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1. OBJECT.

Apply tools to classify suppliers to generate relationship strategies according to their relevance for business continuity.

2. SCOPE

The Kraljic matrix¹ is an instrument that uses supply management to classify purchasing strategies with its suppliers according to categories that group them together. A version that also classifies groups of suppliers focused on supply chain sustainability was implemented. After this, and according to the classification, Chessboard was used, focused on generic methods of relationship based on Human Rights.

3. TERMS DEFINITION AND QUALIFICATION.

The qualification is performed under two parameters, IMPACT and COMPLEXITY, where each one clusters drivers or factors that generate the qualification:

Table 1. Terms, Drivers and Qualification.

FACTOR	DEFINITION	DRIVER	DEFINITION	QUALIFICATION
IMPACT	Corresponds to actions that affect the development of the business.	Innovation	Level of supplier innovation; the higher the level of innovation, the lower the risk of generating a potential breach.	1: HIGH 2: HIGH MEDIUM 3: MEDIUM. 4: LOW MEDIUM. 5: LOW
		Strategy	Level of impact on the organization's strategy or its risk matrix and materiality.	5: HIGH. 4: HIGH MEDIUM. 3: MEDIUM. 2: LOW MEDIUM 1: LOW.
		Reputational	Due to the use of the brand with the organization's stakeholders.	
		Environmental	Impact on our own environmental indicators.	
COMPLEXITY	How my actions affect the supplier's environment	Financial dependence	The level of the supplier's invoicing with the company regarding the total invoiced.	1: LOW.
		Governance	Establishes the level of alignment with the	

¹ It is a tool that allows a classification of the materials and services required by a company. These materials and services are classified according to the level of risk involved in terms of supply. But above all, because of the way they can financially affect the final result of the business process.

FACTOR	DEFINITION	DRIVER	DEFINITION	QUALIFICATION
			company's policies, criteria, guidelines, or standards.	
		Specialization	The supplier for its product or service may be replaceable; the complexity to replace the value proposition.	
		Influence	Degree of power it may have over decisions within the organization.	

4. RESULTS BY QUADRANTS.

The results of the qualification are consolidated in a graph with four (4) quadrants as follows:

Table 2. Quadrants and Strategies.

QUADRANT	DEFINITION		ACTIONS or STRATEGIES
	IMPACT	COMPLEXITY	
ROUTING	LOW	LOW	Review of practices, monitor them, show the trend and behave as benchmarks.
FOLLOW UP	LOW	HIGH	They must be kept under control, with audit-type follow-up.
STRENGTHENING	HIGH	LOW	Supplier development to reduce impact. The aim is to align it. The following should be kept close by
RELATIONSHIP	HIGH	HIGH	To have a deep and constant dialogue that is permanently strengthened. Chain development. High co-responsibility.

Each quadrant has a particular and specific effect on each of the drivers selected, where its expected behavior by supplier category allows the company to adjust its strategies.

Table 3. Quadrants and actions drivers

QUADRANT	DRIVERS							
	INNOVATION	STRATEGY	REPUTATIONAL	ENVIRONMENTAL	FINANCIAL DEPENDENCE	ALIGNMENT	SPECIALIZATION	INFLUENCE
ROUTING	↑	↓	↓	↓	↓	↑	↓	↓
FOLLOW UP	↑	↓	↓	↓	↑	↓	↑	↑
STRENGTHENING	↓	↑	↑	↑	↓	↑	↓	↓
RELATIONSHIP	↓	↑	↑	↑	↑	↓	↑	↑

5. COMMUNICATION STRATEGY BY QUADRANT.

According to the location within the matrix, the company must establish an adequate communication channel and frequency in order to monitor and control risks.

Table 4. Channel and Frequency in communication.

