



Procurement & Supply Chain

# How Supplier Intelligence Improves Sourcing, Monitoring & Evaluation

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Resiliency. It's the word on everyone's mind in the supply chain industry — and for good reason. In recent years, value chains have grown in complexity as organizations prioritized intricate production networks over transparency and resiliency.

But today, disruptions are a frequent and costly occurrence that have exposed the weaknesses in this approach. In fact, every year supply chain disruptions cost organizations around the world an average of \$184 million [according to a 2021 survey](#). And supply chain disruptions lasting a month or longer now happen [every 3.7 years on average](#).

So after two years of a pandemic that has had [ripple effects throughout global markets](#), supply chain leaders are focused on improving resilience across supply chains now and in the future.



# Better supplier management = greater resiliency

In order to increase resiliency, companies must have a better understanding of their risk, vulnerabilities, and opportunities. And that means getting to know their suppliers and building more robust strategies. After all, in today's volatile environment, the right suppliers today may not be right in the future, so organizations must be prepared to adapt and rapidly identify and onboard new ones.

However, most organizations are stuck using unreliable, time-consuming manual processes to source suppliers, making it difficult to find and vet them at scale. McKinsey reports that it takes an average of [three months to complete a single supplier search](#) and more than 40 hours of work.

To bridge the gap, organizations need better tools and processes to source, evaluate and monitor their suppliers. In other words, they need better supplier intelligence.

Supplier intelligence is the data and actionable insights that help procurement and supply chain professionals make strategic decisions. With better intelligence, organizations can revisit the key criteria and data points that are critical to sourcing, evaluating and monitoring their supply chain, which they normally don't have time and resources to investigate thoroughly.

So how do you get there?

***“If you want to do proper supply management, you need to have good data and good processes in place,” says Ingmar Mester, Manager of Global Procurement and Supplier Management at Hapag Lloyd and Craft.co customer.***

Below we'll outline the essential steps and criteria you need to consider to leverage supplier intelligence and improve your supplier evaluation processes.

## What to do before sourcing suppliers

Before you start sourcing suppliers, you need to know what you're looking for. What kind of relationship do you want to have with them? What supplier strategy will you follow?

For most organizations, this means [taking a multi-pronged](#) approach to supplier sourcing and management. For instance, in a 2020 [McKinsey survey](#) of supply chain executives, 93% reported that they plan to take steps to make their supply chains more resilient, including:

- Building in redundancy across suppliers
- Nearshoring

- Reducing the number of unique parts
- Regionalizing their supply chains

As you plan your strategy, identify your key sourcing requirements. In addition to budget and cost-related criteria, you will likely want to factor in:

- **Full-service supplier (or not):** What level of service do you need? A full-service supplier offers end-to-end service.
- **Single or multiple supplier sources:** There are advantages and disadvantages to both. Multiple suppliers can reduce the risk of disruption; if one supplier falls through, you can pivot to your other suppliers to fill the gap. Or, you may want to focus on one supplier to ensure consistent quality and leverage a stronger supplier relationship.
- **Domestic vs foreign supplier strategy:** The global economy has accelerated foreign supply chain growth. Foreign suppliers often deliver cost advantages on labor while domestic sourcing enables better quality control and shorter time to market.
- **Collaborative vs. arms-length supplier relationship:** What level of partnership are looking for in a supplier? Do you want to collaborate closely with your suppliers to develop products and keep a finger on the pulse? Or are you looking for a more transactional, arms-length relationship?

Sourcing criteria isn't one-size-fits-all. The strategy you take will depend on a number of factors, including the type of business you operate, budget, resources, goals, and priorities. But determining your criteria up front is crucial to getting the best results and leveraging supplier intelligence effectively.

## Critical steps in supplier sourcing & evaluation processes

Once you know what you are looking for, then you can start searching for suppliers. First, look at data gathered on your current suppliers' performance and quality and verify you are using reliable, comprehensive data sources.

Evaluating your data sources and supplier intelligence platforms is critical because the quality of your data will directly impact the quality of your suppliers and, by extension, the resilience of your supply chain. And the more detailed, the better.

***“The requirements and the expectations that are placed on procurement have changed drastically in the past few years,” Mester explains. “Today, you need to know what is happening in your supply chain at every moment-you need to know every detail of your supply chain and you have to be able to find that information.”***

# 6 Key Supplier Evaluation Criteria

Below are six key criteria to evaluate your suppliers. Any supplier intelligence solution you use should help you source and assess suppliers based on these factors at a granular level.

## Financial Health

[Financial risks](#) are one of the important (but oft-neglected) criteria for evaluating suppliers. If your supplier runs into financial trouble, that can quickly put your own business at risk. But uncovering the full picture of your suppliers' financial health can require digging-especially since much of the information may be biased coming directly from the source.

