


# Supply Base Management (SBM)



Reducing an organisation's supplier base is often a key aim of any procurement professional in a new role. It is always assumed ... that aggregation is right and less is more when it comes to the long tail of suppliers ... (CIPS Australia: An introduction to supply base management).



CIPS members can record one CPD hour for reading a CIPS Knowledge download that displays a CIPS CPD icon.

### Introduction

SBM consists of the four main elements: management of major suppliers, management of minor suppliers, scouting, and transition management. Management of minor suppliers incorporates (1) supplier evaluation to identify process capabilities, strengths and weaknesses; (2) supplier development, where there is a need and where current supplier capacity is lacking; (3) supplier improvement by working with suppliers in improving those areas or capabilities that are needed but not adequately developed; (4) supplier education to make sure suppliers understand the goals and core values of a buying organisation, how the buying system operates and how they are evaluated; and (5) supplier integration to facilitate integration of suppliers and their systems into the buying organisation's system. Scouting is a proactive approach that seeks to identify and recruit the best suppliers for the company rather than waiting for them to approach the buying organisation. The scouting function also carries out competitive intelligence analysis on the supply chains of major competitors to identify potential trends and development changes and to assess the implications of these changes.

Finally, transition management focuses on moving suppliers in and out of the major system and aims to reduce actual or potential problems created by the transition. For example, when moving a major supplier out of the system, the buying organisation may have to address such issues as intellectual property management or anything critical to the buying organisation knowledge that resides with the departing supplier (Melnik et al., 2009).

In recent years increasing environmental pressures forced organisations to develop and implement cost reduction programmes and reducing the number of suppliers became one of these. In some industries SBM can account for up to 80% of manufacturing costs (Asmus and Griffin, 1993). Large scale supplier reduction programmes became popular in both private and public sectors and were often followed by a supplier development programme when key suppliers were encouraged to achieve total quality management (TQM), zero defects, or waste reduction in stockholding. This strategy, however, imposed a risk of over-reliance on one supplier, highlighting the importance of getting the strategy right (CIPS Australia: An introduction to supply base management).

### Definition

Supply Base Management (SBM) is a systematic dynamic approach for strategically managing the whole supply base which might include current suppliers, minor suppliers and potential suppliers (Melnik et al., 2009).

### Successful application

All potential suppliers should be assessed by a standardised process through the use of supplier assessment tools to allow the assessment team to get a comprehensive, constructive and objective view of the supply base. The classic selection criteria (price, quality and delivery) and bidding process remain the most popular in selecting suppliers. Bidding typically starts with an idea from in-house technical departments or with a specific customer order, following which the purchasing manager solicits offers from potential suppliers and the procedure continues with various evaluation stages, during which a cross-functional sourcing team selects the supplier (Lemke et al., 1996).

### Steps to successful application

1. Engineering/R&D have an initial product idea or the end-consumer places an order for a particular product.
2. Purchasing manager enquires information/offers from potential suppliers or from specific suppliers (if required by the end-consumer or R&D).
3. The cross-functional sourcing team discusses the options.
4. The purchasing manager invites potential suppliers for initial discussions.
5. Suppliers on the shortlist deliver samples.
6. The quality manager evaluates the samples.
7. The purchasing manager negotiates with suitable suppliers.
8. Sometimes an audit (before selection or shortly afterwards) is conducted.
9. When the team makes a decision the purchasing manager places the order.

*Odgen (2003)*

### Hints and tips

- Top management support is essential for SBM (Odgen, 2003).
- The right people should be involved in the selection process (Odgen, 2003).
- Cross-functional teams should be established to get input from various organisational functions (Odgen, 2003).
- It is important to understand the organisational needs, goals and objectives prior to making changes (Odgen, 2003).

### Potential advantages

- SBM can increase sustainability, resilience and innovation. This is particularly applicable to sustainable supply chains (Melnyk et al., 2009).
- Reducing supplier base as an SBM can help companies reduce the overhead costs of maintaining databases and managing supplier performance, and support the aggregation of spend to fewer suppliers thus increasing leverage and lowering prices (CIPS Australia: An introduction to supply base management).
- Potential benefits of SBM can include ongoing improvements in product and service quality by employing just-in-time delivery systems, electronic data interchange and quality improvement programmes (Lemke et al., 2000).

### Potential disadvantages

- A reduced supplier base as an outcome of SBM can create a high degree of dependence on these suppliers, supplier complacency and reduced performance (CIPS Australia: An Introduction to Supply Base Management; Goffin et al., 1996).
- SBM can cause collusion between suppliers especially when the strategy is to reduce the supplier base to two or three (CIPS Australia: An introduction to supply base management).
- When the SBM strategy is to achieve or maintain a larger supplier base, companies can face costly coordination and interaction which is also time consuming and inefficient (Lemke et al., 2000).

### Performance monitoring

- Traditional metrics of supplier assessment: price, delivery and service/product quality (Smith et al., 1963).
- 'Soft' supplier selection factors: closeness of past relationship, likelihood of long-term

relationship, communication openness, supplier's reputation (Lemke et al., 1996).

- Supplier performance evaluation tools: scorecards and supplier rating. Scorecards should define categories or groupings of key performance indicators (KPI) to measure suppliers. These may include costs relating to poor quality, delivery, inventory, response index, order fulfilment score, order visibility score, returns/charge-back score, vendor risk, innovation, customer complaints and corporate social responsibility (MetricStream, 2011).

