

Supplier Consolidation: What It Is, Benefits, and Risks



KEY TAKEAWAYS

- Supplier consolidation involves reducing the number of suppliers you work with.
- Pros include better supplier relationships, cost savings, and time savings.
- Cons include a lack of contract flexibility, requiring a strict vendor selection process, and more.
- Weigh the pros and cons against your business goals before developing and executing a vendor consolidation strategy.

As a procurement professional, you always look for ways to improve your process and increase your company's bottom line. One way to do this is through supplier consolidation, sometimes referred to as vendor consolidation.

But what exactly is supplier consolidation? And what are the benefits and risks of consolidating your suppliers? Keep reading to find out.

What is Supplier Consolidation?

Supplier consolidation is the process of reducing the number of suppliers you use for a given product or service. For example, if your company currently buys lightbulbs from five different suppliers, supplier consolidation would involve narrowing that down to two or three.

It's never a good idea to work with a single partner on anything mission-critical, as it can damage your organization if an issue arises with its supply chain. It can work for basic things like office supplies you don't often need.

But your supply chain management strategy should always include at least two suppliers for anything that could bring your operations to a grinding halt if something happens to delay an order.

There are several reasons why companies choose to consolidate their suppliers. The most common reason is to save money. With fewer suppliers, you can often negotiate better prices due to the increased buying power.

Additionally, consolidating your suppliers can help you streamline your procurement process flow by reducing the number of vendors you have to manage.

There are pros and cons to supplier consolidation. The key is to carefully weigh the risks and benefits in order to make the best decision for your organization.

Benefits of Supplier Consolidation

Vendor consolidation provides several benefits, including:

- **Reduced Costs through Economies of Scale**

A company with fewer vendors generally has more buying power and leverage to negotiate better pricing.

This could lead to significant cost savings for the company, which could be used to reinvest in other areas of the business or passed on to customers through lower prices.

In addition, having fewer vendors typically reduces shipping costs, purchasing costs, and administrative costs associated with maintaining vendor records and processing invoices. This can free up even more money to be reinvested elsewhere.

- **Improved Negotiation Power with Fewer Suppliers**

A company with fewer suppliers can more easily negotiate prices and terms with these suppliers. This is because having fewer suppliers means that these suppliers have less negotiating leverage.

For example, suppose there are only two or three major grain suppliers for a grocery store chain. In that case, these companies will be in a strong position to demand lower prices than if there were ten or twenty individual grain suppliers.

Additionally, by consolidating their orders with fewer supply sources, companies can gain more favorable terms, such as longer payment terms

and higher quality standards.

Supplier consolidation can help give companies greater negotiating power and improve their ability to secure high-quality goods at the best possible price.

• **Stronger Supplier Relationships with Fewer to Manage**

Businesses working with a trusted partner can often access higher-quality materials at lower costs. Fewer suppliers can make it much easier for companies to manage their supply chains effectively.

In addition to improving business outcomes, consolidating suppliers can lead to better vendor relationships between partners since trust and collaboration are essential in any successful partnership.

Ultimately, supplier consolidation enables businesses to benefit from consistent and reliable access to high-quality supplies while also cultivating positive and mutually beneficial partnerships.

• **Simplified Logistics Due to Working with Fewer Companies**

Streamlining your supply chain and working with fewer vendors make it much easier to plan, track, and direct your shipping operations. This, in turn, can reduce the costs and headaches associated with shipping orders out to your customers.

Since your suppliers are located in one central location, you can also save time and money on coordinating shipments between multiple vendors. Additionally, having fewer partnerships ensures a smoother flow of

information and communication regarding order status and delivery schedules.

Supplier consolidation can improve your company's logistics by reducing complexity, increasing efficiency, and strengthening operational performance. So if you're looking for a way to simplify your logistics processes, look no further than consolidating your supplier base.

Improved Quality Control with Fewer Contact Points

When businesses consolidate their suppliers, they are not just taking advantage of the financial benefits of buying in bulk. They are also improving their quality control processes by reducing the points where defects can arise.

Each additional contact point between suppliers and manufacturers introduces another potential source of errors that can damage the quality and consistency of products.

With fewer suppliers and more direct lines of communication, organizations have a better chance of identifying problems quickly and preventing them from impacting their customers.

