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February 11, 2025 February 11, 2025/ Steven Bragg A supplier is an entity that provides goods and services to another organization. This entity is part of the supply chain of a business, which may provide the bulk of the value contained within its products. Some suppliers may even engage in drop shipping, where they ship goods directly to the customers of the buyer.Types of SuppliersThere are several types of suppliers, which are as follows:Distributors. These suppliers buy goods from multiple manufacturers and sell the goods on to their customers. Distributors may also provide added services to their customers, such as after-market service. They can be an important source of products for smaller retailers.Importers. These suppliers source goods from other countries. In this role, they may be the sole source of certain goods that are only produced in one foreign location.Manufacturers. These suppliers produce goods from raw materials, and may sell direct to consumers and/or through distributors or retailers.Wholesalers. These suppliers buy from manufacturers in volume and then sell the goods on to customers in smaller volumes. These entities specialize in the warehousing and distribution of goods.You should have a firm understanding of the nature of each type of supplier, in order to source goods most effectively through suppliers.Example of a SupplierA shoe manufacturer buys components for its shoes from a group of suppliers. One supplier provides it with rubber heels, while another supplier provides it with tanned leather. A third supplier provides it with the buckles to be used on selected shoe models, while a fourth supplier provides the thread used to stitch shoes together.Related AccountingTools CoursesContract ManagementHow to Audit ProcurementPurchasing GuidebookThe Difference Between a Supplier and a DistributorA supplier provides goods to another party, while a distributor acquires goods from suppliers and then sells them on to retailers. There are several differences between the two concepts, which are as follows:Role in the supply chain. A supplier creates goods for sale, while a distributor acts as a middleman between suppliers and customers.How profits are generated. A supplier that manufactures goods earns a profit from the transformation of raw materials into finished goods, while a distributor earns a profit by making goods more readily available to retailers through local warehousing.Nature of their customers. Suppliers sell to distributors, retailers, and end customers, while distributors sell to retailers and end customers.Value added. A supplier creates manufactured goods but does not typically handle marketing or distribution, while a distributor adds value by handling logistics, marketing, and customer service.A supplier can take on the roles of both manufacturing and distribution.Terms Similar to SupplierA supplier is also known as a vendor. February 11, 2025/ Steven Bragg/ Abhinandan Banerjee June 18, 2025 A supplier is a crucial entity in the supply chain ecosystem, responsible for providing goods, services, or raw materials to businesses, typically manufacturers or wholesalers. Suppliers ensure the smooth functioning of production processes by delivering necessary inputs that enable companies to produce finished goods or offer services to end consumers. They play a pivotal role in various industries, including manufacturing, retail, construction, and more.Key Roles and Responsibilities of a SupplierProvision of Goods and Services:Raw Materials: Suppliers provide essential raw materials like metals, chemicals, textiles, and other foundational components required for manufacturing.Components and Parts: They supply specific components or parts that are assembled into finished products, such as electronic parts, automotive components, and machinery parts.Services: Some suppliers offer specialized services, such as logistics, maintenance, and technical support, essential for the smooth operation of a business.Quality Control: Suppliers are responsible for ensuring that the goods and services they provide meet the required quality standards. This involves rigorous testing and adherence to industry norms.Consistency: Maintaining a consistent level of quality is critical to ensure that manufacturers can produce reliable and high-quality products.Timely Delivery: Suppliers must manage their inventory efficiently to ensure timely delivery of materials to manufacturers. Delays can disrupt production schedules and impact overall business operations.Stock Levels: They need to balance maintaining adequate stock levels to meet demand without overstocking, which can tie up capital and resources.Pricing: Suppliers play a significant role in influencing production costs through the pricing of their goods and services. Competitive pricing strategies can help businesses manage their costs effectively.Negotiation: Engaging in negotiations with manufacturers to establish favorable terms and pricing agreements is a key function of suppliers.Logistics and Distribution:Transportation: Suppliers often handle the logistics of transporting goods from their facilities to the manufacturers location, ensuring safe and efficient delivery.Supply Chain Coordination: Effective coordination with various stakeholders in the supply chain, including other suppliers, logistics providers, and manufacturers, is essential for smooth operations.Types of SuppliersDirect producers of goods who supply their products to other businesses. For example, a steel manufacturer supplying raw steel to a car manufacturer.Distributors and Wholesalers:Entities that buy products in bulk from manufacturers and sell them in smaller quantities to retailers or other businesses. They act as intermediaries in the supply chain.Companies that source goods from international markets and supply them domestically, or export domestically