Pay attention to financial health markers such as:

- **Liquidity ratios:** Current ratios and quick ratios are indicators of a company's short-term liquidity position and measure the company's ability to pay current liabilities. The higher the ratio, the better a company's liquidity and financial health.
- **Activity ratios:** Activity ratios are metrics that gauge how efficient a supplier's operations are. These include factors like inventory turnover and fixed and total asset turnovers. Make sure you're comparing industry averages and comparable industry groups to get an accurate performance estimate.
- **Profitability ratios:** Profitability ratios assess a supplier's ability to generate earnings and value relative to revenue, costs, assets, etc. This includes metrics like net profit margin, return on assets, return on equity. Typically, the higher the ratio, the better-especially when compared on balance to similar companies and industry averages.
- **Debt ratios:** Debt ratios like debt-to-equity measure a company's leverage by total debt to total assets. Similarly, the interest coverage ratio measures how easily a company can pay interest on its outstanding debt. Understanding a supplier's debt ratios provides insight into the supplier's risk for default or bankruptcy.

## Quality systems

Another important aspect of supplier performance is quality. The quality of your suppliers' systems, processes, products, and services can have a direct impact on your business.

There are a number of metrics you can use to assess quality and monitor supplier performance:

- Statistical process control (SPC) -SPC is a data-driven methodology for quality analysis and improvement throughout the manufacturing process. Applying real-time SPC can help

- organizations improve productivity, reduce variability and waste, reduce costs, and
- uncover hidden process personalities.
- Safety, training, and equipment maintenance standards.

Certifications such as ISO 9000, a quality management system of standards to help organizations align with statutory and regulatory requirements related to a product or service.

## ESG

ESG (Environmental, Social, and Governance) factors have become an increasingly important part of designing a resilient and sustainable supply chain. ESG risks include pollution, shortages of natural resources, workforce health and safety, labor disputes, and geopolitical events.

With such a broad range of factors, it's important to assess risk across a number of metrics:

- Governance, transparency, leadership, management ratings
- Sustainability scores
- Professional and educational backgrounds of key managers
- Turnover and headcount changes

These types of indicators will provide insight into the supplier organization as a whole so you have greater context when assessing risks. Make sure you're also well-equipped to educate and empower your [suppliers to stay in alignment with your ESG](#) goals and policies.

## Cybersecurity

Managing cybersecurity threats in the supply chain is essential in today's digital world. As the National Institute of Information Technology (NIST) explains, "the factors that allow for low-cost, interoperability, rapid innovation, a variety of product features, and other benefits also increase the risk of a compromise to the supply chain." Risks can include tampering, theft, unauthorized production, insertion of malicious software and hardware, and other cyberattacks.

Organizations should plan for robust cybersecurity strategies to mitigate risks across the supply chain including evaluating suppliers upfront and continuous real-time monitoring throughout the relationship.

When assessing supplier risk, look for access to risk profiles that take into account various data points, such as IP Reputation, network security, hacker chatter, DNS Health, etc. Gathering multiple cybersecurity data points will help you build a [comprehensive picture of their cyber landscape](#) and mitigation efforts.

## Delivery performance

Reliable, on-time delivery is the mark of a good supplier and a key indicator of an efficient supply chain. When assessing suppliers, pay attention to their delivery performance. Poor performance (i.e., slow responsiveness and late or missed deliveries) can result in lost sales, poor customer experiences, negative brand impacts, and fines.

## Cost structure

When evaluating a supplier, consider what type of cost structure you want, such as open book or closed book agreements. For instance, an open book contract gives you a total cost perspective of their business.

This includes:

- Direct labor costs
- Indirect labor costs
- Material costs
- Manufacturing or operating costs
- Overhead costs

When you understand the supplier's costs, you can better assess the value for money and whether the investment is worth it for your business compared to other supplier options.

# Continuously monitor suppliers using reliable supplier intelligence

To conduct a comprehensive supplier evaluation and source the right suppliers at the right time, you need robust and reliable [supplier intelligence](#).

Make sure you have the right technology platform in place to get the job done.

Look for a platform that:

- Enables process automation
- Provides real-time visibility (e.g., alerts when something happens in the news)
- Uses innovative AI/ML technology

***“You need a system that goes through the data for you, classifies it, prioritizes it, and puts it at your fingertips in an easy-to-digest, easy-to-understand way. This is very important.*”**

***The system must be easy to use. Otherwise, you will never get people into becoming a frequent user if it's complex for them to handle," said Mester.***

To get the most out of your supplier intelligence solution, make sure your procurement teams are invested in the success and implementation of the new technology. While traditional manual processes are tedious and inefficient, they are familiar-and that can be a hurdle for teams to overcome when introducing new tools.

## What procurement professionals should know about the future of supplier intelligence

In an age of complex, global supply networks, businesses must be agile and strategic if they want to compete. For procurement professionals, that means it's no longer enough to rely on manual supplier intelligence processes. Today, procurement teams need comprehensive insight into their supplier landscape in real-time.

"In order to find the right partners, you need to have transparency," says Mester. "It's no longer enough just to know the financial rating of the supplier. You need to know a lot more about their operational capabilities, about their plans, and you have to deal with them very differently. It is all about taking the long-term perspective, making use of scarce resources, and being able to get the best out of the supplier. And this is something which only procurement can deliver."

*Learn more on supplier intelligence platforms [here](#).*

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