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## Rethink Your Supply Chain Strategy for Better Outcomes

Supplier relations management is about building a network of suppliers that fosters innovation and mitigates risk

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# INTRODUCTION

Effective supplier relations management (SRM) is about finding more proactive partners as opposed to transactional vendors and focusing on the lowest price-per-unit costs. You can more effectively manage and work with your suppliers if you apply a continuous improvement approach to supply chain management. This includes striving for clarity, establishing expectations, frequently communicating, and providing feedback loops. Continuous improvement includes being receptive to new technology and product improvements, which are at the heart of SRM.

Your supply chain creates additional value through shared innovation that capitalizes on the unique value and capabilities of each member of the supply chain. For example, larger companies have the resources to experiment with different approaches. In contrast, smaller companies can be more nimble and move quickly. Combining the two capabilities can help you improve the development process for your entire supply chain. Leveraging supply chain capabilities is key to SRM and can speed innovation and lower costs. It can also improve resilience in difficult situations to reduce risks.

In this white paper, we will look at the key components of SRM:

- **Supplier selection**
- **Onboarding and expectations**
- **Performance management**
- **Growing the relationship**
- **Leadership**

Successful supplier partnerships are built on shared approaches to innovation, strategic alignment, and cost reduction. These relationships thrive when parties are willing to share appropriate business and industry insights and test new processes. The result could be a competitive advantage for your combined supply chain.



# CHAPTER 1

## How to Improve Your Supplier Selection Process

Many manufacturers lack the resources to develop comprehensive supply chain strategies. They often default to a transactional approach, focusing primarily on per-unit costs. In response to recent supply chain disruptions, these manufacturers may have been forced to find new suppliers, but they might not have reviewed or revised their supplier selection process.

This lack of a structured framework can lead to a higher total cost of ownership (TCO) than necessary. If the purchasing department is evaluated based on price reduction, while operations are measured by throughput, this could create conflicting views about the value of a supplier. One department may have a favorable view of the supplier, while another department does not. This siloed approach can hinder the development of a more holistic supply chain strategy.

Due diligence is crucial before you engage with a potential supplier. To whatever extent possible, this includes evaluating a potential supplier's:

- **Financial health.**  
Ask new vendors and suppliers for references and check public records to learn more about them. Following through on these two areas should provide more specifics for you to discuss with prospective partners.
- **Quality assurance.**  
Have a supplier qualification process in place to be sure a supplier provides consistently high-quality products or services. Request a copy of their Quality Control Manual, Standard Operating Procedures, and certifications. Many companies also require that suppliers sign a Supplier Code of Conduct to vouch for their ethical and sustainable practices.
- **Regulatory compliance.**  
Ensure that your suppliers comply with relevant laws and industry-specific regulations to reduce your legal and compliance risks.

### 3 Stages of a Supplier Relationship

#### 1. Transactional

- You and the supplier are primarily focused on price and on-time delivery.
- One of the risks is that a supplier may cut corners to maintain their margin.

#### 2. Adding value

- The supplier understands your inventory needs and is willing to work with you to provide solutions.
- Transparency and no-surprises communication enters the equation.

#### 3. Genuine partner

- The supplier understands your pain points, helps find solutions, and works with you to deliver peace of mind. They have your back.
- The supplier will work with you on future concerns, sharing intel about the industry and processes within your sector. This often includes site visits and a willingness to work on developing new or revised products.



Supplier qualification is dependent upon specifications and requirements. But you should also pursue what you can find out about a supplier's reputation and performance within the industry. Focus on capabilities and core specialties. Just because a supplier can make your part does not mean they should. What are they good at?



### **Know Where You Will Fit Into the Supplier's Scale of Business**

The scale of business matters, as there can be issues if you are too small or too big for a supplier's operation. You want to be a key account. This is important on the relationship side. If you are not one of their key customers, will they be responsive and will you get the attention you need? Could you be at risk of being dropped?

