

Abbott Global Purchasing Services

Supplier Performance Program

SUPPLIER PERFORMANCE PROGRAM

Without question, supplier relationships have a significant impact on Abbott's corporate success. Abbott Global Purchasing Services has established a formal metrics program to drive supplier performance through constant feedback on how a supplier is performing against agreed upon expectations. Since it is impractical for Abbott to measure the performance of every supplier in the supply chain, criteria is established to select a subset of suppliers that have the greatest impact on corporate success. Performance monitoring, as described in this booklet, will be conducted for this group of suppliers.

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PURPOSE

The Abbott Global Purchasing Services Supplier Performance Program has been established to:

- Measure the performance of suppliers key to Abbott's success.
- Monitor supplier performance by tracking key performance indicators (KPIs).
- Recognize suppliers that consistently exhibit characteristics highly valued by Abbott.

Abbott's program offers a view of suppliers, both objectively and subjectively. It recognizes three distinct supplier categories:

- Direct
- Indirect
- Contract Manufacturers

SCOPE

This document applies to suppliers of products and services who have a significant impact on Abbott's enterprise-wide business and meet the program selection criteria.

SUPPLIER SELECTION CRITERIA

Abbott appreciates the contributions of all suppliers and uses a variety of methods and techniques to identify a key group based on certain business needs. Typical criteria includes:

- Meets minimum spend thresholds
- Works with two or more Abbott operating divisions
- Niche/specialty product or service provider
- Provides services or products to Abbott worldwide
- Strategic to Abbott business
- Expected KPIs or service levels are not being achieved
- Committed to providing adequate financial, human and technical resources

*Unique circumstances – Management discretion to add or remove suppliers outside of program criteria.

To be eligible, a supplier must meet at least three of the above criteria.

HOW WE MANAGE SUPPLIERS

The supplier relationship is managed by a key Abbott lead who is responsible for engaging divisional and functional area representatives in evaluating the supplier's overall performance. Subject matter experts from divisions and functional areas take part in analyzing the supplier's performance.

Specific metrics for suppliers are outlined in the following pages. Since some suppliers may supply to both direct and indirect categories, the predominant spend category is used. Data from the secondary group is provided in the overall supplier measurement process.

In all cases, suppliers selected for inclusion in the Supplier Performance Program will be required to review and sign Abbott's Supplier Guidelines.

KEY SUPPLIER ATTRIBUTES CONSIDERED

In addition to supplier selection criteria, Abbott also considers attributes that align with our values when managing supplier performance.

- Quality performance
- Delivery performance
- Social responsibility audit status
- Supplier diversity program in place
- Abbott experience
- Price leadership
- Innovation
- Flexibility
- Customer service
- Technical complexity
- Contract status
- Invoice accuracy
- Electronic invoicing
- Payment days
- Financial rating
- Risk analysis
- Financial solvency

Direct Supplier Program

Direct suppliers provide materials that are used in the production of Abbott products, such as raw materials, packaging, components and parts that affect the value of the finished product.

PERFORMANCE MANAGEMENT

- Objective measures
- Stakeholder surveys
- Goal performance

Objective measures include quality and delivery performance. Performance is also based on survey feedback from key stakeholders covering the areas of service, process improvement, innovation and cost effectiveness. Details are outlined in the All Program Elements section of this booklet.

For the new program year, the Abbott lead collaborates with the supplier and sets additional goals that align with Abbott's business needs. These include projects that will add value beyond the KPIs identified above.

The Abbott lead will discuss and determine all suitable objective measures needed to accurately assess a supplier's performance.

◀ OBJECTIVE MEASURES

1. QUALITY

The quality rating measures a supplier's ability to manufacture product meeting Abbott's quality specifications. Detailed quality metrics are reviewed with the supplier at program launch. These may be customized as long as they follow Abbott's specific guidelines. Other quality-related metrics may be requested to accurately assess performance.

