

## SUPPLIER MANAGEMENT STRATEGIES

### 1. SUPPLIER SELECTION & EVALUATION

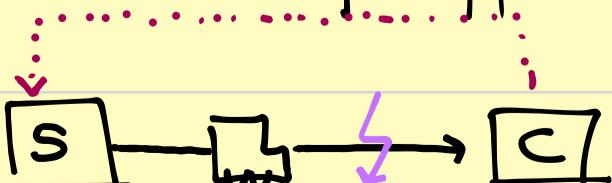
#### 1.1. Defining selection criteria

The first step in SM is selecting the right suppliers.

For this we need some criteria:

- **QUALITY**. The quality standards should be met.  
[ppm] Specially in critical industries: healthcare, automobile, ...  
Max: 300 ppm.
- **COST**. Price is a major consideration. You should pay [€] attention to consider the total cost of supply (TCS), which not only considers the cost of production, but also the whole supply chain cost.
- **RELIABILITY**. Reliable suppliers deliver JIT/JIS.  
[(Demand Supply)]
- **FLEXIBILITY**. Suppliers should have the capacity to adjust order quantities, lead times, or product specs.  
[Change Over Times]
- **GEOGRAPHIC LOCATION**. Proximity to suppliers is relevant to cut lead time, increase quality, transp. cost reduction, ...

- Why do we increase Q if supplier is closer?



## LEADTIME

- 1 day
- 10 days.

LITTLE'S LAW : Lead Time =  $\frac{WIP}{Output}$

With this criteria, we can create a supplier scoring system that quantitatively rates potential suppliers.

### 1.2. Conducting Supplier Assessments

Common methods for assessments include :

- RFP. Request for Proposal. RFPs allow companies to gather detailed information about potential supplier's capabilities, pricing, and terms. This is an opportunity to evaluate suppliers on more than just cost and gauge alignment in organizational values.
- SITE VISITS & AUDITS. Visiting the supplier's facilities allows you to observe manufacturing processes, quality control practices, and workforce conditions.
- REFERENCES & REPUTATION. Talking to other clients of this supplier can provide insights into their reliability.

## 2. SUPPLIER RELATIONSHIP MANAGEMENT (SRM)

### 2.1. Types of SR

It is important to segment suppliers by importance in the supply chain:

- **STRATEGIC SUPPLIERS.** These are critical suppliers who provide key components or materials with high strategic value or a high impact on business operations.
- **PREFERRED SUPPLIERS.** These suppliers are reliable and meet most of the requirements.
- **TRANSACTIONAL SUPPLIERS.** These suppliers provide low-value items that are easily substitutable.

### 2.2. Building collaborative SR

For critical or strategic suppliers, building collaborative relationships (based on trust) can yield benefits. These include cost reduction, innovation, and shared risk.

These SR may involve:

- **JOINT PLANNING.** Collaborative planning of schedules, product development, demand forecasting.
- **INFORMATION SHARING.** Sharing market insights, forecasts, and production data fosters transparency and alignment.

- SUPPLIER INTEGRATION. These include linking IT systems to allow real-time visibility of inventory or working together on product development.

### 3. RISK MANAGEMENT in SR

#### 3.1. Identifying Supplier Risks.

- SUPPLY DISRUPTIONS. Natural disasters, geopolitical events, or labor strikes,...
- FINANCIAL INSTABILITY. Suppliers with weak financial positions may struggle with investments or workforce cost.
- QUALITY ISSUES. Quality problems due to resource limitation, equipment breakdown, or lapses in quality control.

#### 3.2. Mitigate Supplier Risks.

- DIVERSIFY SUPPLIERS.
- CONTINGENCY PLANNING.
- REGULAR AUDITS & CHECKS.
- FINANCIAL HEALTH MONITORING.

### 4. PERFORMANCE MONITORING & IMPROVEMENT

#### 4.1. Set Key Performance Indicators (KPI) System

Most relevant KPIs for Supplier Management are:

- On-time Delivery Rate. Measures the ability to deliver orders by the agreed-upon date. A high on-time delivery rate indicates reliability.
- Defect rate. Measures the parts per million that fail to meet the quality standards. Low ppm rate indicates strong quality.
- Orderfill Rate. Reflects the proportion of ordered items that were filled in full. This is critical for meeting production schedules.
- Lead Time. Measures the time from when an order is placed to when it is received. Shorter lead times supports faster response and better quality (little's law).
- Cost Efficiency. Cost performance relative to agreed upon prices and total cost reduction over time.

#### 4.2. Supplier Development Programme.

- Continuous Improvement. (CPD)<sub>nA</sub> . KAIZEN .

[see [www.profH4.wu.ac.at/research](http://www.profH4.wu.ac.at/research)]

#### 5. STRATEGIC SOURCING & COLLABORATION

### 5.1. Total Cost of Ownership (TCO).

Evaluating not only the purchase price but also factors such as logistics, holding cost, warranty cost, disposal cost, ...

### 5.2. Value-based Sourcing.

Prioritizes value over cost by considering factors such as logistics, quality, service level, innovation, and sustainability.

### 5.3. Supplier Portfolio Management.

Buiding a balanced supplier portfolio that includes strategic partners for critical components and cost-effective options for less critical items.

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