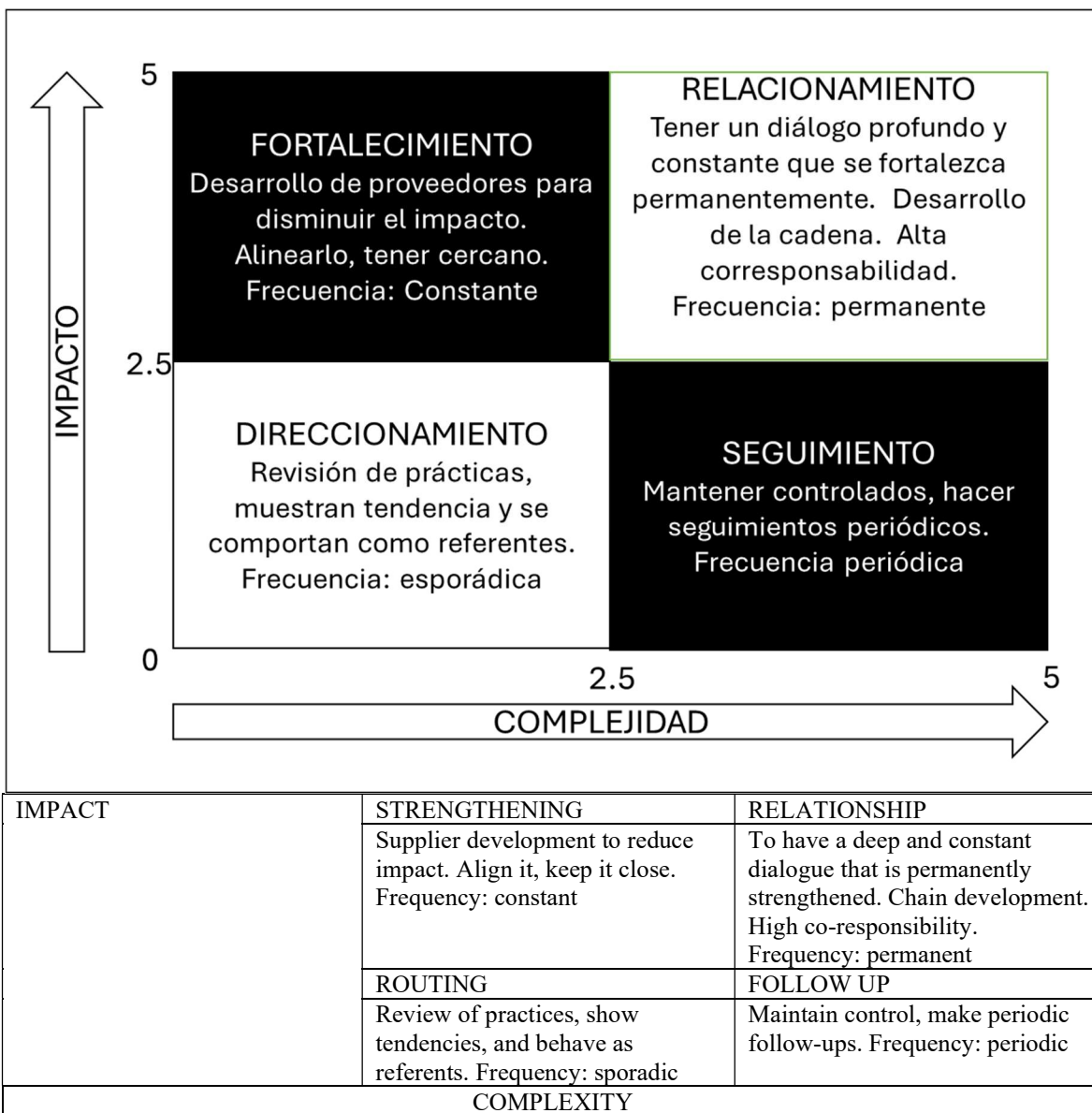
QUADRANT	CHANNEL	FREQUENCY
ROUTING	Events or meetings	Sporadic
FOLLOW UP	Audit, survey.	Periodic (Semi-annual)
STRENGTHENING	Training and education	Constant
RELATIONSHIP	Multichannel	Permanent

6. GENERIC RELATIONSHIP STRATEGIES BASED ON HUMAN RIGHTS AND SUSTAINABILITY.

The relationship between IMPACT and COMPLEXITY allows placing the evaluated group in one of the four (4) quadrants according to the rating scale (5 to 1), as shown in numeral 3.

The matrix is a 3D view where the third factor corresponds to the value of contracts by supplier group, which gives the size of the bubble; thus, when a group is in the relationship quadrant, and the size of the circle is large, it requires priority attention and the development of specific strategies, given the level of impact it could have on the organization.

Illustration 1. Graphical view of the Kraljic matrix result.