Typical incoming quality acceptance (IQA) metrics may include:

FORMULA

$$\frac{\text{Number of lots accepted}}{\text{Number of lots with completed testing}} = \text{IQA acceptance rate}$$

NON-CONFORMING REPORTS

Number of NCRs are tracked and reported monthly, as well as reason for rejection.

Consideration is also given to audit status at all sites with which the supplier interacts, regulatory issues and customer complaints.

At a minimum, suppliers must achieve:

- IQA acceptance rate of 98 percent or better
- Satisfactory supplier audit rating

A standard point scale will be used to assign points in the Quality category. In order to receive the maximum points for Quality, the goal is 100 percent.

2. DELIVERY PERFORMANCE

The delivery performance rating measures the supplier's ability to consistently meet delivery dates, deliver quantities ordered that meet quality standards, and provide samples when requested. Suppliers will demonstrate active participation in cross-functional teams that review logistics and inventory planning and show support for these initiatives.

FORMULA

$$\frac{\text{Total \# of lots delivered on time within stated quality and quantity specs}}{\text{Total \# of lots delivered}} = \text{Delivery rate}$$

A standard point scale will be used to assign points in the delivery performance category. In order to receive the maximum points for delivery, the goal is 95 percent.

Contract Manufacturers (CMs)

Inclusion in this program is based on metrics established by Division Specific Guidance documents, which align with the Supplier Performance Program.

CONSIDERATION FOR PROGRAM

To be considered for this program, a CM must be under contract with Abbott, produce product for the global market and meet minimum spend thresholds.

METRICS

CMs are evaluated by the metrics established in the Division Guidance documents under the categories of quality, service, financial, innovation and technology. The relevant functional area will collect metrics and feedback throughout the calendar year. An update will be provided during business reviews.

SCORECARD

During the 12-month calendar year, CMs will be evaluated and awarded points based upon their performance against the metrics, as well as executive management feedback, peer comparison, and feedback from functional areas outside of the Division, as appropriate.

In accordance with the Abbott Global Purchasing Services Supplier Performance Program, no CM can receive more than 100 points. Points are assigned to each category under review by the Division managing the CM relationship. Awards will be given based on the Supplier Performance Program scale and expectations related to that scale.

Scorecards will be shared with CMs during the first quarter of the year following the evaluation year.

Indirect Supplier Program

Indirect suppliers provide Abbott with goods and services ranging from standardized items like lab equipment, office supplies, premiums or MRO (maintenance, repair and operations) materials, to complex and costly products and services like heavy equipment, consulting services and information technology.

PERFORMANCE MANAGEMENT

- Objective measures
- Stakeholder surveys
- Goal performance

Primary objective measures for indirect suppliers will center around contractual Service Level Agreements (SLAs), quality of product or service, delivery levels and customer service. Additionally, suppliers are measured based on survey feedback from key Abbott stakeholders covering the areas of service, process improvement, innovation and cost effectiveness. Details are outlined in the All Program Elements section of this booklet.

For the new program year, the Abbott lead collaborates with the supplier and sets additional goals that align with Abbott's business needs. These include projects that will add value beyond the KPIs identified above.

The Abbott lead will discuss and determine all suitable objective measures needed to accurately assess a supplier's performance.

All Program Elements

STAKEHOLDER SURVEY

The core supplier performance team establishes a general survey questionnaire that covers the categories of service, process improvement, innovation and cost effectiveness. This standard survey is sent to key Abbott employees who regularly interact with the supplier throughout the reporting year. Feedback is gathered from this broad cross-section of stakeholders, which may include:

- Administrative Services
- Commercial Services
- Engineering
- Environmental, Health, Safety and Energy
- Finance
- Human Resources
- IT
- Manufacturing
- Marketing
- Materials Management/ Planning
- Manufacturing Science & Technology (MS&T)
- Public Affairs/ Communications
- Purchasing
- Quality
- Regulatory
- Research and Development
- Supply Chain

The results are reviewed with the supplier during Executive Business Reviews.

