

Supplier consolidation: fewer suppliers, more control

Supplier consolidation refers to the strategic reduction in the number of active suppliers in favour of a small number of more capable partners. The aim is to unlock consolidation effects in volume, processes and quality without jeopardising security of supply. In practice, it is one of the most effective instruments of procurement strategy for sustainably reducing purchasing costs, administrative effort and risk.

Key facts

- Supplier consolidation is the deliberate reduction of the supplier base to a smaller number of strategically leading partners.
- Typical levers are volume bundling effects, lower process costs and uniform quality standards.
- The foundation is a reliable spend analysis, often supported by automatic spend classification.
- In practice, consolidation significantly reduces the effort per supplier, often by 20 to 40 per cent.
- Consolidation creates new dependencies and must therefore be safeguarded with a risk heatmap and contingency suppliers.
- Success is measured using supplier evaluation criteria, savings and on-time delivery.

Definition: supplier consolidation

Supplier consolidation is the systematic downsizing of the supplier portfolio, in which volumes, processes and contracts are bundled with selected core suppliers. It is not a one-off project but an ongoing element of procurement strategy.

Distinction from supplier development

While consolidation reduces the number of suppliers, the supplier development plan specifically develops the remaining partners. The two approaches complement each other: after the supplier base has been rationalised, procurement invests the resources freed up in developing core suppliers. In practice, therefore, consolidation is often carried out first, followed by development.

Single, dual and multiple sourcing

The target structure of the supplier base results from the sourcing decision per item group. Single sourcing maximises consolidation effects but increases the risk of default; dual sourcing is regarded as the usual compromise. The consolidation determines how many suppliers are to remain permanently active per material group and documents this in the purchasing guide or purchasing manual.

Objectives and benefits of supplier consolidation

Consolidation affects costs, quality and risk position simultaneously. However, the benefit only materialises if objectives are defined in measurable terms in advance.

Cost and process benefits

Larger volumes with fewer suppliers improve negotiating power, discount scales and freight terms. In addition, transaction costs fall: less master data maintenance, fewer qualifications, fewer invoice and goods receipt processes. Typically, the administrative effort per unit of purchasing volume is noticeably reduced, as ordering and invoicing processes run via standardised interfaces.

Quality and standards

Fewer suppliers enable more in-depth quality work: uniform supplier evaluation criteria, joint inspection plans and an agreed process standard. Methods such as SPC for statistical process control can be implemented efficiently with a small number of partners. Evidence and compliance requirements, such as RoHS conformity or the EcoVadis rating, can also be enforced in a more standardised way across fewer partners.

Risk perspective: managing dependence

Consolidation shifts risks rather than eliminating them. Higher shares with individual suppliers require active monitoring via a risk heatmap, financial checks such as VAT ID verification and defined alternative sources. A reliable supplier credit limit and contractual instruments such as a bank guarantee or a letter of credit safeguard critical business relationships.

Methods and approach to consolidation

In practice, a five-phase process has proved its worth: analysis, segmentation, decision, migration and contractual safeguarding. Each phase delivers verifiable interim results.

Spend analysis and supplier segmentation

The starting point is a complete view of the procurement volume, ideally automated via automatic spend classification. Suppliers are assessed by volume, criticality and performance; a classic approach is portfolio segmentation by intensity of competition and importance of the purchase. The result is lists of active, inactive and duplicate suppliers, which often reveal considerable consolidation potential.

Decision and tender

The target number of suppliers is defined per material group and determined through structured tenders. Sample deliveries and initial samples serve as proof of performance before volume is awarded. Comparison criteria include not only price but also on-time delivery, process capability, capacity reserves and service level.

Migration, contracts and data quality

The transfer of volume follows a planned schedule, starting with non-critical items. Framework agreements with clear terms, a framework agreement annex covering special arrangements to accompany the consolidation, and end-to-end contract management safeguard the results. Master data is cleansed, duplicates merged, and every transfer is subject to a documented three-way match to safeguard purchase order, goods receipt and invoice.

Key KPIs for steering consolidation

Without reliable metrics, consolidation remains a matter of faith. Common measurement criteria include

the size of the supplier base, the degree of concentration and the performance level of the remaining partners.

Structural and concentration metrics

Key figures are the number of active suppliers, the share of volume held by the top 10 suppliers and the number of suppliers per material group. A high degree of concentration is desirable but becomes critical as soon as individual partners dominate beyond typical thresholds. The key figures are regularly compared against the objectives of the procurement strategy.

Performance and cost metrics

Supplier evaluation criteria such as on-time delivery, complaint rates and process capability show whether the remaining partners can reliably handle the merged volume. In addition, savings against the baseline, process costs per purchase order and the number of qualified secondary sources are tracked. Lessons learned from each consolidation wave feed into the next.

