

# 5 Steps

# to Managing Your Suppliers like a PRO!

**Your suppliers are more than vendors —they're critical partners for your business's growth. Effective supplier management goes beyond transactions; it's about collaboration and shared goals.**

# This guide will help you...

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## Why supplier management matters

Imagine never worrying about stock-outs, last-minute rush orders, or quality issues. Picture a supply chain where every link is strong, reliable, and responsive. This isn't just a dream—it's achievable with the right approach to supplier management.

Modern supply chains are complex and global, making supplier management more challenging but also more crucial than ever. By managing your suppliers like a PRO, you can turn potential vulnerabilities into strengths, creating a resilient and efficient supply chain that supports your business objectives.

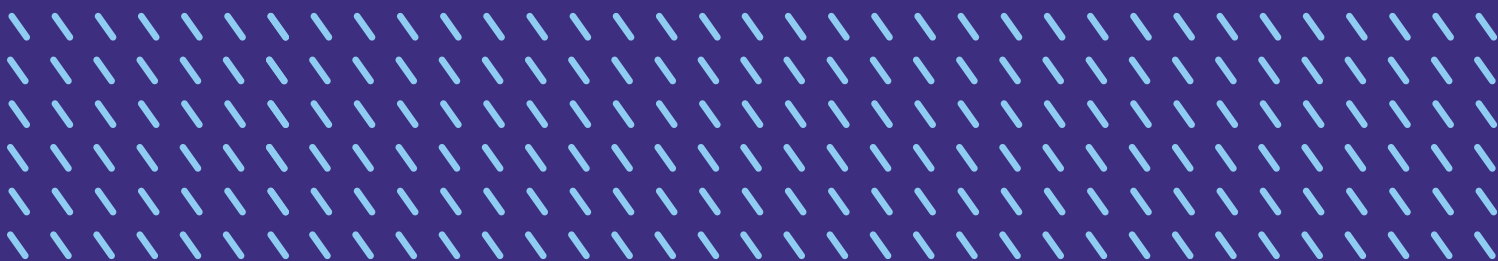
## Transforming suppliers into strategic allies

A supplier's performance can significantly influence your operational success, shaping your ability to meet customer demands and drive profits. Without skilled suppliers, the entire supply chain weakens, leading to missed opportunities.

Suppliers should be strategic allies, not just vendors. In a competitive marketplace, delays and disruptions can cost you customers. Strong supplier relationships ensure reliability, quality, and efficiency.

A Netstock survey revealed that lead time variability **(72%)** is the top supplier challenge, followed by minimum order quantities **(54%)**.

These challenges highlight the need for effective supplier management to avoid unnecessary constraints.





## SMEs face challenges

Small and medium-sized enterprises (SMEs) often struggle with less bargaining power, making it hard to get discounts and competitive pricing. Limited resources make managing, tracking, and evaluating suppliers challenging. Dependence on a single supplier increases the risk of supply disruptions.

### The benefits of strong supplier relationships



#### Enhanced efficiency

Effective communication and collaboration with suppliers streamline their operations, ensuring quality products are delivered on time and with shorter lead times.



#### Product improvement opportunities

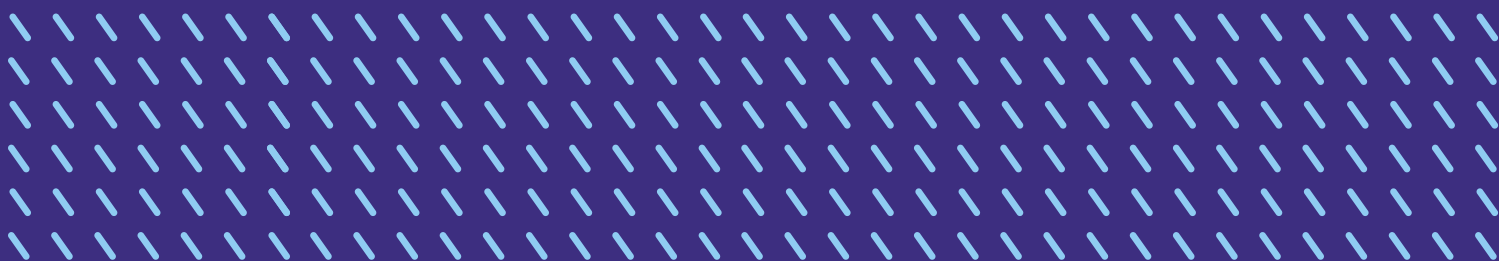
Tap into your suppliers' expertise for new ideas to innovate your products.