If you are a big portion of their business, do they have the cash flow to grow with you? A small shop with fewer people may have great prices because they have lower overhead. If a key person leaves their company, will that impact you?

On the large company side, you want to be in the top third of a company's business so that you know you are going to get good service and not easily be dropped. Focus on finding suppliers where your business will always be on their radar.

## Understand the Importance of Segmenting Your Supply Base

Not all suppliers are created equal. Segmenting your supplier base by category, type, and importance allows you to prioritize your resources and tailor your interactions. As you segment your suppliers, you'll also want to consider:

- **Identifying high-impact suppliers.** Pinpoint suppliers who are crucial for high-margin work or those holding unique capabilities essential for your operations. These suppliers warrant a higher level of engagement.
- **Balancing redundancy with opportunity.** While a single source might offer cost advantages, consider the risks associated with sole sourcing. You can strategically introduce redundancy for critical components to mitigate potential disruption.
- **Optimizing supplier base size.** You can also have too many suppliers. A vast network of suppliers can be difficult to manage and dilute your negotiating power. Consider consolidating your base while ensuring redundancy for vital components.

## Supplier Selection Checklist

The supplier selection and qualifying process is essential for going beyond the focus of per-unit cost.

- Learn about a supplier's capabilities and value-add opportunities.**
  - What can this company do for us besides the part we are making?
  - How can they provide our material or part in a manner that is more helpful?
  - How can they add value?
- Research quality systems and product segregations.**
  - Ask for quality systems documentation.
  - If you get a bad part, are they going to be able to figure out why?
- Know where you will fit in on their scale of business.**
  - If they are a small shop, do they have room to grow with you?
  - If you are not one of their key customers, will you get the attention you need or could you be at the risk of being dropped?
- Ask about a supplier's capacity.**
  - What is the likelihood they might have to push your order back?
- Visit local companies.**
  - Audit their operation and check out their workplace culture.
  - Go beyond salesperson conversations and the technical side of an audit sheet.
  - Consider a site visit, which is also a great way to build relationships with your current suppliers.
- Ask about the flexibility of staff and equipment.**
  - If they have 15 or so employees, what happens to you if they lose a key engineer or veteran operator?
- Learn about their logistics.**
  - Do they own their own freight company, or whom do they work with?

## CHAPTER 2

# Onboarding Begins With Establishing Expectations for Communications

You want to create a professional, collaborative, and mutually beneficial relationship with your suppliers where both parties feel comfortable discussing challenges and opportunities. Open and consistent communication is the bedrock of any strong relationship, and a supply chain relationship is no different.

One approach to establishing communications is to outline your preferences. Perhaps email is a good channel for routine communication, but an urgent matter should be handled with an initial phone call. Be clear about your expectations for response times, and make sure both sides are in alignment about key contacts. Don't forget to develop escalation protocols for handling unexpected issues and conflicts.

Be clear to your suppliers that you want to eliminate surprises as much as possible. Embrace transparency. For example, you expect to be notified of potential disruptions, such as delayed deliveries. Let your suppliers know as your priorities change, especially if you've told them your needs are urgent so that they can better plan their production. Likewise, you should inform your customers of potential disruptions at your end, which will allow them to adjust their operations accordingly.

### Be a Partner, Not a Buddy

If you are in a healthy supply chain partnership, both parties should feel comfortable discussing challenges and opportunities. A good piece of advice for your approach to SRM is to be friendly but keep the relationship professional.

One risk of assuming you are buddies with your suppliers is that loyalty does not always align with pricing or accountability. For example, price creep often emerges a couple of years into a supplier relationship. Don't assume that you are getting the best possible price because you have a good relationship with a supplier. Arm yourself with competitive quotes from second and third sources.