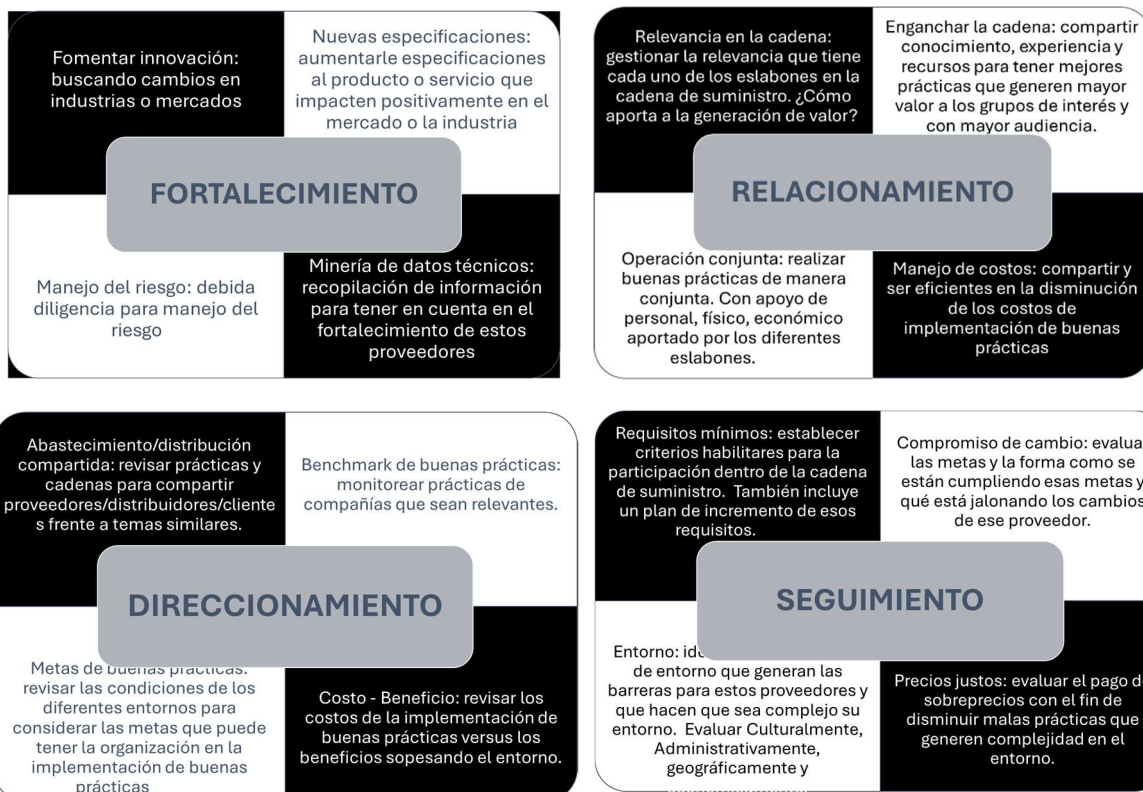




**SUPPLIER QUALIFICATION MANUAL
KRALJIC MATRIX - FOCUS ON SUSTAINABILITY
AND HUMAN RIGHTS**

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6.1. Chessboard² Relationship Levels.



STRENGTHENING	
Promote innovation: seeking changes in industries or markets.	New specifications: increase product or service specifications that have a positive impact on the market or industry.
Risk management: due diligence for risk management.	Technical data mining: gathering information to be taken into account in the strengthening of these suppliers.

ROUTING	
Shared sourcing/distribution: review practices and chains for sharing suppliers/distributors/customers for similar issues.	Best Practices Benchmark: monitor practices of relevant companies.
Best practice goals: review the conditions of the different environments to consider the goals that the organization may have in the implementation of best practices.	Cost - Benefit: review the costs of implementing best practices versus the benefits by weighing the environment.

RELATIONSHIP	
Chain relevance: manage the relevance of each link in the supply chain. How does it contribute to value generation?	Engage the chain: share knowledge, experience, and resources to have better practices that generate greater value for stakeholders and a wider audience.

² AT Kearney

Joint operation: performs best practices jointly. With personnel, physical, and economic support provided by the different links.	Cost management: sharing and efficiently reducing the costs of implementing best practices.
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FOLLOW UP

Minimum requirements: establish qualifying criteria for participation in the supply chain. It also includes a plan to increase these requirements.	Commitment to change: evaluate the goals and how those goals are being met, and what drives the changes for that supplier.
Environment: identify the environmental variables that create barriers for these suppliers and make their environment complex. Evaluate culturally, administratively, geographically.	Fair prices: evaluate the payment of overpricing to reduce bad practices that generate complexity in the environment.

6.2. Generic Human Rights-based Relationship Methods.

Table 5. Human Rights Relations - Quadrant STRENGTHENING.