#### Improved reputation

When suppliers understand your needs and timing, you build a reputation for reliability. Well-managed suppliers consistently deliver quality products, fostering loyal customers who trust your brand.

The Netstock survey also revealed that in 2023, lead times initially showed a promising decline, decreasing by a full week from an average of **61.5 days to 54.1 days by Q3**. However, global disruptions destabilized supply chains, causing lead times to rebound throughout the latter half of the year and into 2024.



# How do you develop a reliable supplier network?

Here are the five steps to managing your suppliers like a PRO.





## Step 1.

# Understand your inventory and supplier landscape

By integrating these three components—inventory visibility, classification, and mapping suppliers to inventory—you create a robust framework for managing your inventory and supplier landscape effectively. Each step builds on the previous one, ensuring a comprehensive approach to managing your suppliers more effectively.

## Inventory visibility

### The benefits of inventory visibility



#### Improved forecasting

With a clear view of inventory levels, you can better assess customer demand. This leads to more accurate forecasts, which you can share with suppliers for effective production planning.



#### Accurate ordering

Accurate visibility helps avoid surplus stock and stock-outs, leading to smoother order flow and better planning for suppliers.



#### Data-driven orders

Use inventory data to evaluate supplier performance, identifying those who consistently deliver quality products on time. Build strong partnerships with top-performing suppliers.



#### Better communication

Real-time data allows for quick identification and resolution of issues before they escalate.



Netstock has provided us with increased visibility and flexibility in decision-making. Our relationships with suppliers have significantly improved with clearer anticipated orders. They appreciate the transparency and reliability in our projections, allowing them to plan their production more efficiently.

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*Eastern Warehouse Distributors*

# Inventory classification

Not all stock is created equal, so inventory classification is crucial. Classify stock items based on their importance and value using ABC analysis. This step ensures you can prioritize management efforts where they are most needed.

## ABC Analysis

**A** Items

**Best-selling items** that sell frequently and quickly.

**B** Items

**Medium-selling items** with a moderate cost to keep in stock.

**C** Items

**Bulk of your inventory** that stays longer in the warehouse.

**By classifying inventory, you can adopt targeted strategies to optimize inventory levels and reduce costs.**

The top 20% of your stock items will typically contribute 80% of your revenue. These items have the biggest impact on your inventory value. Close monitoring of these items can significantly reduce the on-hand stock value. Add items with erratic demand or highly variable lead times to the A category to monitor them and prevent stock-outs.

## The benefits of classifying stock to enhance supplier management

Identifying A, B, and C items helps prioritize relationships with critical A-item suppliers.

### \ Prioritize suppliers

Focus resources on managing A-item suppliers for timely deliveries and better terms.

### \ Risk management

Identify and diversify key A-item suppliers to mitigate disruptions.

### \ Performance evaluation

Evaluate supplier performance by category, prioritizing high-performing A-item suppliers.

### \ Negotiation

Use insights to negotiate effectively, leveraging your business's importance. Integrating ABC analysis aligns efforts to maintain optimal inventory, cut costs, and boost supply chain efficiency.

See how Netstock  
**automatically classifies**  
stocked items



## Mapping suppliers to inventory

Mapping suppliers to specific inventory items is essential for managing lead times and safety stock efficiently. This ensures you know which suppliers provide which items, allowing you to manage lead times and reduce risks effectively.

Lead time length directly affects safety stock, as you can see from the reorder point formula.

**Reorder point**  
**= Demand during lead time**  
**+ Safety stock**

To illustrate: Let's assume the lead time is 1 week

**Demand is 1,000 items per week, and safety stock is 100 items.**

ROP = 1,000 + 100      Order quantity = 1,100

**If the supplier changes the lead time to 2 weeks**

ROP = 2,000 + 100      Order quantity = 2,100

Using inventory classification, you could quickly drive down your inventory holding by targeting A-items for lowered lead time.





We use the supplier performance functionality to track our poor-performing suppliers so we can review and eliminate any extended lead times to avoid a build-up of backorders. We are also able to develop our supplier relationships and understand their frustrations so we can make necessary adjustments to our ordering frequency without presenting a risk to the business.

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*Stonegate Tooling*

## The advantages of mapping suppliers to inventory



### Improved communication

Quickly identify the supplier for queries, orders, or negotiations.



### Better forecasting

Understand lead times to improve demand forecasts, ensuring suppliers have enough time to plan production.



### Reduced risks

Identify which components are at risk if a supplier faces issues and find alternatives if necessary.



### Strategic procurement

Analyze your supplier base for diversification and consolidation opportunities, potentially cutting risks and negotiating better terms.



## Step 2.

# Mitigate supplier risk and diversify your supplier base

The next step is to identify the suppliers that pose a risk to your business continuity and sales. Risk identification starts with Key Performance Indicators (KPIs).

## Supplier KPIs should include the following...

- On-time delivery
- Lead times
- Rejects and defects
- Communication responsiveness
- Supplier financial stability

## Internal factors are not the only risk elements.

The following external factors could also affect your supply risk:

### 1. Supplier location

Is there a chance of political instability or natural disasters?  
Could transport become an issue?

### 2. Single supplier dependence

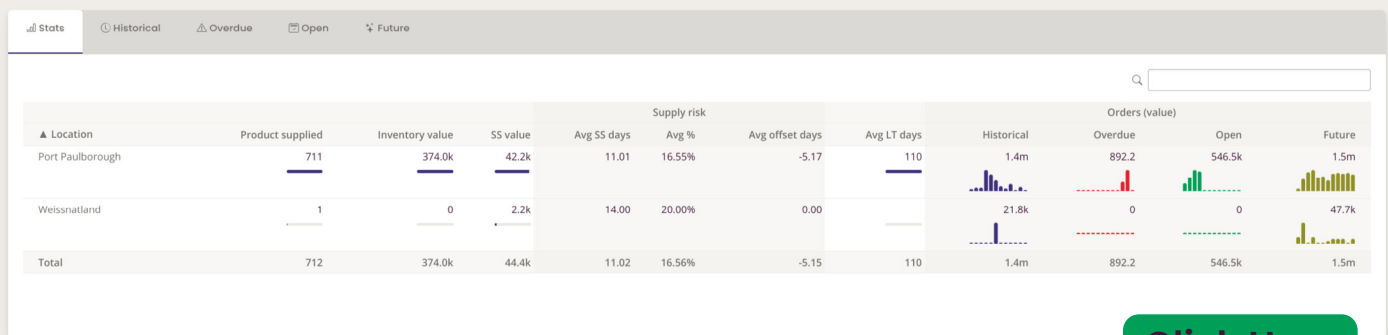
A single supplier could pose a risk of disruptions like factory shutdowns, natural disasters, and overpricing. Supplier competition can drive better pricing and payment terms. Diverse suppliers can also bring interesting ideas and help you with quality and process improvements.



If we are not familiar with the service provided by our partners making up our supply chain, it will be near impossible to put measures in place to prevent interruptions and reduce incidences of exposure. Netstock's Supplier Performance functionality provides in-depth visibility into the risk a supplier may pose so we can proactively reduce or eliminate those instances. Just another valuable tool that is obtainable with our alliance with Netstock.

*Crazy Aaron's Putty*

## Check out Netstock's Supplier Performance Functionality



[Click Here](#)

## Ask yourself...

Are you able to measure how well your **suppliers** perform?

Do you know which **stock items** are affected by poor-performing suppliers?

Do you know your **inventory's** average lead time per item per supplier?



# 4 Strategies for diversifying your supplier base

Finding reliable suppliers starts with understanding the products and qualities you want from a supplier. Look beyond price and find suppliers that support your company's values.

1

## Look outside your usual network

Attend trade meetings, use online directories, and connect with industry associations. Invest in your suppliers by communicating and building a trusting relationship. Review your supplier base regularly.

2

## Be selective

Evaluate their qualifications. Look for certifications, industry experience, and a history of reliability. Assess prospective suppliers' financial stability. A financially stable supplier is less likely to face internal disruptions and affect your business.

3

## Location matters

Proximity impacts lead times and the landed cost of products. Local suppliers can also respond more quickly to requests for expedited orders.

4

## Supplier selection is a two-way street

If businesses view you as reliable and professional, you will attract better suppliers willing to invest in your business and your success.

## Step 3.

# Enhance supplier relationships

Building strong supplier relationships goes beyond just communicating openly. It requires ongoing effort and a real commitment to mutual success.



### Shared forecasts

Collaborate closely with suppliers by sharing demand forecasts derived from your inventory management and sales data. This proactive approach helps suppliers anticipate your needs, optimize production schedules, and improve inventory management. By aligning forecasts, both parties can reduce stock-outs, improve lead times, and enhance supply chain responsiveness.

### Open communication

Communication is a two-way street. Ensure that your suppliers are clear about your needs and expectations. Know what they expect from you.

### Treat your suppliers fairly

Both parties are in business to make a profit. Ensure that both parties benefit from the supply agreement.

### Joint problem solving

Suppliers know their products best. Use a team approach to solve problems and plan projects. The agreed-upon solutions could benefit both you and your supplier.

### Pay on time

Always pay your invoices according to the agreed terms.

### Acknowledge excellence

Recognize performance formally or informally.

### Build long-term relationships

Good suppliers are worth keeping. Build a partnership and foster supplier commitment.



## Step 4.

# Increase supplier visibility and performance monitoring

Supplier visibility refers to the business's ability to track and monitor suppliers. The objective is to gain a real-time view of supplier activities, risks, and performance.

Use supplier performance insights to identify improvement opportunities. Work with suppliers to improve delivery performance, component quality, and other performance aspects.

## Supplier visibility helps to...







- ✓ **Identify risks**  
Real-time insights into supplier inventory and planned production can help you identify risks. Use the insights to help the supplier manage issues before they affect your business.
- ✓ **Reduce lead times**  
Your supplier can use shared forecasts to plan production, reducing lead times and stockout risks.
- ✓ **Improve quality**  
Help the supplier ensure high quality and compliance with safety standards. Monitoring quality and compliance performance will lead to happier, more satisfied customers.
- ✓ **Enhance forecasting**  
Access to supplier data is an essential input into forecasts, enabling greater accuracy.
- ✓ **Improve brand reputation**  
Enhance your reputation by ensuring that your suppliers comply with ethical and sustainable practices.



## Methods to track and measure supplier performance

To ensure your suppliers meet your expectations, tailor your performance tracking methods to your business needs.

### Here are common Key Performance Indicators (KPIs) used to measure supplier performance...

-  **Delivery**  
On-time delivery, the percentage of order lines filled, order accuracy
-  **Cost**  
Total ownership cost, adherence to payment terms, price variances
-  **Quality**  
Number of defects, rework rate, product returns
-  **Performance**  
Lead time, effective communication, response time to queries
-  **Sustainability**  
Adherence to environmental and social responsibility
-  **Flexibility**  
Responsiveness to change

Supplier performance measurement starts with agreed performance metrics. Work with your supply chain partners to constantly seek improvement areas.

**Ensure your supply agreements describe your expectations. It should include service levels and specifications.**

## Supplier performance methods

Ongoing supplier management is a necessary part of ensuring consistent supplier performance.

### Use tried and trusted methods to consider...



#### Real-time data sharing

Use technology to share data in real-time with your suppliers. Include information like inventory levels, production forecasts, and shipment tracking.



#### Performance scorecards

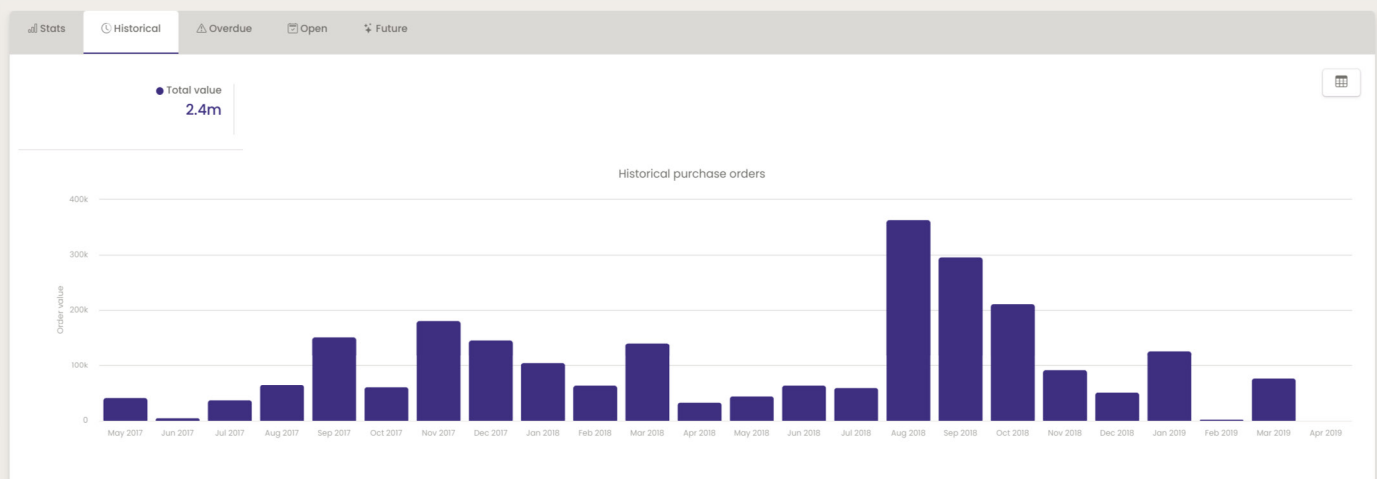
Develop a supplier scorecard containing the most crucial supplier KPIs. Track the KPIs to measure performance. Find areas for improvement on both sides. Engage with the supplier and agree on change management activities.



#### Supplier audits

Regular supplier audits will reveal capacity gaps and ensure adherence to quality standards. Schedule quarterly audits remotely or at the supplier's premises.

## Check out how Netstock automatically measures and monitors supplier performance.



[Click Here](#)



## Step 5.

# Leverage technology to improve supplier management

Invest in the right demand and supply planning solutions to simplify your processes and improve visibility.

## Critical features software should enable...

### Measure and track supplier performance

Instantly identify suppliers who are short-delivering or delivering late on every item ordered. Use your system to build a supplier risk profile and use the information for future supplier selection.

### Optimize lead times and safety stock levels

As you evaluate supplier performance, use your system to respond to changing lead times. Automatically change safety stock levels to ensure up-to-date optimized inventory. Reduce the risk of stockouts without carrying excess inventory.

### Information sharing

Share planned orders with suppliers, enabling efficient supplier planning. Netstock ensures more accurate forecasts on which you can depend.

### Create scenarios

Understand what will happen under various scenarios. Take proactive steps to ensure the best outcome.



# Are you ready to take that first step towards a more efficient and collaborative supplier relationship?

Find out how Netstock can help you manage your suppliers like a pro! Discover how to make informed decisions, mitigate risks, and leverage cutting-edge technology to build successful partnerships.



## About Us

Netstock is a leader in demand and supply planning software, trusted by 2,400+ customers globally to optimize their planning. With \$26B inventory managed by Netstock, the company's cloud-based solutions enable businesses to be agile, responsive, and profitable. Each solution integrates with leading ERPs, and leverages enhanced analytics so you can quickly respond to market change and make the best supply chain planning decisions for your business.

**For more information, visit the Netstock website [www.netstock.com](http://www.netstock.com)**