### 3 Ways to Set Boundaries to Develop a Mutually Beneficial Relationship

- 1. Clearly define terms, conditions, and expectations.** Your supplier contracts and purchase orders should include performance indicators, quality standards, delivery schedules, return or recall policies, and contingency plans.
- 2. Negotiate fairly.** Be prepared, don't make assumptions, and don't take things personally. When dealing with a new supplier, they may ask you what you are paying now. You don't have to reveal that; however, you don't want to waste their time, so you may need to provide a range or target for what you are looking for. Give suppliers the opportunity to put their best foot forward regarding pricing without revealing other suppliers' prices.
- 3. Manage expectations.** You should regularly review performance and address concerns promptly to prevent issues from escalating and impacting your operations.



## CHAPTER 3

# Performance Management Helps Nurture Continuous Improvement

Measuring your performance and your suppliers' performance helps identify areas for improvement. Be sure to track key performance indicators (KPIs) that align with your business goals, such as on-time delivery, quality control, and adherence to cost estimates.

Without supply chain KPIs, you lack a clear picture of how your performance stacks up to your goals. This makes it difficult to assess your health in supply chain matters and to know what to prioritize. Share the KPIs with your staff and provide context with updates on your performance. When employees understand the adjustments they can make to impact results, they will feel like a more integral part of the organization. This helps nurture a continuous improvement mindset.

Monitoring the performance data of your suppliers can help you mitigate risks and recognize opportunities. An underperforming supplier might require some attention to address your concerns, while exceptional performers deserve focus and may warrant increased business opportunities.



## Don't Ambush a Supply Partner With Negative Feedback

While KPIs, scorecards, and dashboards are important, be sure to embrace transparency and be proactive under a "no surprises" umbrella. Some of the most valuable feedback for your partners can come from your people on the facility floor when they notice trends or outliers.

For example, if a supplier's failure rate or delivery times are tracking in the wrong direction, let them know before it becomes a big issue. You don't want to ambush a partner with negative feedback.

Another example is from an automotive AC compressor maker customer that received the contracted quantity of parts from its supplier, but it frequently demanded more. The customer had not told the supplier that about 20 percent of its shipments were failing their quality test. The supplier fixed the problem once they were made aware.

## Proactive Communication in Your Company Will Help Avoid Disruptions

Providing your staff with increased visibility into your supply chain allows for better decision-making and improved collaboration. If someone on your operational side notices a reduction in the quality of a certain material, part, or component, this information should be shared with people involved in inventory and purchasing. A quality issue must be addressed to reduce its impact on production. Addressing the issue with the supplier can prevent it from becoming the source of a bottleneck that could eventually cause a major disruption.

Another example: If someone notices you are tracking low on inventory for a key part, is there a notification or escalation protocol for them to follow? In some shops, nothing is done until they run out of stock. The supplier may be in a position to help out, but that information must get from your warehouse to your office before it reaches the supplier.

## Supply Chain KPIs and Metrics

Here is a sampling of supply chain performance metrics to consider tracking:

- **Cash-to-Cash Cycle Time:** This is the time between when you pay for raw materials and when you receive payment for the sale of the resulting product. This metric can offer insight into your back office operating efficiency. A poor cycle time might lead to struggles to maintain inventory, make payroll, or invest in your future.
- **Inventory Turnover Ratio:** This shows how quickly you use your inventory and your ability to generate sales from your stock. It can impact inventory management, pricing, and even marketing.
- **Perfect Order Index:** POI is an industry benchmark used as a quality check. This measures what percentage of your orders meet your customer demands (right product, delivered to the right place, in the right amount, in the right condition, matching the invoice, etc.).
- **Fill Rate:** This is the percentage of customer order demand that's met. This measures your past performance.
- **Service Rate:** This measures the probability of future performance. It predicts your ability to meet customer demands for fulfillment. It looks at the likelihood of avoiding a stock out.

## CHAPTER 4

### Trust Is Key to Growing Your Supplier Relations

Building trust with your suppliers unlocks a wealth of opportunities for both parties and provides peace of mind that your supplier has your back and that you have theirs.