Risks and controls in supplier consolidation

The greatest risks lie in supply failures, hidden dependencies and internal resistance. Controls must therefore take effect during the migration itself, not only afterwards.

Supply and dependency risks

The larger the volume is bundled, the more serious a failure becomes. Countermeasures include a qualified alternative supplier for each critical group, safety stock for bottleneck materials and ongoing capacity dialogues. Material requirements planning (MRP) helps to make inventory and scheduling risks visible during the transition.

Financial and legal controls

Larger order volumes require stricter safeguards: credit limits, payment securities such as a bank guarantee or letter of credit, and reviewed contract clauses. Limits of liability are negotiated; a limitation of liability should be legally reviewed on a case-by-case basis before the contract is concluded. The distinction between a contract for work and services and a service contract is also relevant for warranty and ownership rights in development and manufacturing services.

Organisation and change management

Consolidation changes ways of working in procurement, quality management and logistics, for example in load carrier management or in standardised delivery schedules. Early involvement of the specialist departments, clear internal communication and documented procedures in the purchasing manual increase acceptance. Resistance often arises from fear of supply failures — transparent migration plans address this concern.

Current developments: digitalisation and sustainability

Consolidation is increasingly becoming data-driven and is being linked with sustainability requirements. Both trends reinforce each other.

Data-driven consolidation

Automatic spend classification, digital supplier portals and AI-supported data cleansing significantly

shorten the analysis phase. Concentration and risk metrics can be updated continuously rather than once a year. This turns consolidation from a project into a continuous steering process within contract management.

Sustainability and compliance as drivers

Evidence obligations along the supply chain make maintaining hundreds of micro-suppliers expensive. Consolidation significantly reduces the audit effort for sustainability and product evidence such as EcoVadis ratings or RoHS declarations. The prerequisite remains that the remaining partners meet the tightened requirements and document this verifiably.

Typical metrics

Number of active suppliers: reduction of 20–40%

usual target corridor per consolidation wave

Volume share of top 10 suppliers: 60–80%

typical degree of concentration after consolidation

On-time delivery: > 95%

evidence of stability of the remaining core suppliers

Process costs per purchase order: reduction of 10–30%

thanks to fewer partners and standardised processes

Practical example

A medium-sized mechanical engineering company with around 1,400 active suppliers launched a consolidation programme for purchased parts and services. The spend analysis showed that more than half of the suppliers contributed less than five per cent of the volume. Within twelve months, the company reduced its active supplier base by around one third, without any supply failures.

- Automatic spend classification to eliminate duplicates and inactive suppliers
- Structured tenders per material group, including sample deliveries before volume is awarded
- Framework agreements with uniform supplier evaluation criteria and documented contract management
- Risk heatmap and qualified alternative sources for all critical item groups

Conclusion

Supplier consolidation is one of the most efficient instruments for reducing purchasing costs, process effort and compliance effort at the same time. Success depends less on the reduction itself than on the quality of the preparation: clean spend data, clear sourcing objectives and reliable evidence of performance. Anyone bundling volume must actively manage dependencies — with risk monitoring, contractual instruments and alternative sources. In practice, a step-by-step approach starting with non-critical material groups has proved its worth. This turns consolidation from a one-off project into a permanent steering logic of a modern procurement strategy.

Frequently asked questions

What does supplier consolidation mean?

Supplier consolidation is the systematic reduction of the number of active suppliers, whereby volume is bundled with a small number of capable partners. The goals are better terms, lower process costs and uniform quality standards. It forms part of the overarching procurement strategy.

What benefits does supplier consolidation bring?

Typical benefits include volume discounts through pooled volumes, less effort for master data, audits and invoice processing, and more in-depth quality work with a small number of partners. Compliance and sustainability evidence can also be obtained more efficiently. In practice, the administrative effort often falls by 20 to 40 per cent.

What are the risks of supplier consolidation?

The main risks are dependence on individual partners, default risks and capacity bottlenecks with shared suppliers. These can be limited through secondary sources, safety stock, a risk heatmap and financial safeguards such as credit limits or bank guarantees.

How many suppliers are optimal?

There is no blanket figure, as it depends on the material group, criticality and market situation. In practice, companies typically aim for one to two main suppliers plus one qualified fallback supplier per item group. What matters is weighing consolidation effects against security of supply.

How does supplier consolidation proceed step by step?

First, the procurement volume is fully analysed and classified, followed by supplier segmentation and definition of targets per material group. Volume is then transferred to core suppliers via tenders, sample deliveries and planned migration. Finally, contracts, master data and KPIs are standardised and continuously monitored.

How do you measure the success of supplier consolidation?

Success is reflected in a falling number of suppliers, improved terms and stable supplier evaluation criteria such as on-time delivery and complaint rates. In addition, process costs per purchase order and savings are tracked against a baseline. Regular lessons learned ensure the approach can be transferred to further material groups.