produced goods to foreign markets.Companies that provide essential services required by businesses, such as logistics, IT support, maintenance, and consulting services.Importance of Suppliers in Business OperationsEnsuring Production Continuity:Reliable suppliers ensure a steady flow of raw materials and components, preventing production halts and ensuring that businesses can meet their production targets and deadlines.Influencing Product Quality:The quality of supplied materials directly impacts the quality of finished products. High-quality supplies result in better end products, enhancing customer satisfaction and brand reputation.Effective supplier management can lead to cost savings through competitive pricing, bulk purchasing, and efficient inventory management, ultimately impacting the profitability of businesses.Innovation and Development:Suppliers often collaborate with manufacturers on product development and innovation, providing insights and new technologies that can enhance product offerings and market competitiveness.Supplier Relationship ManagementSupplier Relationship Management (SRM) is a comprehensive approach to managing an organizations interactions with the companies that supply the goods and services it uses. The goal of SRM is to streamline and make more effective the processes between an organization and its suppliers. Here's a detailed overview of SRM:Key Objectives of SRMEstablishing strong, mutually beneficial relationships with key suppliers to foster collaboration.Working closely with suppliers to innovate and improve processes.Reducing procurement costs through better negotiations and efficient supply chain management.Leveraging economies of scale and securing favorable terms.Identifying potential risks in the supply chain and developing strategies to mitigate them.Ensuring suppliers adhere to compliance and regulatory requirements.Ensuring suppliers maintain high-quality standards for the goods and services they provide.Implementing continuous improvement processes to enhance quality.Monitoring and measuring supplier performance against agreed-upon metrics and key performance indicators (KPIs).Using performance data to make informed decisions and drive improvements.Challenges Faced by SuppliersIntense competition among suppliers can drive down prices and margins, making it challenging to maintain profitability.Supply Chain Disruptions:Natural disasters, geopolitical issues, and transportation problems can disrupt supply chains, leading to delays and shortages.Suppliers must comply with various local and international regulations, which can be complex and costly.Changes in market demand can lead to overproduction or shortages, impacting inventory levels and financial stability.ConclusionSuppliers are integral to the supply chain, providing the necessary goods, services, and materials that enable businesses to produce and deliver their products. Their role in quality assurance, inventory management, cost control, and logistics is crucial for the smooth operation and success of businesses across various industries. Effective supplier management can lead to enhanced product quality, cost efficiency, and competitive advantage in the market. A supplier is a person, company, or organization that supplies products or services. Suppliers work as intermediaries between manufacturers and retailers. The role of a supplier is to supply high-quality products at a good price, which gives them a crucial role in the supply chain.Suppliers, at each step of the product life cycle, play an important role and ensure the supply of high-quality products or services. In the business sector, a supplier is often referred to as a vendor.Types of SuppliersManufacturersManufacturers are the earliest part of any supply chain and sometimes can provide products directly to the customers. Buying from manufacturers is cost-effective and possibly the easiest way. However, sometimes manufacturers can have a minimum order quantity, which many small businesses find too much.WholesalersAnother type of supplier can be wholesalers who buy bulk products from manufacturers or distributors at lower than market price and then resell them. Wholesalers keep their profit margin while selling the product to customers, so you may experience a relatively higher product price.ImportersSometimes, suppliers can import the product and export those goods, known as importers. These importers can supply directly to the customers or can supply them to the wholesalers or distributors.All these types of suppliers have pros and cons. However, the choice of supplier can vary from business to business.How to Choose the Best Supplier?Here are a few characteristics to keep in mind while you are hunting for suppliers for your business.Product QualityProduct quality should be your primary concern when choosing the best supplier for your business.Service QualitySupplier service quality should be an important factor impacting your decision to choose a business supplier. The service quality should include both customer service and expertise in the relevant field.Reliability of the SupplierAny supplier you choose should be reliable enough. A supplier should be able to complete the job in a given timeframe and should be consistent with his services. A good way to assess the reliabilitySpeed and Work EfficiencyWork speed and efficiency are important concerns when you are choosing a supplier. A suppliers efficiency is crucial for you to meet your deadlines and cater to the clients requirements.FlexibilityThe ability of suppliers to respond to changing customer needs is crucial for your business. So, always choose a supplier who is flexible with his services. It is better to ask suppliers about their strategy to cope with such a situation.Cost of ProductWhenever choosing a supplier, compare the cost of services/products they are offering. This will help you to save any additional costs in