

Supplier Strategy: Systematic Alignment of the Supplier Portfolio with Procurement Objectives

The supplier strategy describes the long-term alignment of a company's entire supplier portfolio with its procurement and corporate objectives. It answers which material groups should be procured from which suppliers, with what depth of relationship and which contract forms. As the link between procurement strategy and operational supplier management, it sets the direction for terms and conditions, qualification and development of suppliers.

Key facts

- The supplier strategy is derived from the procurement strategy and operationalises it at the level of suppliers and material groups.
- Typical instruments are ABC/XYZ analyses, supplier portfolios and make-or-buy considerations as a basis for the outsourcing analysis.
- It defines for each supplier group the objective, contract form (e.g. blanket order or call-off order) and intensity of collaboration.
- Impact is only achieved through consistent implementation in supplier selection, contract design and supplier development.
- The review usually takes place annually or on an event-driven basis, for example when technology or market prices change.
- Compliance requirements such as the Supply Chain Due Diligence Act are increasingly an integral part of the strategy.

Definition: Supplier Strategy

The supplier strategy is the documented, medium-term plan for how a company intends to build, steer and develop its supplier portfolio. Depending on the strategy type, it determines which suppliers are to be managed strategically, which are to be reduced and which are to be substituted.

Distinction from the procurement strategy

While the procurement strategy answers the questions of what, when and at what terms is procured, the supplier strategy focuses on the question of with whom. In practice, both levels are interlinked: price indexation in long-term contracts, for example, is both a procurement and a supplier strategy, because it simultaneously defines the contractual partner and the pricing mechanism. Smaller companies often combine both levels in a single document.

Key contents

A complete supplier strategy typically comprises the definition of objectives per material group, the determination of the depth of relationship (single versus multiple sourcing), supplier selection criteria,

contract forms, and rules for supplier evaluation and development. In addition, escalation routes and alternative sourcing scenarios are defined to cushion supply failures. It is important that content is formulated in a measurable way – for example with target values for delivery performance or cost reduction.

Methods and approach for developing a supplier strategy

The development of a supplier strategy in practice follows a multi-stage analysis and decision process ranging from data analysis to concrete contractual agreements.

Portfolio analysis as the starting point

A two-dimensional view is customary: suppliers are positioned according to revenue relevance (e.g. ABC analysis) and according to supply risk or supplier quality. Supplemented by the ABC/XYZ analysis at item level, this yields a differentiated picture from which standard strategies can be derived – from strategic partner to simple standard supplier. Duplicate detection in the supplier master ensures a clean data basis beforehand, as in practice multiple records per real supplier would distort the analysis.

Make-or-buy and outsourcing

Before the question 'Which supplier?' often comes the question 'In-house production or purchase?'. The outsourcing analysis assesses capacities, technology and cost structures and provides the basis for procurement quantities. Technology assessment in procurement also belongs here: if components are to be manufactured differently in future, the requirements for suppliers and contracts change. For lot size planning, procurement often relies on the Andler lot size formula to derive optimal order quantities.

Strategies per supplier group

The analysis produces different patterns per material group: strategic partnerships with joint development, systematic supplier consolidation for C-parts, multi-stage dual sourcing for critical parts, or localisation for long supply chains. For each pattern, contract form and process are predefined, for example framework delivery schedule and call-off orders for series parts, or blanket orders for C-parts with min-max control in the supplier-managed warehouse.

Implementation in contracts and processes

A supplier strategy only takes effect when it is translated into concrete contracts, processes and systems. The implementation level determines the real lever.

Contract and terms design

Key instruments are framework agreements, blanket orders and dynamic price agreements with price indexation. For international suppliers, Incoterms such as FCA or other delivery terms are chosen so that transport risk and customs clearance are clearly regulated. Payment terms and securities, including possible advance payment for new suppliers, complete the picture. Legal statements always apply only in general terms and must be verified on a case-by-case basis.

Processes and system support

Operationally, the strategy is anchored in procurement processes: from the requisition cycle time as a measure of internal requisitioning, via tenders, to ongoing call-off processing. E-procurement in purchasing reduces ordering costs for standard parts, while an ETL process in procurement prepares

supplier and transaction data from source systems for evaluation and steering. For quality assurance during the series start of production (SOP), approval processes such as the Initial Sample Inspection Report (ISIR) must be defined.

Supplier evaluation and development

Regular supplier evaluations check whether the realised performance matches the strategy. Evaluations typically combine quality (e.g. complaint rates), delivery performance, prices and service. Deviations trigger defined measures: supplier meetings, development programmes or a gradual switch to alternative sourcing. Strategic suppliers often receive joint target agreements with annual review.

Key KPIs of the supplier strategy

The impact of a supplier strategy can only be measured if suitable metrics are defined and collected regularly. Typical metrics relate to costs, risks and performance.

Cost and process metrics

Common metrics are savings versus reference prices, ordering costs per transaction, and the share of volumes handled under framework agreements. The requisition cycle time shows how quickly demand turns into an order, while the procure-to-pay lead time reflects overall process maturity. With account statement reconciliation (AP) and procedures such as Evaluated Receipt Settlement (ERS), it becomes apparent whether payment processes run automatically and error-free.

Risk and quality metrics

On the risk side, supplier concentration (share of the top supplier in procurement volume), the single-source ratio and the supply capability of critical parts count. On the quality side, complaint rate, ISIR first approvals and delivery performance are used. In practice, these metrics are evaluated separately per material group and per supplier so that deviations from the strategy can be localised. A benchmark across several periods is more important than a single value.

Risks and controls

Supplier strategies harbour typical pitfalls: overestimation of savings potential, neglect of risks, and a gap between paper and practice. Controls must actively address these risks.