Supplier relationships thrive when partners work together on strategic initiatives, such as testing new processes and developing cost-saving approaches. Sharing appropriate information about your industry or your business with suppliers will build a competitive advantage for your combined supply chain.

Joint problem-solving is a great way to grow your relationship. Approach challenges as a team, working collaboratively with suppliers to find solutions. Encourage open communication to identify root causes and prevent future occurrences. Be sure to engage suppliers as early as possible on potential issues and product design changes. If you integrate your suppliers into the design process early on, you might be able to save on your product development process as you will get feedback more quickly.



## Successful SRM Is a Two-Way Relationship

Working toward a mutual benefit for both parties will serve you better than “the customer is always right.” Take the time to understand what causes errors. Resolve errors to build the relationship for ongoing work, rather than just seeking compensation for what went wrong (though that may be appropriate).

You also build trust through consistent behaviors, including compromise. Being reasonable goes a long way in relationships. Maybe a supplier worked with you through your slowdowns during the pandemic, and now they are experiencing issues. Don’t ask anything of them that they could not ask of you.

Effective SRM is about building a resilient network of suppliers that fosters innovation and mitigates risk. Trustworthy partners will help you with both.

## Be a Customer of Choice

For manufacturers, fostering a reputation as a “customer of choice” attracts and retains top-tier suppliers. This goes beyond simply increasing your spending with a vendor. Here are a few ideas to consider:

- **Invest in long-term relationships.** Prioritize building strong, enduring partnerships with key suppliers.
- **Share metrics and transparency.** Implement a system for sharing performance metrics with your suppliers and encourage open communication regarding improvement areas.
- **Align with supplier strengths.** Ensure your business model aligns with the core competencies of your suppliers; just because a process is a capability doesn’t mean it is a core competency. This fosters stronger collaborations and mutually beneficial outcomes.
- **Consider total costs.** Look beyond the per-unit cost and factor in total costs, including shipping, lead times, and supplier capabilities.
- **Embrace feedback loops.** Actively solicit feedback from your suppliers and provide them with access to your own scorecards. This two-way communication fosters trust and continuous improvement.

# CHAPTER 5

## Why Your Supply Chain Leadership Should Be Part of Your Executive Team

Many small and medium-sized manufacturers relegate supply chain leadership to the purchasing department and focus on the lowest per-unit cost of the supplies. However, a transactional approach to suppliers based primarily on cost will limit your company in many ways. For example, if your supply chain focus defaults to pricing or delivery, you may be taking on additional risk if your suppliers begin cutting corners. Quality must be maintained and not allowed to decline.

Positioning your supply chain leadership in the C-suite, or on your executive team, can generate more value from your suppliers through technology improvements and product development. This is because SRM leadership becomes part of a more holistic leadership perspective.

There are two primary reasons to keep supply chain leadership in the C-suite rather than in your purchasing department:

1. **Total cost of ownership (TCO)**, which also takes into account risks associated with transportation, inventory, warehousing, and more. Focusing on costs puts you at risk of constantly running in emergency mode and reacting to the fragile nature of supply chains.
2. **Resiliency and competitiveness**, which require maintaining steady supplies of materials and services. Dynamic supply chains serve as an effective conduit for operational improvement and technological innovations. Leveraging your supply chain relationships will make you more resilient and competitive.

A proactive approach to your supply chain management puts you in a better position to create value by being a strong link in others' supply chains. This approach requires the strategic nuance of a C-suite leader and not just the price cut and delivery demand mindset of a purchasing department employee.





## The C-Suite Can Help Break Down Your Supply Chain Silos

Your C-suite can take a holistic and strategic view of supply chains, helping others at your company do the same. For example, addressing constraints preventing your firm from doing higher-margin work or reaching new customers or markets can put your company on a profitable growth trajectory.

This mindset of looking for win-win scenarios builds resiliency and focuses on impacts throughout your company, not just in one department. Proactively managing your constraints means engaging the power of relationships in the supply chain.

