

**Chapter 8: Supplier Tiering**

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## Supplier Tiering

Depending on the source of reference or context being used, the topic of supplier tiering may differ in either the foundational definition or in practical application.

For example, supplier tiering may address “the selection of multiple suppliers in a specific priority, usually based on pricing level, combined with size and capacity”. This definition, provided by Staffing Industry Analyst, places emphasis on a hierarchical structure that in practice is best described with a who goes first or ‘first dibs’ approach. Conversely, supplier tiering, and their corresponding spend, may refer to the subcontracting efforts of non-diverse vendors that maintain direct contracting relationships with your organization. That is, “tier 2 [diverse] suppliers are the vendors that your vendors contract with to ensure their operational success”. Thus, the tier 2 participation within your program is created as a function of your relationship to the tier 1 suppliers.

### Best practices

According to the Hackett Group’s, Supplier Diversity Study, “Enterprise objectives for supplier diversity [has] continued to expand”, underscoring a “shift from environments that were once dominantly driven by government and/or customer regulations to an increased corporate social responsibility stance which drives social and economic focus, enabling corporate objectives”.

Given this growing trend, here are a few best practices to support the growth and development of diverse owned suppliers within the contingent labor program. These practices are both broad and also highlight specificity through use of a tiered program strategy.

1. Obtain senior leadership support, beyond CPO level or equivalents (typically the dominant level of support)
  - Grow interest at the CEO / Board of Directors level (to drive diversity of supply base)
2. Align enterprise level DE&I efforts with any specific diversity supply base priorities established for the CW program (assumed partnership with Sourcing / Procurement teams).
3. Establish utilization guidelines for diversity suppliers through enterprise policy and process creation
4. Direct your tier 1 partners on enterprise expectations
  - Non-diverse tier 1 suppliers may need to increase the diverse supplier utilization and report on those activities
5. Strategize with your Tier 2, diverse suppliers to understand their strengths (geographic market penetration or niche offerings)
  - Pilot diversity supplier(s) is specific LOBs / geo rather than deploy at an enterprise level. This allows for a staggered / strategic approach for the supplier to learn the organization needs directly.
  - Mentor / develop diverse suppliers to be successful within the organization/to obtain more business.
6. Provide priority access to specific roles within the organization
  - Systematic deployment of requisition through VMS tool
  - Use governance model that directs use of diversity supplier [more challenging if not tracked/ measurable on front end through tech platform, e.g. via PO]

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7. Decouple diversity suppliers from “typical or tradition” cost scenario modeling
  - Diversity is a standalone objective
  - A higher price, due to the lack of rate competitiveness, for promoting diversity can [should] be viewed as positive deviation given the enterprise objectives in DE&I and assumed impact on local communities
8. Create visibility for the diverse supplier pool within the CW program / tech platforms
  - Increase the engagement opportunity through targeted internal communication strategies, e.g. attach this to organizational objections, enforce adoption by communicating the value proposition of using the diversity supply base
  - Promote offerings of diversity suppliers directly w/i the experience of end users. Present / bubble up offering of diverse suppliers through tools to ensure detail is available at time end users make their selections
9. Rely on direct outreach opportunities to involve diverse suppliers and actively market them within enterprise

## Managing risk with tiered supplier programs

There are a number of risk examples, ranging from legal to operational, that could be present in a contingent labor program. The complexity of this risk may increase when managing tiered suppliers. A best practice list (non-exhaustive) may include the following actions:

1. Create a supplier risk management framework, applicable for all tiered suppliers within the CW program.
  1. Define end-to-end response and ownership
2. Create clear and defensible contract language
  - a. Re: Written approval to subcontract services which includes notice of all subcontractors
  - b. Re: Liabilities and indemnification arising from the vendor ‘s subcontractors
  - c. Re: Audit clause that permits audit of services rendered, including the vendor’s or subcontractor’s records
3. Establish ongoing oversight of vendors utilizing agreed upon metrics to create appropriate alerts, e.g. metrics on compliance items, auditing and scorecard creation

**References:**

1. CEVA Logistics Global Sourcing Lead, interviewed by CEVA Logistics CW Program Manager
2. Hackett Group, Supplier Diversity Study via Coupa “Is your supplier diversity program ready for greater expectations and visibility”
3. SIA, Lexicon of Global CW related terms