Fostering innovation: seeking changes in industries or markets		New specifications: increase product or service specifications that positively impact the market or industry.	
Innovative ways to generate value by promoting human rights	Leverage with a network to promote human rights.	Development of human rights skills and behaviors.	Development of human rights relations with stakeholders.
Innovate based on the costs of respecting/violating human rights.	Innovating based on human rights impacts and risks	Transformation of processes to reduce human rights impacts (product disassembly)	Transformation of processes based on human rights according to the origin of inputs.
		STRENGTHENING	
Risk management: due diligence for risk management		Technical data mining: gathering information to be taken into account in the strengthening of these suppliers	
Transfer of best practices to suppliers	Development of contracts with human rights criteria	Cost analysis of human rights violations	Level of compliance with human rights minimums
Shared risk management in human rights	Development of framework elements for the generation of human rights policies.	Database with the levels of human rights violations.	Average percentage of investment in human rights

Table 6. Relationship in Human Rights - Quadrant RELATIONSHIP.

Chain relevance: manage the relevance of each link in the supply chain. How does it contribute to value generation?		Engage the chain: share knowledge, experience, and resources to have better practices that generate greater value for stakeholders and a wider audience.	
Reconfiguring the supply chain according to human rights impacts	Equitable distribution of benefits according to the overcoming of human rights risks.	Distribution of benefits according to the promotion of human rights	Strategic alliances to overcome structural issues that may violate human rights
Relationship and co-responsibility to reduce human rights impacts	Creation of a shared long-term vision with a human rights focus	Working groups to overcome specific issues that violate human rights	Analysis of value generation according to human rights violations for the implementation of best practices.
		RELATIONSHIP	
Joint operation: to carry out good practices jointly. With personnel, physical and economic support provided by the different links.		Cost management: sharing and efficiently reducing the costs of implementing best practices.	
Knowledge management and training in human rights.	Shared Petitions and Complaints channel with the capacity to address complaints about human rights violations.	Total cost of human rights violations.	Collaborative reduction of human rights violation costs
Framework of actions (inactions) that allow decisions to be taken to avoid human rights violations.	Information and relationship framework to resolve situations of human rights violations.	Investment in actions to promote human rights	Cost analysis based on the type of relationship and human rights violations.

Table 7. Relationship in Human Rights - MANAGEMENT quadrant.

Shared sourcing/distribution: review practices and chains for sharing suppliers/distributors/customers for similar issues.		Best Practices Benchmark: monitor practices of relevant companies.	
Database of links in the chain that have strengths in human rights.	Participate in supply chains with high standards in human rights.	Best Practices Benchmark in human rights based on geography.	Best Practices Benchmark and Human Rights based on industry and sector.
Analysis of remuneration and benefits framework that promote human rights	Alignment of human rights parameters for local development management.	Best Practices Benchmark of Human Rights practices according to materiality.	Cost/benefit analysis of best practices in human rights.
		ROUTING	
Commitment to change: evaluate the goals and how those goals are being met, and what drives the changes for that supplier.		Cost - Benefit: review the costs of implementing best practices versus the benefits by weighing the environment.	
Level of alignment with human rights standards	Best practices to reduce gaps in structural human rights violations	Cost Analysis of Human Rights Promotion	Analysis of the temporality of Human Rights promotion
Best practices for the reduction of human rights violations	Best practices in contracting management with a human rights focus	Benefit analysis of the promotion of human rights	Analysis of the promotion of human rights according to the environment.

Table 8. Human Rights Relations - FOLLOW-UP quadrant

Minimum requirements: establish qualifying criteria for participation in the supply chain. It also includes a plan to increase these requirements.		Commitment to change: evaluate the goals and how those goals are being met, and what drives the changes for that supplier.	
Process for requesting information and proposals for minimum requirements in human rights.	Conditional promise: as long as a situation subsists, there will be no enabling requirement regarding human rights.		Articulated assembly
Database with structural human rights violations by the market.	Generation of incentives for incorporating human rights criteria in the supply chain.	Social investment	Promote best practices in the chain
		FOLLOW UP	
Environment: identify the environmental variables that create barriers for these suppliers and make their environment complex. Evaluate culturally, administratively, geographically, and economically.		Fair prices: evaluate the payment of overpricing to reduce bad practices that generate complexity in the environment.	
Methodology for monitoring human rights violations (instances, sanctions, tolerance, and recidivism).			
		Minimum processes that should have Human Rights actions	