As a result, supplier consolidation can be an extremely valuable tool for improving product quality and reducing negative customer experiences.

Risks of Supplier Consolidation

Of course, there are also some risks associated with supplier consolidation.

▪ **Loss of Contract Flexibility**

When suppliers become part of larger networks or corporations, they often adhere to stricter requirements and guidelines.

This can limit their ability to provide customized services or products, making them less attractive to customers looking for tailored solutions.

As these suppliers lose their autonomy, they may also experience a decrease in efficiency and productivity. This can lead to longer lead times and increased costs, making it difficult for them to remain competitive in the market.

Companies need to be aware of the potential risks associated with supplier consolidation. They should work closely with their suppliers to minimize these risks and maintain a high level of contract flexibility.

By fostering strong communication channels, setting up strong service level agreements (SLAs), and implementing efficient management processes, businesses can protect themselves against common supplier consolidation challenges like loss of contract flexibility.

Ultimately, this will ensure that both parties remain profitable and successful in the long run.

▪ **Need for More Stringent Vendor Management Processes**

When companies consolidate their suppliers, they rely on a select few vendors to provide them with their needed products and services. This means there is a greater potential for supply chain disruptions if these vendors fail to meet their obligations.

To mitigate this risk, companies must establish comprehensive vendor management processes across all levels of their organization and evaluate both existing vendors and potential new suppliers.

This may include developing performance metrics, conducting regular risk assessments, and monitoring supplier compliance. By focusing on these areas, businesses can help ensure high-quality standards while minimizing the risk of supply chain disruptions due to their consolidated supplier base.

• **Possibility of Reduced Competition Leading to Higher Prices**

By purchasing large quantities of products from a single source, companies can significantly increase their purchasing power and negotiate better deals. However, this inherently reduces the competition in the market, leading to fewer options for consumers and suppliers alike.

Suppliers operating in highly competitive industries face pressure to stay afloat in a turbulent economy. They may be forced to offer even better deals to retain their customers, leading to further market share loss.

As such, it is clear that supplier consolidation poses some serious risks regarding increased prices and reduced competition.

However, if companies handle their purchasing power responsibly and work with their suppliers to find mutually beneficial solutions through negotiation, these risks can potentially be mitigated or even avoided altogether.

How to Manage Supplier Consolidation in 4 Easy Steps

1. Assess Your Current Situation

The first step is to take a close look at your current situation.

- How many suppliers do you currently work with?
- How much volume do you need to procure from each of them?
- What are your current contracts with them?
- Do you have any long-term agreements in place?

This information will be crucial as you develop your strategy for managing supplier consolidation.

2. Define Your Objectives

Once you've assessed your current situation, you need to define your objectives. What are your goals for managing supplier consolidation?

For example, do you want to reduce costs? Improve quality? Increase efficiency? Once you clearly understand your goals, you can develop a plan to achieve them.

3. Develop a Strategy for Managing Supplier Consolidation

There are several different ways to approach supplier consolidation. One common strategy is consolidating multiple suppliers into a single contract with a single point of contact.

This can help simplify the procurement process and reduce costs. Another

approach is to consolidate suppliers into regional or global hubs. This can improve quality and lead time while also reducing costs.

The key is to develop a strategy that makes sense for your specific situation and meets your objectives.

4. Implement Your Strategy and Monitor the Results

Once you've developed a strategy for managing supplier consolidation, it's time to implement it. This will require careful planning and execution. Be sure to communicate your plans to all parties involved, including your suppliers.

Then, monitor the results of your efforts closely. Make adjustments as needed to ensure that you're achieving the desired results.

Is Supplier Consolidation the Right Move for Your Organization?

Supplier consolidation is a challenge that many procurement professionals are facing today. But it can be overcome with careful planning and execution.

By taking the time to assess your current situation, define your objectives, and develop a sound strategy, you'll be well on your way to successfully managing supplier consolidation in your supply chain—and achieving the benefits that come with it!

What's your goal today?

1. Use Planergy to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Procurement Solutions page to see how Planergy can digitize and automate your procurement processes saving you time and money.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our “Indirect Spend Guide”

Download a free copy of our guide to better manage and make savings on your indirect spend. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts