

# Supplier base: structure, evaluation and management of the supplier master

The supplier base denotes the totality of all active suppliers of a company. It covers their number, composition, regions and performance profiles and is thus a central foundation of procurement strategy. A deliberately designed supplier base reduces procurement risks, lowers costs and secures the supply of production. Building and continuously maintaining it is one of the core tasks of strategic procurement.

## Key facts

- The supplier base covers all active suppliers of a company including their categories, regions and performance profiles.
- Typical objectives are risk reduction, cost savings, higher material availability and less maverick buying.
- In practice, many industrial companies reduce their supplier count by a guideline of five to ten per cent per year to increase transparency and leverage.
- Supplier segmentation, supplier self-disclosure and regular evaluations form the methodological backbone of base management.
- Crises such as material shortages frequently show that a lean base without redundancy can quickly lead to line stop and backorders.
- Digitalised data maintenance and automatic spend classification make the supplier base manageable and audit-ready.

## Definition: supplier base

The supplier base is the complete stock of suppliers that a company actively uses for goods and services. It describes not only a number but above all the qualitative structure: which categories are covered, which dependencies exist and how capable the individual suppliers are.

## Distinction from the supplier master

The supplier master is often simply the data set in the ERP system, i.e. all suppliers ever created together with their master data. The supplier base is narrower: it covers only suppliers who are actually active, qualified and strategically classified. In practice there is often a large gap between the two, because legacy records from margin or old projects persist. A cleansed master is a prerequisite for a meaningful base.

## Significance in procurement

For buyers, the supplier base is a mirror of procurement strategy. It shows whether categories are consolidated or fragmented, whether critical parts are sourced single-sourced only and where additional qualification is needed. A transparent base also facilitates process organisation and compliance, for example in approval processes for new suppliers.

## Structure and composition of the supplier base

A supplier base does not arise by chance but through systematic sourcing, qualification and approval of suppliers. Regional orientation, industry focus and risk profile shape its composition.

### Supplier segmentation

Supplier segmentation classifies each supplier according to criteria such as spend share, criticality of the goods, substitutability and performance level. Three to four tiers are common, e.g. strategic partners, preferred suppliers, approved suppliers and the remainder. Segmentation determines how intensively suppliers are managed, audited and developed. It is also the basis for award decisions and distinguishes the base from a mere list.

### Supplier qualification and approval

Before onboarding come supplier self-disclosure, certificate verification and often an audit or sample production. For technical products, prototype procurement and material approval follow before the supplier is released for serial parts. Pilot series procurement is also often used to validate new suppliers. Only after a passed approval process does the supplier formally belong to the base and may receive orders.

### Regional and categorical balance

A healthy base combines regional proximity for short-term needs with low-cost suppliers for high-volume categories. In the restricted tendering procedure, existing base suppliers play an important role, while open tenders with bid conferences bring new suppliers into play. Excessive regional concentration increases planning and logistics risk, for example through detention costs or freight audit anomalies at remote locations.

## Methods for optimisation and maintenance

The base is continuously cleansed, consolidated and developed. Core methods are spend analysis, consolidation, risk mapping and regular evaluation.

### Automatic spend classification

Without clean classification of procurement volume, any base management remains blind. Automatic spend classification assigns expenditure to the right commodity groups using master data and AI, showing how much volume is attributable to which suppliers. This yields volume tier potential and consolidation ideas. At the same time, it exposes maverick buying, i.e. purchases outside approved suppliers and processes.

### Consolidation versus redundancy

Consolidation bundles volume with a few suppliers and improves prices, MSA framework agreements and priority in day-to-day business. The counterpoison is excessive dependency: in practice, critical parts should often be double or multi-sourced so that failures do not lead directly to a defect notice or a line stop. The art lies in a category-by-category decision between focus and redundancy.

### Evaluation and development measures

Regular supplier evaluations based on on-time delivery, quality, response times and price level keep the base performant. Weaknesses are addressed through corrective action processes such as the 8D

report. Persistently weak suppliers are replaced, which presupposes a continuous pipeline of qualified candidates. An active delivery schedule and reliable ATP (available-to-promise) checks in the ordering system additionally secure operational collaboration.

## **Key KPIs for managing the supplier base**

Metrics make the base measurable and show whether consolidation, risk mitigation and quality are working.

### **Concentration and structural metrics**

Key metrics are the number of active suppliers per category, the share of top suppliers in spend and the single-source share of critical positions. These values are updated regularly as part of supplier segmentation. If the number of active suppliers falls significantly faster than volume grows, this indicates supply failure risks.

### **Performance and risk metrics**

The backorder rate shows how often orders are not fulfilled on time and supply gaps therefore loom. On-time delivery, complaint rate and the time until an 8D report becomes effective assess the quality of base suppliers. In addition, spend shares of approved suppliers indicate how well maverick buying has been contained.

## **Risks and controls**

A poorly maintained supplier base creates operational, financial and legal risks. Controls must therefore work continuously.

### **Dependency and failure risks**

If a single-source supplier fails, production quickly comes to a standstill; consequential costs such as line stop, obsolete stock or damage claims for undelivered quantities can exceed the original cost advantage. Early warning indicators, contractual rights of recourse and documented alternative suppliers are important. An ATP check at the supplier itself can also make bottlenecks visible early.

### **Process and compliance risks**

Without clear approval processes, new suppliers end up unchecked in the master, which carries quality and compliance risks. Documented qualification, certificates of conformity for required evidence and regular requalification mitigate this danger. Changes to components must go through defined change order processes to prevent silent sourcing from non-approved sources. Tax and contractual issues must be examined by specialists on a case-by-case basis.

### **Financial implications**

The structure of the base influences payment terms and thus the cash flow effect of payment terms: a few large suppliers have stronger negotiating positions, while many small ones require more administrative effort. A clean freight audit also uncovers overcharges in transport costs, which can add up across many base suppliers.

## Current developments

Digitalisation, resilience and sustainability are changing how companies build and manage their supplier base.

### Digitalisation and AI

Marketplaces and AI-supported enquiry options significantly accelerate the sourcing of new suppliers. Automatic spend classification and integrated supplier evaluations make the base continuously visible rather than only once a year. Digital supplier self-disclosures also significantly shorten qualification cycles.

### Resilience and sustainability

Supply chain disruptions of recent years have pushed resilience up the agenda: more dual sourcing, geographical diversification and buffer stock are again higher priorities. At the same time, customers and legislators increasingly demand supply chain evidence, which expands qualification requirements. Both trends run counter to pure consolidation and require a deliberate weighing-up per category.

## Typical metrics

### Number of active suppliers: Guideline: 10–30 per category

Depending on criticality and volume; too many indicate fragmentation

### Single-source share of critical parts: typically < 10 %

A higher share means increased supply failure risk

### Backorder rate: typically < 2 %

Indicator of the reliability of base suppliers

### On-time delivery: > 95 %

Common target for approved suppliers

### Spend share of approved suppliers: > 90 %

Shows how well maverick buying has been contained

## Practical example

A mid-sized mechanical engineering company with around 1,400 suppliers on its master list found that only about 600 were actually actively supplying and that 15 per cent of critical volume was single sourced. Following a spend-based analysis, fragmented categories were consolidated, volume tiers negotiated and second sources qualified for four critical components via prototype procurement and pilot series procurement. In parallel, maverick buying was contained through approved supplier catalogues and ATP checks were activated in the ordering system.

- Cleansing of the supplier master and automatic spend classification of all expenditure
- Supplier segmentation with defined account management and development levels
- Qualification of second sources for critical parts including material approval
- Introduction of monthly KPI reviews on on-time delivery and backorder rate

## Conclusion

The supplier base is more than a supplier list: it is the structural foundation for costs, risks and supply

security in procurement. What matters is a clean data foundation, clear segmentation and the continuous weighing-up of consolidation and redundancy. Regular evaluations and metrics such as on-time delivery or backorder rate keep the base performant. Companies that actively manage their base gain negotiating power and respond faster to disruptions. A deliberately maintained supplier master thus pays directly into results and resilience.

## Frequently asked questions

### What is meant by a supplier base?

The supplier base is the totality of all active suppliers of a company, including their categorical, regional and qualitative composition. It covers only suppliers who are actually qualified and used, not all records created in the system. It is a central lever of procurement strategy.

### How many suppliers are sensible?

There is no one-size-fits-all number, as it depends on industry, categories and depth of manufacture. In practice: critical parts should have at least dual coverage, while standard categories can often be consolidated onto a few suppliers. The key is weighing leverage against supply failure risk per category.

### How do you optimise the supplier base?

The starting point is a clean spend classification, followed by supplier segmentation and consolidation of unused or underperforming suppliers. In parallel, critical positions are covered redundantly and weaknesses addressed through structured measures such as the 8D report. Regular evaluations and clear approval processes secure the quality of the base on a lasting basis.

### What is the difference between supplier base and supplier master?

The supplier master is the data set of all suppliers created in the ERP, often including inactive legacy records. The supplier base covers only the active, qualified and strategically classified suppliers. The difference between the two often reveals potential for data cleansing.

### Why is supplier segmentation important?

It assigns a level of account management and control to each supplier, adapted to spend, criticality and performance level. This concentrates resources on strategically relevant suppliers instead of treating all equally. It also forms the basis for award decisions and risk management.

### What are the risks of an overly lean supplier base?

High concentration increases dependency: if a key supplier fails, delivery delays, line stop and costly replacement sourcing loom. From a negotiating perspective, procurement also loses leverage. For this reason, critical parts should in practice usually have multiple sources.