Perhaps you need a supplier to turn around your orders in half the time for you to grow your business. You can wait two years for them to figure it out. Alternatively, you can share insights and expertise with them to help them resolve the issue in a few months. Working with suppliers by sharing insights, coaching, and being proactive creates paths to success for each of you. Supply chains work best when the key members work together to solve competitive challenges and find new ways to grow markets.

## Supply Chains Connect Many Facets of Your Operation

Senior leaders can provide the perspective for action that drives TCO lower. Taking a holistic, leadership approach to SRM is the foundation for understanding how supply chains create more value and how your partners can be conduits to technology improvements and product development.

## Holistic Perspective Helps You Evaluate Suppliers

Viewing supply chains holistically from a leadership perspective can help you identify issues and opportunities within your organization. For example, one MEP client awarded bonuses to their purchasing department for saving money on contracts with a supplier. Yet the same supplier was sending some defective parts, which created issues in the operation. The C-suite might have recognized this dynamic more quickly than either the purchasing department or operations.



## Maryland MEP Helps Company With Immediate Needs, Future Prospects

### The Situation

Netzer Metalworks is an established sheet metal fabricator and CNC machine shop based in Essex, MD. They provide high-quality components made from various materials to some of the largest companies in demanding industries. They were having difficulties identifying a supplier for several prototype injection molded parts crucial to a customer project. Netzer turned to Maryland MEP, part of the MEP National Network™, for support.

### The Solution

With Maryland MEP's help, Netzer was able to connect within hours with a new supplier referral – a local injection modeling company. The Maryland MEP also helped Netzer outline its needs for the [MEP Supplier Scouting service](#) and appropriate supplier databases.

The collaborative effort helped [Netzer make connections](#) with eight new potential suppliers within one week. They identified several qualified suppliers who provided valuable insights and feedback regarding the design of the parts they needed, which allowed them to provide a more cost-effective solution for their customer's project and exceed the customer's expectations.

These new relationships have also led to ongoing conversations about future projects, including two recent visits with manufacturers in other states that Netzer believes will lead to long-term partnerships and new contracts.

## CHAPTER 6

### The MEP National Network Is Here to Help You

The MEP National Network has a suite of supply chain management services that are tailored to the needs of small and medium-sized manufacturers. [Contact your local MEP Center](#) to talk with a supply chain specialist to learn more about supplier relations management.

Every day, MEP experts around the country help manufacturers find the solutions they need. The MEP National Network has a proven track record and has helped U.S. manufacturers produce real impacts for more than 35 years. Since 1988, MEP has worked with more than 150,000 manufacturers, leading to new sales and cost savings, which in turn has helped create and retain jobs.

In surveys, MEP Center manufacturing clients consistently rated their customer experience well above industry benchmarks and indicated they're likely to recommend the MEP Center they worked with to another company or colleague. Last year, MEP had a Net Promoter Score of 85.4% (above 80 is considered world-class).

The MEP National Network's ability to serve manufacturers depends on support from the entire manufacturing ecosystem. It works with local and federal government, workforce development organizations, educational institutions, economic development organizations, and federal labs, among others, to provide manufacturers with the resources and support that meet each firm's unique needs.

If you are interested in learning more about the MEP National Network, or how to work with us, please [contact mfg@nist.gov](mailto:mfg@nist.gov). You can also visit our website for more resources and to [connect with your local MEP Center](#).

[Contact your local MEP Center](#)





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The MEP National Network is a unique public-private partnership that delivers comprehensive, proven solutions to U.S. manufacturers, fueling growth and advancing U.S. manufacturing.

Focused on helping small and medium-sized manufacturers generate business results and thrive in today's technology-driven economy, the MEP National Network comprises the National Institute of Standards and Technology's Manufacturing Extension Partnership (NIST MEP) and 51 MEP Centers located in all 50 states and Puerto Rico.



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