GOALS

As mentioned in earlier sections, goals are established collaboratively with program suppliers at the beginning of each year. The goals will reflect common KPIs as well as specific projects undertaken to help Abbott achieve its business goals. A minimum of three joint goals will be identified for the reporting year.

Projects are considered goals and are measured based on level of complexity, benefit to Abbott and implementation levels achieved. The Abbott lead will determine the fair weight to assign to each goal and these will be monitored throughout the year.

EXECUTIVE BUSINESS REVIEWS

Business review meetings are held with the Abbott lead, Abbott key divisional and functional area representatives and the program supplier. Frequency of meetings is determined based on business need but are typically held twice a year.

Meetings will focus on:

- Supplier performance on KPIs
- Review of supplier and Abbott business operations
- Updates on opportunities and issues
- Project reviews
- Division Updates (where applicable)
- Progress on goal achievement
- YTD scorecard

The scorecard will document all discussions at the business review. Scorecards will be signed by both Abbott and the supplier at the close of the meeting.

DATA COLLECTION

At year-end, the final results for the KPIs and goals are calculated using data compiled from all divisions and affiliates to present an overall corporate view of the supplier's performance. In some instances, data may be weighted differently based on importance to a division or site.

SCORING

Scores are based on a total of 100 points with maximum points determined by the KPIs set for the supplier. Each KPI has an assigned point value. Overall scorecard rating will be a total of all KPI points earned.

Standard point values have been established for quality, delivery and survey results for direct material suppliers. Goal weights may vary and are determined by the Abbott lead.

Direct Material Supplier Scoring – Example

KPIs and Goals	Available Points	Actual Score	Earned Points
Quality	30	100%	30
Delivery	30	90%	25
Goal 1	10	8	8
Goal 2	10	5	5
Goal 3	10	5	5
Survey (subjective KPI)	10	10	10
Overall Score	100		83

CORPORATE PERFORMANCE SCORECARD

The scorecard is used to facilitate ongoing communication with our suppliers and Abbott team members. Results from business reviews are combined for the year and issued to suppliers in the form of a balanced corporate scorecard. This occurs during the first quarter after the reporting year. It covers the specific scores for the objective measures and includes the survey results and comments from stakeholders.

Score ranges are established using the following levels:

Superior	Acceptable	Marginal	Unacceptable
(100–87)	(86–70)	(69–60)	Below 60

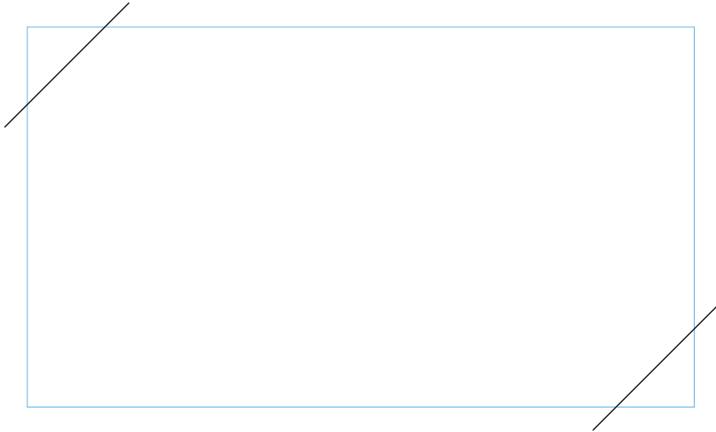
Ranges may vary from year to year.

NOTE:

- (1) Suppliers scoring in the Unacceptable level will develop an improvement plan to address documented deficiencies and improve their score.
- (2) Abbott reserves the right to review supplier impact on its business and restrict awards accordingly.

RECOGNITION

Suppliers achieving a Superior rating through the Supplier Performance Program process will be nominated for a Supplier Excellence Award. Suppliers receiving this award are determined to be consistently performing at the highest levels and making a significant contribution to Abbott's success.



*Please contact us if you have any questions
or comments about the Abbott Global Purchasing
Services Supplier Performance Program.*

