


# P&SM: Supplier Rationalisation



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### Introduction

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This document is about supplier rationalisation.

### Definition

A definition of the term rationalisation is 'the act of organising something according to a system or a rationale'. Supplier rationalisation is, therefore, any systematic ordering of the supplier base. It is the process used by organisations in order to discern the optimum number of suppliers needed to fulfil their business objectives. This may be either an increase or decrease in the number of suppliers currently being used, depending on the nature of existing supplier relationships and the conditions of the market (together with anticipated demand patterns and identified risks) in which they are operating.

### Background

There can be no professional P&SM without some formal and systematic organisation of the supplier base. There are many possible ways of rationalising the supplier base, but some of the main possibilities are:

- New items versus spares
- Capital versus revenue goods
- Like items/competing market areas (category management)
- Relationships based on risk and value (supplier positioning)
- Direct goods versus indirect goods
- Contract versus non-contract suppliers
- Project purchasing versus day to day requirement

Which organising system is chosen will depend on the meaningfulness of the divisions and the number, expertise and quality of staff available to manage the system. Smaller companies, with limited staff numbers, are more likely to choose dual systems of A versus B. Larger companies, with larger and more qualified staff, are more likely to be basing their organisational systems on commodities and supplier positioning as these generally have greater potential to generate larger value.

Whichever system for ordering the supplier base is chosen, the question arises as to how many suppliers are needed to fulfil the customer needs without running the undue risk associated with having 'all ones eggs in one basket'.

If there has been a lack of purchasing controls, and individuals have been allowed to buy from whomever they choose, then the resulting supplier base will be unnecessarily over-populated and hence, when supplier rationalisation is first introduced, the trend will be towards a reduction in the number of suppliers. This has led to a belief in certain quarters that supplier

rationalisation only involves reducing the numbers of suppliers. However, the true goal of supplier rationalisation is the achievement of an optimum number of suppliers, based on balancing effective management of external resources and the value generated against customer needs and market risk.

### Explanation

CIPS believes that of the many possible ways of rationalising the supply base (see above); the most effective for a supplier rationalisation programme is category management (please see the category management model which is also available on this site).

When undertaking the practice of supplier rationalisation CIPS believes that it is important that the P&SM professional determines the extent of their organisation's involvement with current suppliers and future requirements, the risks of outsourcing and loss of internal expertise. These relationships should be taken into account when defining the selection criteria.

### Involvement in the Rationalisation Process

CIPS believes that, due to the potential risks associated with the practice of supplier rationalisation, the decision-making unit should consist of a cross-functional team of stakeholders within the organisation. An equipment standard programme should be initiated and the cross-functional team are responsible for agreeing the specification for each category. CIPS suggests that a successful team would include:

- Head of Procurement
- Budget holders
- Internal customers

### Key Skills and Development

CIPS believes that the practice of supplier rationalisation is a strategic activity and therefore P&SM professionals should have, in addition to core P&SM technical expertise, the following skills:

- A knowledge of risk management techniques (CIPS positions on practice on risk management are also available on this site)
- Analytical mind set
- Knowledge of suppliers business and their markets
- Listening skills
- Diplomacy skills
- Interpersonal skills
- Emotional intelligence/intuition skills
- Understandings of the social make up of an organisation e.g. the suppliers standing in the customers community

These skills can be learned through training and CIPS encourages heads of P&SM to develop their P&SM colleagues' job profiles in this respect. It is also important that P&SM professionals endeavour to maintain the development of these skill sets through regular retraining.

### Transparency, Fairness and Confidentiality

CIPS believes that a supplier tender and audit programme for each category specification is the best way to select the optimum number of suppliers necessary to meet the requirements. All current suppliers for the category should be included, together with any potential new suppliers identified in the market place. CIPS believes that P&SM professionals should make the process as transparent as possible. This means being open with all stakeholders involved (both internally and externally) so that all parties understand the elements of the process, ie. the procedures, expectations, timescales, rationalisation criteria, etc.

This should ensure that the final decision receives the support of those internal customers whose current suppliers have not been chosen as future preferred suppliers on the rationalised supply base. CIPS believes that P&SM professionals should do all they can to maintain good relations with any supplier that they will be ending a business agreement with and that the suggested transparency will be a great aid to this process. It could further be helped by a debriefing to inform the unsuccessful tenderer the reasons for non-selection so that they can address these weaknesses for any future tendering opportunities.

Confidential information should not be disclosed to any third party or used in any way without the consent of the supplier. In particular, it must not be shared with other suppliers. In general, when a supplier asks for clarification during the rationalisation process P&SM professionals should give all stakeholders involved the information requested. However, if a supplier asks insightful questions the answer should not be circulated to the other suppliers, as to do so may remove the competitive advantage of that supplier. Throughout the rationalisation process all suppliers should be treated equally and fairly.

As a common outcome of the supplier rationalisation programme will be losing some current suppliers, exit strategies should be a component of the rationalisation process. For example, account must be taken of any on-going requirement for spares from a failed tenderer and the distinct possibility that any prior discounts on these spares is also likely to be lost.

### Sensitive Management of Rationalisation Decisions

P&SM professionals should recognise and understand the potential social and reputational impact of any rationalisation on a case-by-case basis and take this into account in the risk assessment for the decision. For example, if use is made of vulnerable groups such as disabled workshops or the organisation has a policy of supporting local suppliers, then exceptions may need to be made regardless of immediate monetary cost.

If there is a CSR department in the organisation P&SM professionals should solicit their contribution to the decision making process; they may also have aims/ budgets/targets that would be useful cross-functionally in offsetting any exceptions to the main purchasing rationalisation strategy.

CIPS believes that P&SM professionals should do all they can to maintain good relations with any supplier that they will be ending a business agreement with. To this end, P&SM professionals should allow suppliers to be involved in the rationalisation process as much as possible to allow them to deal with any issues arising from the exercise.

CIPS believes that a supplier development programme should be considered for the successful preferred suppliers. Not even the most successful tenderer will score well on all requirements and there is an opportunity while the tenderer is feeling good about being selected to agree a programme to repair these deficiencies. This will be of special assistance during the transitional phase as internal customers can be especially sensitive to failure after a change in suppliers.

### Conclusion

CIPS believes that supplier rationalisation is an important process for creating value for the buyer's organisation. Furthermore, CIPS believes that P&SM professionals are uniquely qualified to lead the cross-functional teams that are vital to the success of a supplier rationalisation programme.



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**CIPS Group** Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom  
T +44 (0)1780 756777 F +44 (0)1780 751610 E [info@cips.org](mailto:info@cips.org)

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**CIPS Africa** Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa  
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E [infos@cps.org.za](mailto:infos@cps.org.za)

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**CIPS Australasia** Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia  
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E [info@cipsa.com.au](mailto:info@cipsa.com.au)

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**CIPS Middle East & North Africa** Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates  
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E [mena.enquiries@cips.org](mailto:mena.enquiries@cips.org)

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