Supplier classification: systematically evaluating and segmenting suppliers

Supplier classification is a systematic process by which companies categorise their suppliers into categories and strategy groups based on defined criteria. The aim is to derive differentiated management, review and development measures and to concentrate procurement resources where they have the greatest leverage. As a component of procurement controlling, it links strategy and operational supplier management into a transparent, auditable process.

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Key facts at a glance

01 Supplier classification assigns suppliers to segments based on strategic relevance, risk and performance capability.

02 Typical classification approaches are ABC analysis, the Kraljic matrix and scorecard models.

03 Classification is not a one-off exercise but a regularly updated cycle, often quarterly or six-monthly.

04 It derives concrete actions: from intensive supplier development to simplifying the ordering process.

05 In addition to monetary criteria, quality, sustainability and delivery capability aspects are increasingly included.

06 It is based on clean master data and consistent performance data; typically a golden record is maintained in the ERP system for this purpose.

Definition: supplier classification

Supplier classification means the structured categorisation of the supplier portfolio according to uniform criteria such as purchase volume, strategic importance, supply risk and performance level. The result is

a tiered segmentation model, for example into A, B and C suppliers or into strategic, system-critical and standardised sources of supply.

Distinction from supplier evaluation

Classification and evaluation are often confused. Evaluation measures the actual performance of individual suppliers, for example via incoming goods quality, delivery reliability and response times. Classification, by contrast, assigns suppliers to categories and strategy groups and uses evaluation results as an input. In practice, treat both steps as a cycle: evaluate, classify, derive actions, measure again.

Position within the sourcing process

Classification sits across the source-to-contract (S2C) process. It provides the prioritisation for tenders, contract negotiations and qualification measures, making it one of the guiding metrics of strategic procurement. Anyone who does not classify their suppliers treats critical special-purpose machinery suppliers the same as standard office supplies wholesalers – and wastes resources.

Methods and approach for segmentation

There is no single 'right' method; a combination of volume- and risk-oriented approaches has proven effective. The classification process typically follows four steps: define criteria, gather data, score suppliers, define actions.

ABC analysis by revenue and volume

The classic ABC analysis ranks suppliers by their share of purchase volume. Typically, around 20 per cent of suppliers generate about 80 per cent of the volume (A suppliers), while the long tail of C suppliers accounts for only a few per cent. It is simple but one-dimensional: a small tooling supplier with a single-source position can be strategically more important than a large trading supplier.

Kraljic matrix: combining leverage and risk

The Kraljic model positions suppliers or commodity groups along two axes: profit impact and supply risk. This creates four quadrants – strategic items, leverage items, bottleneck items and non-critical items. The advantage: classification becomes risk-oriented and opens up a view of supply security rather than just prices.

Scoring models and catapult criteria

Many companies work with a multi-dimensional scoring model that evaluates not only volume and risk but also quality, technology, sustainability and financial stability. In addition, experienced buyers apply catapult criteria: individual criteria that alone trigger classification – such as a missing certification, insolvency or a breach of sustainability requirements. This allows the mathematical point allocation to be combined with practical, hard exclusion criteria.

Criteria and data basis for classification

The quality of the classification depends less on the method than on the underlying data. Missing master data, outdated contact details or inconsistent supplier numbers distort any analysis.

Monetary and volume-related criteria

Basic criteria include purchase volume, share of the procurement budget, price level and terms and conditions such as discount scales or early-payment discounts. Development over several periods is also relevant: a supplier with declining volume requires different actions from a growing partner.

Performance and quality criteria

Operational KPIs reflect actual performance: incoming goods quality, first pass yield (FPY) at goods receipt, delivery reliability and the supplier's forecast accuracy in the delivery schedule dialogue. Where forecast data is lacking, a bottleneck analysis helps to identify critical materials and their suppliers at an early stage.

Strategic, legal and sustainability criteria

Strategically effective criteria include single-source dependency, substitutability, technological expertise and the contractual situation – for example, whether warranty agreements and limitation of liability are adequately regulated. Sustainability and due diligence requirements are increasingly being included, particularly in light of the Corporate Sustainability Due Diligence Directive (CSDDD) and existing supply chain legislation. Trade-related factors such as correct HS classification for customs or an ATA Carnet for sample deliveries also form part of the risk assessment in international procurement.

Actions by supplier segment

A classification is only useful if it translates into differentiated levels of management. The goal is resource allocation: intensive care for strategic partners, efficient standardisation for C suppliers.

Strategic A suppliers

Strategic suppliers receive partnership programmes: joint innovation days, long-term framework agreements, top management contact and integrated planning. Here, too, a procurement skills matrix pays off, showing which negotiation skills and specialist expertise the company's own buyers need for this segment. Metrics such as total cost of ownership rather than unit prices take centre stage.

B and C suppliers: standardise rather than nurture

For leverage and B suppliers, competitive tenders and price comparisons pay off. C suppliers are typically reduced through catalogue solutions, framework agreements with approval logic or consolidation. Catalogue compliance is the key term here: only compliant catalogue items may be ordered, which avoids maverick buying and secures data quality.

Critical and bottleneck suppliers

Suppliers with a high risk profile but low volume call for risk management rather than cost optimisation. Typical measures are second sourcing, minimum stock levels, contractual supply obligations with clear limitation of liability, early bottleneck analysis during demand peaks and an improved available to promise (ATP) in the system, so that sales commitments remain realistic.

Key KPIs and integration into procurement controlling

Supplier classification itself is steered via metrics: how up to date is the classification, what proportion of strategic suppliers are qualified, how is supplier performance developing by segment? Procurement controlling anchors these KPIs in regular reporting.