the future. Ask suppliers about their complete breakdown of cost from the suppliers as well as any conversion charges.Risk AssessmentLastly, whenever you are finalizing a supplier for your business, it is advisable to conduct a risk assessment. Ask suppliers about their plans to deal with unwanted situations.Where to Find Suppliers?Now comes the question of hunting the potential suppliers for your business. You can go for the following options while choosing the right supplier:Get references from the people aroundSearch through online directoriesHunt for potential suppliers on social mediaAttend trade shows and exhibitionsConsult a business advisor as they have business networksOnline business platforms such as Seebiz.Vendor vs SupplierVendors and suppliers are interchangeably used terms; however, there are major differences between the two. The differences between vendors and suppliers are as follows:VendorSupplierA vendor is someone offering a product to a customer for sale.A supplier provides goods to a company or business.B2C modelB2B modelThe first link in the supply chainThe last link in the supply chainDeals in a wide range of productsUsually deals in a specific product lineIf a supplier provides goods to the consumer then the supplier will be known as a vendor.A vendor supplying goods to another party for resale purposes will be known as the supplier.Indirect link with manufacturersDirect link with manufacturersLess riskHigh riskClose link with customersDistant link with customersFAQsQ1: Can vendors become suppliers?Ans: Yes, vendors who supply goods to a party for resale purposes are suppliers.Q2: What are the questions to ask before choosing a supplier?Ans: Here is what you need to ask yourself while choosing a supplier:Are they able to meet your business requirements?How about their financial security?For how long are they serving a particular niche?Are they approved by trade associations or government agencies?Q3: What are the benefits of managing supplier relationships?Ans: Here are a few benefits of good supplier relationship management:Cost reductionMinimizing the riskImproved efficiencyBetter customer managementStreamlined workflowA supplier is a person or business that provides a product or service to another entity. Acting as intermediaries, suppliers bridge the gap between manufacturers and retailers by offering the raw materials, products, or services that businesses require for their operations.The relationship between a business and its suppliers is symbiotic. Businesses rely on suppliers for the necessary inputs for their products or services, and suppliers depend on businesses to purchase their offerings. This interdependence forms the basis of the supplier-customer relationship in the business world.Types of suppliersSuppliers come in various forms, each serving a unique role within the supply chain. Here are some common types of suppliers:Manufacturers: These are the entities that produce goods from raw materials. They are often the first link in the supply chain, supplying products to wholesalers or retailers.Wholesalers: Wholesalers buy goods in large quantities from manufacturers and then resell them in smaller batches to retailers. Selling wholesale is crucial in the supply chain as it facilitates the distribution of goods from manufacturers to various retailers.Distributors: Distributors, like wholesalers, buy products from manufacturers. However, they often offer additional services such as marketing and after-sales support. They play a significant role in reaching out to the market and promoting the products.Independent craftspeople: These are individuals who produce and supply their own goods. They might sell directly to consumers, to retailers, or through a distributor.Importers and exporters: These suppliers operate on an international scale, importing goods from manufacturers in one country and exporting them to retailers in another. They play a critical role in global trade and the international supply chain.Understanding the different types of suppliers helps businesses choose the right ones based on their specific needs and operational requirements.Importance of suppliers to the product life cycleSuppliers play a vital role at every stage of product development, from conception to distribution. Their influence extends beyond the provision of raw materials or services and impacts the quality, cost, and delivery of the final product.Here's a look at how suppliers contribute at each stage:Sourcing raw materials: Suppliers provide the essential raw materials needed to create a product. The quality and cost of these materials can significantly influence the final product's quality, cost, and profitability.Ensuring quality control: Suppliers are often responsible for the initial stages of quality control. They ensure that the materials or components provided meet the required standards and specifications.Facilitating production process: By delivering materials or components on time, suppliers enable smooth production processes. Delays in supply can lead to production hold-ups, affecting the product's time to market.Assisting in distribution logistics: Some suppliers, particularly distributors, play a role in getting the product to the market. They help in transporting the goods from the production site to various retail outlets.Through their significant contribution to the product lifecycle, suppliers have a direct impact on a product's success in the market. Therefore, maintaining a good relationship with suppliers is crucial for any business.What is supplier relationship management?Supplier relationship management (SRM) is a systematic approach for developing and managing partnerships with suppliers to achieve a competitive advantage. It involves creating closer, more collaborative relationships with key suppliers in order to uncover and realize new value and reduce risk.SRM is crucial in business as it helps in