplier strategy directly reflects corporate vision, goals and objectives.</li> <li>Supplier strategy is seen as a crucial enabler of improving corporate competitive advantage.</li> <li>There is some shared vision and commitment across the supplier base.</li> </ul>	<ul style="list-style-type: none"> <li>Supplier strategy represents a direct extension of corporate vision, goals and objectives.</li> <li>Supplier strategy is seen as a central core competence to enhance corporate competitive advantage.</li> <li>There is shared vision, goals and objectives throughout the supplier</li> </ul>	4
1.2 Design supplier network based on strategic mapping of core competencies internally and across suppliers.	<ul style="list-style-type: none"> <li>The design of the supplier network does not reflect a strategic mapping of core competencies internally or across suppliers.</li> <li>Mapping of core competencies is confined to internal manufacturing processes.</li> <li>There is little congruence between internal and external supplier-based core competencies.</li> <li>The supplier network is characterized by a large number of direct production suppliers and a hierarchical structure with multi-tiered top-down control and management.</li> </ul>	<ul style="list-style-type: none"> <li>Supplier network design reflects limited consideration of core competencies internally and across specific suppliers.</li> <li>Mapping of core competencies internally and across specific suppliers focuses on discrete manufacturing processes.</li> <li>There is limited congruence between internal and external supplier-based core competencies.</li> <li>Limited recognition is given to concurrent design of products, processes and supplier network</li> </ul>	<ul style="list-style-type: none"> <li>Supplier network design reflects some consideration of internal and current (or required) core competencies of selected suppliers.</li> <li>Core competencies of selected suppliers in defined technologies or manufacturing processes are documented.</li> <li>There is some congruence between current (or required) internal core competencies and those of selected suppliers.</li> <li>Some recognition is given to concurrent design of products, processes and supplier network.</li> </ul>	<ul style="list-style-type: none"> <li>Supplier network design reflects an explicit consideration of current and required core competencies internally and across major critical suppliers.</li> <li>Internal and external core competencies of suppliers in key technologies are well defined.</li> <li>Core competencies internally and across suppliers are aligned.</li> <li>Recognition is given to concurrent design of products, processes and supplier network.</li> <li>Supplier network design is seen as an important enabler of corporate competitive</li> </ul>	<ul style="list-style-type: none"> <li>Supplier network design reflects a proactive comprehensive strategic mapping of current and required core competencies internally and across the supplier network.</li> <li>Supplier network design strives to optimize portfolio of core competencies internally and throughout the supplier network.</li> <li>Products, processes and supplier network are designed concurrently.</li> </ul>	4
1.3 Select suppliers based on criteria optimizing core competencies internally and across suppliers.	<ul style="list-style-type: none"> <li>Sourcing decisions are not linked to make-buy criteria based on evaluation of core competencies.</li> <li>Supplier selection is based on a competitive, adversarial, process following a sequential multi-step procedure.</li> <li>Suppliers are selected mostly on the basis of the lowest cost bid, reflecting the old maxim: "Three bids and a cloud of dust."</li> <li>Multiple supplier sources are typically used for procurement of a given discrete item.</li> <li>Supplier selection is made at the operating level, driven by lowest cost.</li> </ul>	<ul style="list-style-type: none"> <li>Sourcing decisions reflect make-buy criteria based on limited evaluation of core competencies.</li> <li>Supplier selection is based on a competitive process weighing lowest cost bid and other criteria, where a relatively small percentage of contract awards are made on a past performance basis.</li> <li>Multiple supplier sources are used for many discrete parts, along with selected use of dual sourcing and isolated use of sole sourcing.</li> <li>Supplier selection is made at the facility or operating level, focusing on lowest cost.</li> </ul>	<ul style="list-style-type: none"> <li>Sourcing decisions reflect make-buy criteria based on evaluation of core competencies internally and across selected suppliers.</li> <li>Some key suppliers are selected based on past performance and "best value," while a majority of suppliers of standardized items are selected using competitive bids.</li> <li>Extensive multiple sourcing is used for highly standardized items, along with some dual sourcing and selected use of sole sourcing.</li> <li>Dual sourcing is used for mature high-volume parts.