Dependency and supply risks

Excessive concentration on a few suppliers lowers transaction costs but increases the risk of supply failure. Countermeasures include dual sourcing, contractual commitment of capacities and documented alternative sourcing paths. For critical pre-products, companies in practice additionally examine the second and third supply tiers. An escalation-capable framework delivery schedule with defined minimum quantities and capacity commitments mitigates bottlenecks.

Compliance and sustainability

Legal requirements such as the Supply Chain Due Diligence Act oblige companies to systematically analyse human rights and environmental risks in the supply chain and to take measures. The supplier strategy should therefore anchor compliance and sustainability criteria as selection and evaluation factors. The specific obligations depend on company size and industry; the interpretation should be reviewed legally.

Implementation gaps and governance

Common mistakes in practice: the strategy remains a paper document, operational buyers act contrary to the guidelines, or cost pressure undermines agreed dual sources. Controls include regular strategy reviews, contract compliance checks, and linking buyer objectives to strategy content. Zero-based budgeting in procurement can help to critically re-examine existing procurement spend and supplier relationships periodically.

Current developments and digitalisation

Supplier strategies are under the influence of disrupted supply chains, increasing regulatory requirements and growing data availability. This changes both the content and the cadence of strategy work.

Resilience instead of pure cost orientation

Since the supply disruptions of recent years, supply security and flexibility have moved more into focus alongside price. Multi-sourcing strategies, regionalisation and the targeted build-up of alternative sourcing options are being formulated again more frequently, even if they cause costs in the short term. In practice, resilience is increasingly anchored as a distinct objective alongside cost and quality in the strategy.

Data-based steering

Digital procurement platforms and e-procurement in purchasing create transparency on spend, supplier performance and risks. Automated evaluations – for example via an ETL process in procurement – enable more frequent strategy reviews than was previously common. AI-supported enquiry processes accelerate the market enquiry and provide comparative prices that underpin strategic decisions. The prerequisite remains a well-maintained, duplicate-free supplier and material master data basis.

Typical metrics

On-time delivery (OTIF): > 95–98 %

typical target value for series suppliers

Top supplier share: often < 30 % of volume per critical material group

risk metric for dependency control

Supplier consolidation: typically 20–40 % fewer suppliers in C-parts

usual lever during first strategy implementation

Requisition Cycle Time: typically 1–5 working days for standard requisitions

measure of process maturity in requisitioning

Complaint rate: often < 1 % per supplier

quality metric within supplier evaluation

Practical example

A medium-sized mechanical engineering company with an annual volume of around €40 million identified in a portfolio audit that 70 % of its suppliers accounted for only 5 % of the volume, while two critical suppliers had no alternatives. Based on an ABC/XYZ analysis, a supplier strategy was developed with four material group patterns and translated into contracts and processes.

- Consolidation of C-parts onto framework agreements with blanket orders and e-procurement catalogue ordering, resulting in a noticeable reduction in ordering costs
- Establishment of a qualified second source for the critical core assembly, including documented alternative sourcing and an ISIR approval process
- Framework delivery schedule with call-off orders and price indexation for the three strategic suppliers, supplemented by annual target agreements
- Supplier evaluation with quarterly reporting of delivery performance, quality and prices as a steering basis

Conclusion

The supplier strategy is the central steering instrument with which procurement objectives are translated into concrete supplier decisions. It combines analysis (portfolio, risk, cost), decision-making (consolidation, dual sourcing, contract form) and implementation (processes, KPIs, governance). Its value is measured less by the strategy paper than by its consistent application in day-to-day business. Companies that regularly adapt the strategy to market, technology and regulatory developments and monitor it measurably reduce costs and supply risks alike. Those who operate it in isolation, by contrast, risk dependencies, inefficiency and implementation gaps.

Frequently asked questions

What is a supplier strategy?

The supplier strategy is the medium- to long-term plan for how a company intends to build, manage and develop its supplier portfolio. For each material group, it defines which suppliers are used, what depth of relationship is pursued and which contract forms are utilised. In doing so, it translates the overarching procurement strategy into concrete supplier management.

How do you develop a supplier strategy step by step?

A typical process consists of five steps: baseline analysis of the supplier portfolio (e.g. via ABC/XYZ analysis), assessment of risk and performance, derivation of strategies per material group, definition of contracts and processes, and continuous measurement via KPIs. It is important to involve engineering, quality and logistics, because supplier decisions have an impact far beyond procurement.

What are typical supplier strategies?

Common patterns include supplier consolidation for standard materials, strategic partnerships for value-adding parts, dual or multiple sourcing for critical items, and local sourcing or localisation to mitigate risk. In addition, there are substitution and exit strategies for unreliable or no longer competitive suppliers.

Which KPIs belong to the supplier strategy?

Commonly used metrics are on-time delivery performance, complaint rate, supplier concentration (top supplier share), savings versus reference prices, ordering costs per transaction, and the requisition cycle time. Sensibly, these KPIs are evaluated per material group and supplier so that deviations from the strategy can be addressed in a targeted manner.

What is the difference between supplier strategy and supplier management?

The supplier strategy is the direction-setting level: it defines objectives, portfolio orientation and

relationship patterns. Supplier management is the operational implementation level covering the selection, evaluation, contract handling and development of individual suppliers. The two interlock, because only functioning management puts the strategy into practice.

Why do you need a supplier strategy at all?

Without a strategy, the supplier portfolio grows historically and is often inefficient: too many suppliers, unsatisfactory terms and unrecognised dependencies. A supplier strategy creates transparency, reduces ordering and process costs, and mitigates supply failure risks through planned alternatives. It also fulfils regulatory requirements, such as those on supplier management under the Supply Chain Due Diligence Act.