managing supplier interactions effectively, ensuring a steady supply of goods or services, and fostering strong, mutually beneficial relationships. It is a key component of supply chain management and a determinant of its success.Benefits of SRMCost savings: Effective SRM can lead to significant cost reductions through improved process efficiency and reduced waste.Improved quality: By fostering closer relationships with suppliers, businesses can work collaboratively to improve product quality.Better supplier performance: SRM allows businesses to monitor supplier performance, identify issues early, and work together to implement improvements.Risk mitigation: Through SRM, businesses can identify potential supply chain risks and work with suppliers to develop mitigation strategies.Best practices for SRMImplementing SRM effectively requires a strategic approach that focuses on building and nurturing relationships with suppliers. Here are some best practices that can guide businesses in their SRM efforts:Regular communication: Maintain open lines of communication with suppliers to address issues promptly and foster mutual understanding.Performance evaluation: Regularly assess supplier performance against agreed-upon metrics to ensure they meet expectations.Long-term relationship building: Focus on building long-term relationships with suppliers, rather than short-term, transactional interactions.Collaboration: Work collaboratively with suppliers to identify and implement improvements, rather than imposing demands.Through effective SRM, businesses can optimize their supply chain, improve product quality, and achieve better business outcomes.Supplier vs. Distributor: Whats the difference?While the terms 'supplier' and 'distributor' are often used interchangeably in the business world, they represent different stages in the supply chain and perform distinct roles.A supplier is a person or business that provides a product or service to another entity, often a distributor. Suppliers can be manufacturers who provide raw materials or finished goods, or they can be businesses that supply services. They are typically responsible for ensuring the quality of the products and delivering them to the next link in the supply chain.On the other hand, a distributor is an entity that buys products from suppliers and sells them to the retailer or the end customer. Distributors often provide added services such as product promotion, market research, and after-sales services. They play a crucial role in getting the product from the supplier to the market.While both suppliers and distributors play critical roles in the supply chain, the focus of suppliers is more on the production and provision of goods or services, whereas distributors are concerned with getting these goods or services to the market.Want to Learn More? A Supplier is a person, organization, or other entity that provides something that another person, organization, or entity needs. During transactions, there are suppliers and buyers. Suppliers provide or supply products or services, while buyers receive them. We commonly use the term Vendorwith the same meaning as supplier. In business, for example, every company has at least one supplier. Suppliers supply or provide the company with materials, products, and services. Goods and services move from the supplier to the buyer. The term trade refers to the activity of purchasing and selling goods and services. In other words, exchanging them for money. In any trade, there must be at least two parties. One of them is the supplier or vendor, while the other one is the buyer or purchaser. We tend to think of suppliers as people or companies. However, we also use the term for whole countries. For example, Japan imports virtually all of its oil and gas. Japans largest oil supplier is Saudi Arabia, followed by the United Arab Emirates, and then Qatar. Kuwait, Russia, Iraq, Mexico, and Kazakhstan are also Japans suppliers. The United States is one of Chinas major soybean suppliers. Since China raised tariffs on American soybeans, its soybean purchases from Brazil and Argentina will increase. Supply chain management or SCM is the management of the flow of products and services. It is a business term. SCM involves the movement and storage of raw materials, work-in-process inventory, and of finished products from their origin to consumption. Suppliers or vendors are supply chain management terms. The terms mean entities that provide goods or services to individuals or companies. Suppliers may, for example, manufacture inventoriable items and subsequently sell them to customers. The supply chain is the whole process of making and selling commercial products. It includes every stage, from the supply of raw materials to delivering the product to the ultimate consumer. Lets imagine that you are a furniture maker. Some of your suppliers could be a timber company, electricity company, and toolmaker. They supply you with wood, electricity, and tools for making furniture. Some accounting books, however, only class providers of raw materials as suppliers. Accounting Basics for Students writes: Some accounting books, when they saysuppliers, specifically mean suppliers of raw materials (like grain, wood, raw minerals like copper, etc.). They are not referring to suppliers of services like electricity, water, repairs, etc. Just suppliers of products. Supplier management refers to the administration of providers of goods and/or services to a business. While this sounds straightforward, todays complex supply chains make it challenging to know exactly how, where, and who should handle this responsibility. Supplier management is a topic that often comes up often in interviews with procurement leaders on the Art of Procurement podcast. To give you an executive view on the topic, well cover all the key definitions, processes, and methods you need to know.Skip ahead if you know exactly what