

Topic Guide: Managing Suppliers

Every business needs technically and commercially competent suppliers who give good value in terms of cost, quality, new product development, responsiveness and flexibility.

As a prime source of competitive advantage suppliers should be selected on sound commercial principles that recognises amongst other factors, the quality of the goods, materials and services offered, relevant experience and reputation, financial stability and the ability to deliver on time.

Supplier management is best described as an ongoing process that minimises the risks associated with purchasing goods, materials and services.

It ensures that products and services are more likely to meet agreed requirements from the point of first delivery and will continue to do so during their operational life. In the unlikely event that the product or service does not perform to its agreed requirements then corrective action can be implemented promptly.

Supplier management consists of three key elements:

- Supplier selection
- Performance measurement
- Supplier relationships

Supplier selection embodies supplier categorisation by strategic and financial importance with each category demanding different appraisal requirements and selection criteria with stringency in proportion to the impact on the business.

Within most organisations there are a small number of suppliers who enjoy very large amounts of business. The categorisation process enables a concentrated focus on accredited and major suppliers and provides the means to closely control the largest proportion of the organisations total expenditure on goods and services.

Supplier categorisation also determines the method of monitoring supplier performance during the life of a contract. Monitoring the supplier's performance will give advance warning of problems that may be developing, which lowers the risks and costs associated with having to react to post failure problems.

Managing the critical or strategic supplier's ongoing relationship with the organisation is vitally important. Supplier management provides the mechanism for a

single interface between the business and its largest suppliers for regular formal reviews. It provides a platform for strategic discussions, building longer-term open and visible relationships on both sides.

Supply management delivers other significant benefits, namely a reduction in the number of suppliers used for each product or service. It ensures that suppliers for which there is no immediate demand, those who fail to meet the evaluation criteria and those who fail to perform satisfactorily are excluded.

The organisation benefits from an optimum supply base, which will continually meet the product and service requirements of the organisation in terms of cost, risk reduction and quality levels.

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