

What Is Supplier Management?



In order for your business to begin, grow, and prosper, you need to feed it with goods and services purchased from other companies.

Optimizing the ways in which you choose, evaluate, and partner with vendors for these goods and services is known as *supplier management*.

Done effectively, it's a key part of your workflow that will keep your company's productivity, competitiveness, customer satisfaction, and profits high—but it takes a careful approach and a deep understanding of the supplier management process to balance supplier relationships with your business needs.

Why Supplier Management Matters

Your business relies on the goods and services it obtains from third parties—i.e., your external suppliers—to create the goods and services you, in turn, offer to *your* customers.

It may seem obvious that your approach to establishing and developing supplier relationships can have a major impact on your business processes, strategic goals, and bottom line.

But the truth is, many businesses inadvertently create problems for themselves

with sub-optimal supplier relationship management, a lack of strategic sourcing for their supply chain, and supplier agreements that provide neither high-quality goods and services *nor* proper support for their company's business strategy.

The potential impact doesn't stop at goods and services, of course. Your supply chain is also a source of considerable risk for your business.

Without formal and consistent supply chain management, your company could be exposed to financial and PR disaster through non-compliance and unacceptable (or even illegal!) behaviors by your suppliers.

From failing to deliver key materials in time to produce your goods to delivering poor-quality goods to violating labor, safety, or transportation laws, suppliers who fail to meet their legal, financial, and occupational obligations pose serious risk to the health of your business.

There's no way around it: effective supplier management is essential to the present and future success of your company.

At its heart, effective supplier management is about not just obtaining goods and services, but extracting maximum return on investment (ROI) for every dollar spent while minimizing risk.

Key Aspects of Effective Supplier Management

In the procurement business (and really, any business), it's not just what you buy, but how you buy it—and what you get for your money.

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The supplier management process supports these goals through:

Smart Supplier Policies

Creating and enforcing supplier policies focused on supporting your company's

financial and strategic goals is the first step to better supply chain management.

Understanding your own business needs—for procurement and your company as a whole—is essential to meeting them through effective supplier management.

Terms, conditions, and price points for specific items and services can help you build a framework on which you can build a reliable and risk-avoidant supply chain.

Looking beyond the need for goods and services to support your own products, these policies can also be used to establish clear, well-monitored, and readily enforced expectations for suppliers, along with incentives for superior services and penalties for non-compliance.

Building a Better Supply Chain

Beginning with the best suppliers makes it easy to build strong, lasting relationships with them.

Supplier management uses simple and clear tools to quickly identify, evaluate, and approve new suppliers and integrate them into the supply chain with ease.

Getting the most out of supplier relationship management means carefully recording, and updating as necessary, all relevant information for every supplier in your supply chain. Intelligent supplier relationship management tracks all transaction data and supplier performance to reduce rogue spending and nip non-compliance in the bud.

This makes it easy to find and shore up weak links in your supply chain, replace or rehabilitate underperforming suppliers, and create contingency plans that will help you stave off problems before they can begin.

Comprehensive Data and Contract Management

In order to negotiate, monitor, and refine legal agreements between your suppliers, any third-party organizations providing underpinning contracts (i.e., support contracts for goods and services rendered to you as a customer by third parties, such as service level agreements), and your organization, you need a centralized method for drafting, reviewing, approving, and updating these

documents.

Automation that incorporates templates and boilerplate (pre-approved by your legal team) ensures new and existing contracts are compliant with your company's policies as well as the law, and include accurate information about supplier terms, conditions, and pricing.

This approach also helps you identify opportunities to improve ROI for your company, along with ways to build mutually beneficial partnerships with your highest-performing strategic suppliers.

With supplier contract management connected to the rest of your procurement system, you can further leverage economies of scale, or opportunities to bring suppliers in-house as sub-contractors to provide certain functions (such as IT services, craft services, or a single-source office supply portal).

Complete Categorization and Communication

Contact and contract information for your supply chain is important, but how you categorize your suppliers internally can also prove to be a critical tool for effective planning and business development.

Depending on your needs, suppliers can be sorted according to a variety of categories, but some of the most common follow the **STOC** model:

- **Strategic Suppliers**

These key suppliers are essential to your company's production and delivery of goods and services to your customers. They form the foundation of your supply chain and often present significant opportunities for partnerships that benefit both your company and the supplier. Strategic sourcing is focused on the supplier's ability to meet not just the specific needs met by the goods and services they offer, but their ability to support your company's overall goals for profitability, competitiveness, and market penetration.

- **Tactical Suppliers**

As the name implies, tactical suppliers play a more direct and situational,

rather than strategic, role in your supply chain. They're still important, however, as they are chosen and evaluated based on their ability to meet specific critical needs within your overall production workflow. Tactical sourcing is focused on "high quality, right price, right time" metrics.

▪ **Operational Suppliers**

Like tactical suppliers, these vendors fit a specific bill and may not be as central to your overall business strategy. They may prove exceedingly useful in certain contingencies (such as emergency orders or stop-gap orders when problems arise with preferred vendors). They may also provide everyday, basic items and services that support operations outside the production workflow, such as marketing, accounting, and information technology.

▪ **Commodity Suppliers**

While every supplier has an important role to play within the supply chain, these suppliers provide goods and services that are readily replaced and of low strategic importance. Consequently, they receive less attention and resources—and present far fewer opportunities for partnerships—than strategic or tactical suppliers.

All of these tasks are made significantly easier through the use of procurement software driven by artificial intelligence, enhanced with process automation, and equipped with centralized document storage as well as easy data analysis and sharing tools.

Effective Supplier Management Feeds Your Company's Success

Don't let your business starve on the vine—or get choked by a tangled supply chain full of weak links.

Taking control of supplier management helps you create a first-class supply chain that supports your business needs, with the flexibility to react to opportunities

and emergencies, and freedom from unnecessary risk from rogue spending, missed opportunities, and non-compliance.

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