



ABBVIE PURCHASING AND SUPPLIER MANAGEMENT

SUPPLIER PERFORMANCE PROGRAM

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Without question, supplier relationships have a significant impact on AbbVie's corporate success. AbbVie Purchasing and Supplier Management 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 AbbVie to measure the performance of every supplier in the supply chain, criteria are established to select the subset of suppliers that has the greatest impact on corporate success. Performance monitoring, as described in this booklet, is conducted for this group of suppliers.

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PURPOSE

The AbbVie Purchasing and Supplier Management Supplier Performance Program has been established to:

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

AbbVie's program offers an objective and subjective view of suppliers. It recognizes three distinct supplier categories:

- Direct
- Indirect
- Contract Manufacturers

SCOPE

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

SUPPLIER SELECTION CRITERIA

AbbVie appreciates the contributions of all suppliers and uses a variety of methods and techniques to identify key groups, based on certain business needs.

To be eligible, a supplier must meet at least three of the following criteria:

- Meets minimum spend thresholds
- Provides niche/specialty products or services
- Provides products or services to AbbVie worldwide
- Is strategic to AbbVie business
- Is not achieving expected KPIs or service levels

Unique circumstances may also apply. At their discretion, managers may add or remove suppliers outside of program criteria.

HOW WE MANAGE SUPPLIERS

The supplier relationship is managed by a key AbbVie lead, who is responsible for engaging functional area representatives in evaluating the supplier's overall performance. Subject matter experts from 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 are provided in the overall supplier measurement process.

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

KEY SUPPLIER ATTRIBUTES CONSIDERED

In addition to supplier selection criteria, AbbVie 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
- AbbVie experience
- Price leadership
- Innovation
- Flexibility
- Customer service
- Technical complexity
- Contract status
- Invoice accuracy
- Electronic invoicing
- Payment days
- Financial rating
- Risk analysis

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 AbbVie lead collaborates with the supplier and sets additional goals that align with AbbVie's business needs. These include projects that will add value beyond the KPIs identified above.

The AbbVie lead discusses and determines 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 AbbVie's quality specifications. Detailed quality metrics are reviewed with the supplier at program launch. These may be customized as long as they follow AbbVie's specific guidelines. Other quality-related metrics may be requested to accurately assess performance.

Typical incoming quality acceptance (IQA) metrics are described below:

Formula

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

Nonconforming Reports (NCRs)

The number of NCRs and the reasons for rejection are tracked and reported monthly.

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

At a minimum, suppliers must achieve:

- An IQA acceptance rate of 98 percent or better.
- A satisfactory supplier audit rating.

A standard point scale is 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 suppliers will show support for these initiatives.

Formula

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

A standard point scale is used to assign points in the Delivery Performance category. In order to receive the maximum points for Delivery Performance, the goal is 95 percent.

CONTRACT MANUFACTURERS (CMs) PROGRAM

Inclusion in this program is based on metrics established by 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 AbbVie, produce product for the global market and meet minimum spend thresholds.

METRICS

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

SCORECARD

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

In accordance with the AbbVie Purchasing and Supplier Management Supplier Performance Program, no CM can receive more than 100 points. Points are assigned to each category under review by the functional area managing the CM relationship. Awards are given based on the Supplier Performance Program scale and expectations related to that scale.

Scorecards are shared with CMs during the first quarter of the year, following the evaluation year.

INDIRECT SUPPLIER PROGRAM

Indirect suppliers provide AbbVie 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 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 AbbVie 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 AbbVie lead collaborates with the supplier and sets additional goals that align with AbbVie's business needs. These include projects that add value beyond the KPIs identified above.

The AbbVie lead discusses and determines 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 AbbVie employees, who regularly interact with the supplier throughout the reporting year. Feedback is gathered from this broad cross-section of stakeholders, which may include the following:

- Administrative Services
- Commercial Services
- Engineering
- Environment, Health Safety and Energy
- Finance
- Human Resources
- Information Technology (IT)
- Manufacturing
- Marketing
- Materials Management/
Planning
- Manufacturing Science
and 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 reflect common KPIs, as well as specific projects undertaken to help AbbVie achieve its business goals. A minimum of three joint goals are identified for the reporting year.

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

EXECUTIVE BUSINESS REVIEWS

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

Meetings will focus on:

- Supplier performance on KPIs.
- Review of supplier and AbbVie business operations.
- Updates on opportunities and issues.
- Project reviews.
- Functional area 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 AbbVie 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 functional areas to present an overall corporate view of the supplier's performance. In some instances, data may be weighted differently, based on importance to a functional area 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. The overall scorecard rating is 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 AbbVie lead.

Direct Material Supplier Scoring – Green Example

KPIs and Goals	Available Points	Actual Score	Earned Points
Quality	30	100%	30
Delivery	30	90%	27
Goal 1	10	8	8
Goal 2	10	5	5
Goal 3	10	5	5
Survey (subjective KPI)	10	10	10
Overall Score	100		85

PERFORMANCE SCORECARD

The scorecard is used to facilitate ongoing communication with our suppliers and AbbVie team members. Results from business reviews are combined for the year and issued to suppliers in the form of a balanced 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)	(Less than 60)

Ranges may vary from year to year.

NOTE:

1. Each supplier scoring in the Unacceptable level will develop an improvement plan to address documented deficiencies and improve the score.
2. AbbVie 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 are 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 AbbVie's success.



Please contact us if you have any questions or comments
about the AbbVie Purchasing and Supplier Management
Supplier Performance Program.

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