### Case studies

- Between 1989 and 1983 Chrysler reduced its production supplier base from 2,500 companies to 1,114 and fundamentally changed the way it worked with the remaining suppliers. As a result the company reduced the new vehicle delivery time from 234 to 160 and the cost of a new vehicle by around 20% (Lewis 1995)
- From 1981 to 1985 Xerox reduced its supplier base from 5,000 to 400 which contributed to the net annual product costs reduction by 10% over the following four years. In addition, rejects of incoming material were reduced by 93%, new product development time and costs were reduced by 50% and production lead times were reduced from 52 to 18 weeks (RANDa)
- Since the 1990s IBM has reduced its production supplier base from 4,900 to 50 who are responsible for 85% of the company's \$17.1bn production purchases. Commodity councils that leverage IBM purchasing worldwide managed to achieve a 5-10% reduction in parts prices comparing the industry averages. IBM also saved a little over \$1.5bn on \$21bn by leveraging, negotiating and moving business to a preferred set of suppliers.

### Further Resources/Reading

#### Web

[Supplier Base Management: A New Competitive Edge](#)

[Blogspot on SBM](#)

[Blogspot on SBM](#)

[Supply Base Management is different from "Spot Supplier Management"](#)

[Industry week on supply base reduction.](#)

#### Books

Supply Market Intelligence: A Managerial Handbook for Building Sourcing Strategies (Resource Management) 978-0849327896

Construction Purchasing & Supply Chain Management ISBN 978-0071548854

Strategic Supply Management: Principles, Theories and Practice ISBN 978-0273651000

Procurement, Principles and Management ISBN 978-0273713791

### References

Asmus, D. and Griffin, J. (1993) Harnessing the Power of your Suppliers. The McKinsey Quarterly, Vol. 3, pp. 63-78.

CIPS Australia: An Introduction to Supply Base Management.

Larson, P. (1994) Buyer-Supplier Co-operation, Product Quality and Total Costs. International Journal of Physical Distribution and Logistics Management, Vol. 24(6), pp. 4-9.



Leenders, M., Nollet, J. and Elh-am, L. (1994) Adapting Purchasing to Supply Chain. Management: International Journal of Physical Distribution and Logistics Management, Vol. 24(1), pp. 40-42.

Lemke, F., Goffin, K. Szejczewski, M., Pfeiffer, R. and Lohmüller, B. (2000) Supplier Base Management: Experiences from the UK and Germany. International Journal of Logistics Management, Vol. 11(2), pp. 45-58.

Lemke, F., Goffin, K., Szejczewski, M., New, C. Pfeiffer, R. and Lohmüller, B. (1996) Supply Base Management: An Empirical Investigation. Working Paper. Cranfield University. [online] Available at: [dspace.lib.cranfield.ac.uk/handle/1826/1152](https://dspace.lib.cranfield.ac.uk/handle/1826/1152) [Accessed 17 December 2011].

Melnyk, S., Cooper, B., Griffis, F. and Phillips, C. (2010) Supplier Base Management: Managing the Whole. Proceedings, 95th Annual International Supply Management Conference. [Online] Available at: [www.ism.ws/files/Pubs/Proceedings/2010ProcEC-Melnyk.pdf](http://www.ism.ws/files/Pubs/Proceedings/2010ProcEC-Melnyk.pdf) [Accessed 17 December 2011].

MetricStream (2011) Supplier Performance Management: Integrating Supplier Quality and Supply Chain Risk Management. [Online] Available at: [www.metricstream.com/solutions/supplier\\_performance.htm](http://www.metricstream.com/solutions/supplier_performance.htm) Accessed [January 9th 2012].

RANDa. Xerox Case Study. [Online] Available at: [www.rand.org/content/dam/rand/pubs/monograph\\_reports/mr1224/mr1224.appb.pdf](http://www.rand.org/content/dam/rand/pubs/monograph_reports/mr1224/mr1224.appb.pdf) [Accessed 17 December 2011].

RANDb. IBM Case Study. [online] Available at: [www.rand.org/content/dam/rand/pubs/monograph\\_reports/mr1224/mr1224.appb.pdf](http://www.rand.org/content/dam/rand/pubs/monograph_reports/mr1224/mr1224.appb.pdf) [Accessed 17 December 2011].

RANDc. GEC Marconi Electronics Case Study. [online] Available at: [www.rand.org/content/dam/rand/pubs/monograph\\_reports/mr1224/mr1224.appb.pdf](http://www.rand.org/content/dam/rand/pubs/monograph_reports/mr1224/mr1224.appb.pdf) [Accessed 17 December 2011].

RANDd. Harley Davidson Case Study. [online] Available at: [www.rand.org/content/dam/rand/pubs/monograph\\_reports/mr1224/mr1224.appb.pdf](http://www.rand.org/content/dam/rand/pubs/monograph_reports/mr1224/mr1224.appb.pdf) [Accessed 17 December 2011].

Scott, C. and Westbrook, R. (1991) New Strategic Tools for Supply Chain Management. International Journal of Physical Distribution and Logistics Management, Vol. 21(1), pp. 23-33.

Smith, D., Lowe, B., Lyons, D. and Old, W. (1963) The Development Project Committee on Standards for Vendor Evaluation. Proceedings in National Association of Purchasing Agents.

Stevens, J. (1978) Measuring Purchasing Performance. London: Business Books Limited.  
Weber, C., Current, J. and Benton, W. (1991) Vendor Selection Criteria and Methods. European Journal of Operational Research, Vol. 50(1), pp. 2-18.

## Video

Key concepts in managing supplier relationships  
<https://www.youtube.com/watch?v=AJkwdgAg1ow>

---

**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)

---

**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 [infosaf@cips.org.za](mailto:infosaf@cips.org.za)

---

**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)

---

**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)

---



*Printed on stock containing  
50% post consumer  
recycled content*

**[www.cips.org](http://www.cips.org)**

CIPS™ is a registered trademark of the  
Chartered Institute of Purchasing & Supply