Portfolio KPIs

Typical portfolio KPIs are supplier concentration (share of the top 10 suppliers in volume), single-source share, segment shares in per cent and the classification update rate. In practice, mature organisations aim to process the majority of volume through qualified A and B suppliers.

Performance KPIs by segment

Different targets apply by segment: for A suppliers, incoming goods quality and delivery reliability are typically assessed considerably more strictly than for C suppliers. Scoring grades are weighted and given thresholds at which automatic actions are triggered – for example, supplier meetings after two consecutive periods below target.

Control loop and review cycle

A review cycle of typically six to twelve months has proven effective for the strategic segments, and annually or longer for C suppliers. After each review, defined actions follow whose effectiveness is checked in the next run – a closed control loop rather than a one-off exercise.

Risks, pitfalls and current developments

Classification projects often fail not because of the method, but because of data quality, acceptance and a lack of follow-through. In addition, sustainability requirements and digitalisation are shifting the criteria landscape.

Typical sources of error

Common mistakes: too many criteria, missing weighting, poor data maintenance and classifications that remain without consequences for actions. A pure volume orientation is also problematic, as it underestimates risky specialist suppliers. Clear governance – who classifies, who approves, who records the result – is a prerequisite.

Sustainability and supply chain due diligence

Sustainability criteria are moving from a voluntary bonus dimension to a mandatory one. Gradually stricter requirements for risk management and due diligence in supply chains (including European legislative developments; details must always be legally reviewed on a case-by-case basis) are making sustainability a classification criterion with exclusion effect. Suppliers without evidence can be assigned to lower risk segments or excluded.

Digitalisation and data quality

Modern procurement systems support classification through consolidated master data, automated scorecards and risk signals. The prerequisite is a golden record – a single, reconciled supplier identity across all systems. AI-supported analyses can detect anomalies, but they do not replace the professional assessment by the buyer.

Typical metrics

Metric	Typical value
Classification update rate	> 90 % per cycle *Proportion of suppliers whose classification was reviewed within the defined review cycle*
Supplier concentration (top 10)	typically 40–60 % *Volume share of the largest suppliers; high values indicate cluster risk*
Incoming goods quality of A suppliers	> 98 % *stricter targets for strategic segments than for C suppliers*
Single-source share	< 10 % of volume *Proportion of volume without a qualified second source of supply*
Scoring threshold for actions	e.g. < 70 out of 100 points *Threshold at which automatic supplier meetings or audits are triggered*

Practical example

A mid-sized mechanical engineering company with around 900 active suppliers classified its portfolio systematically for the first time. The trigger was repeated supply bottlenecks for electronic components and an unwieldy long tail of micro-suppliers.

- Introduction of a scoring model with the dimensions volume, risk, quality and sustainability, including catapult criteria
- Consolidation of around 300 C suppliers via catalogue solutions and framework agreements; ensuring catalogue compliance in the ordering process

- Establishing second sourcing for the electronic suppliers classified as critical, plus monthly bottleneck analysis in the requirements plan
- Anchoring the classification in procurement controlling with a six-monthly review and action-related target KPIs

Conclusion

Supplier classification is the foundation of effective supplier management: it creates transparency across an often extensive portfolio and directs procurement resources towards the suppliers with the greatest leverage. What matters is a clean data basis, a combination of volume-, risk- and scoring-based methods, and consistency in the actions derived from it. As a living control loop within procurement controlling, it links strategy and operations. Those who update it regularly and extend it with sustainability and risk criteria are better prepared for rising regulatory requirements.

Frequently asked questions

? What is meant by supplier classification?

Supplier classification is the systematic categorisation of all suppliers according to defined criteria such as volume, risk and performance into categories, for example A, B and C suppliers or the Kraljic quadrants. It serves to tailor the level of attention, qualification and risk management accordingly. It is usually updated at regular intervals, commonly every six months or annually.

? Which criteria belong in a supplier classification?

Proven criteria include purchase volume, supply risk, single-source dependency, incoming goods quality, delivery reliability, technological importance, financial stability and sustainability requirements. In addition, many companies apply catapult criteria, which alone trigger classification, such as a missing certification. The weighting should be defined and documented in a sector- and company-specific manner.

? Difference between supplier classification and supplier evaluation?

Supplier evaluation measures a supplier's actual performance based on KPIs such as quality, delivery dates and price stability. Supplier classification assigns suppliers to segments and uses evaluation results as an input. In practice, both steps form a cycle: evaluate, classify, derive actions, evaluate again.

? What is ABC analysis in procurement?

ABC analysis ranks suppliers into classes A, B and C according to their share of purchase volume. Typically, a small number of A suppliers account for the largest share of volume, while numerous C suppliers contribute only a small amount. It is simple to apply, but should be complemented by risk-oriented approaches, as volume alone does not reflect strategic importance.

? What is the Kraljic Matrix in simple terms?

The Kraljic matrix positions procurement items and their suppliers along two axes: profit impact and supply risk. This results in four quadrants: strategic items, leverage items, bottleneck items and non-critical items. Each quadrant calls for a different procurement strategy, from partnerships through to full automation.

? How often should suppliers be classified?

In practice, a review cycle of six to twelve months has proven effective for A and critical suppliers, and annually or less frequently for C suppliers. In addition, the classification should be updated on an event-driven basis, for example in the event of supply bottlenecks, insolvency signals or significant volume shifts. It is important that every change is linked to concrete actions.

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