</li> </ul>	<ul style="list-style-type: none"> <li>Sourcing decisions reflect make-buy criteria based on a thorough evaluation of core competencies internally and across major critical suppliers, focused on delivery of best value to the customer.</li> <li>A relatively high number of major critical suppliers, and some sub-tier suppliers, are selected on the basis of past performance and "best value."</li> <li>Multiple sourcing is used for standardized items, while dual sourcing is used for some technologically mature high-volume</li> </ul>	<ul style="list-style-type: none"> <li>Sourcing decisions reflect make-buy criteria based on a comprehensive evaluation of current and required core competencies internally and across suppliers, focused on creation of best lifecycle value for all stakeholders.</li> <li>A majority of major critical suppliers and many sub-tier suppliers are selected on the basis of past perf. and "best value," focused on value creation.</li> <li>Multiple sourcing is used for highly standardized items, while dual sourcing is used for selected technologically mature</li> </ul>	4
1.4 Segment suppliers into differentiated categories based on their relative strategic importance in creating value	<ul style="list-style-type: none"> <li>Little evidence of an attempt to develop a differentiated procurement strategy.</li> <li>Little or no effort made to segment suppliers into different categories, in terms of their relative importance and related criteria.</li> </ul>	<ul style="list-style-type: none"> <li>Limited effort is made to classify direct suppliers into different groups for the purpose of developing differentiated procurement strategies.</li> <li>Supplier strategy is largely aimed at reducing transaction costs at program (product) level.</li> <li>Direct suppliers grouped largely into such categories as major teaming partners and all others.</li> </ul>	<ul style="list-style-type: none"> <li>Direct suppliers are grouped into different categories for evolving differentiated procurement and supplier integration strategies.</li> <li>Supplier strategy is aimed largely at reducing transaction costs at the business unit or enterprise level.</li> <li>Supplier segmentation criteria consider a number of factors, such as relative economic importance and degree of criticality of procured items in terms</li> </ul>	<ul style="list-style-type: none"> <li>Direct suppliers are grouped into different categories on the basis of formalized supplier segmentation criteria for developing procurement and supplier integration strategies.</li> <li>Supplier strategy is aimed at reducing internal and external coordination costs at the enterprise level.</li> <li>Supplier stratification and segmentation criteria employ formalized methods considering such additional factors as transaction frequency and volume, and degree of complexity of</li> </ul>	<ul style="list-style-type: none"> <li>Highly-differentiated supplier integration strategies and practices are implemented, based on formalized stratification and segmentation of the supplier network.</li> <li>Supplier strategy is aimed at minimizing coordination costs and creating value.</li> <li>Supplier stratification and segmentation criteria reflect such additional factors as mutual economic dependence and technology clockspeed.</li> </ul>	4

<p>1.5 Create internal organizational structures and basic infrastructure systems for efficient management of supplier network</p>	<ul style="list-style-type: none"> <li>• Procurement is centralized into a materiel or purchasing organization supporting engineering and production operations.</li> <li>• One set of uniform processes and procedures govern procurement operations.</li> <li>• Procurement operations focus on discrete</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement is typically centralized at the enterprise level and serves as a service center supporting engineering, production and post-sale customer support functions.</li> <li>• There is limited integration between the procurement organization and engineering, manufacturing, quality,</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement operations are typically centralized at the business unit level to achieve economies of scale in purchasing.</li> <li>• Matrixed relationships are established between procurement operations and key functional organizations (engineering, manufacturing, quality).</li> <li>• Basic EDI and related IT/IS</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement operations (organized at the business unit level for large multi-divisional enterprises) are aligned internally and across major critical suppliers.</li> <li>• Matrixed relationships and incentives are put in place to align procurement operations across business units, programs (product platforms) and major critical suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement operations (organized at the business unit level for large multi-divisional enterprises) are integrated internally and across the supplier network.</li> <li>• Matrixed relationships and incentives are created to integrate procurement operations across business units and programs (product platforms), as well as</li> </ul>	<p><b>4</b></p>
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