youre looking for: What exactly is supplier management?Supplier management is a systematic approach to managing supplier relationships on behalf of a business. It covers a large number of procurement activities and processes from sourcing to negotiations and risk management.You can view supplier management as the intersection between strategic sourcing and operational procurement or purchasing. It establishes the procurement organization as a central interface between a business and the external world of supply networks. Why is supplier management important?Suppliers are central to the success of every business. Quite frankly, most businesses could not operate without them!Supplier management brings consistency and predictability to how key provider relationships are managed across the business and key stakeholder groups.Systematic supplier management strives to ensure a reliable supply chain, reduced risks, and improved quality and innovation. By effectively managing suppliers in a consistent way, you can achieve cost savings, elevate supplier performance, and build stronger partnerships. This is vital in todays global market, where supply disruptions can significantly impact your business. How supplier management emergedSupplier management as a discipline within procurement emerged from the need to streamline purchasing processes and ensure consistent quality and supply across increasingly large portfolios of suppliers.The development of concepts like the Kraljic matrix in the 1980s highlighted the importance of categorizing suppliers based on risk and impact, emphasizing a strategic approach to sourcing. However, many experts think this view led to oversimplifications, where the administration of suppliers was often related to cost reductions and the effort to increase buyer leverage and purchasing power.According to Dr. Oliver E. Williamson, Professor Emeritus of Business, Economics and Law at the University of California, Muscular buyers not only use their suppliers, but they often use up their suppliers and discard them. The muscular approach to outsourcing of goods and services is myopic and inefficient.Today, the emphasis in supplier management is placed on creating win-win situations and fostering sustainable relationships with suppliers. Procurements objective is to effectively manage a growing supplier base in volatile market conditions. Four key elements of supplier managementSupplier management is a well-researched topic in academia and private industry, but there is no established theory or framework to govern it. Instead, you can think of it as a set of systematic supplier-centric approaches that includes at least four key elements:Supplier Lifecycle Management: The process used to identify, evaluate, and choose the right suppliers for your business. This can include anything from defining success criteria, assessing capabilities, requesting information or proposals, on-boarding new providers, and managing contracts and renewals.Supplier Performance Management: The processes and systems used to monitor and assess supplier performance. This may involve defining KPIs aligned with your business objectives and regular performance reviews, and key metrics related to supply quality, delivery, and cost.Supplier Relationship Management (SRM): The cultivation of mutually beneficial relationships with key suppliers. SRM can include anything from clear communication channels and protocols, co-development, price transparency, and joint innovation initiatives.Supplier Risk Management: The identification, assessment, and mitigation of supplier-related risks. This involves compliance with regulations and ethical standards and can also include diversification efforts to reduce supply dependency.In addition to these four elements, supplier management an emerging interest area withing the large field of procurement technology, where youll find a multitude of tools and solutions for aspects such as supplier information management, supply risk data, contract management, and e-sourcing. Who should be responsible for supplier management? (Example from marketing spend management)Supplier management is not something that can be delegated and assigned to a single stakeholder or function. It requires a deep level of collaboration with both internal and external stakeholders and this collaboration is often orchestrated by procurement.Lets take an example from the marketing category where both procurement and marketing share responsibility.In most companies, the marketing team has a clear mandate to manage external suppliers and agencies responsible for hundreds of different marketing and communications related services. However, the effective management of marketing related expenditure across large businesses and different business units requires the support of procurement teams and clearly defined procurement processes. By following consistent supplier management processes, the marketing team can better leverage their buying power and ensure that value from supplier relationships is consistently realized across the whole business.Supplier management requires cross-functional collaboration, but in most organizations procurement should lead and orchestrate these efforts to maximize value and minimize risks. Benefits of supplier managementA more structured approach to supplier management offers numerous benefits to procurement organizations:1. Value CreationEffective supplier management can lead to substantial cost savings or value creation. By fostering long-term relationships with key suppliers, organizations can negotiate volume discounts and favorable payment terms. In addition, collaborative efforts in process improvement and innovation can lead to reduced total cost of ownership. Strategic supplier relationships can create value through joint product development, shared market insights, and access to supplier innovations.2. Improved Quality and ReliabilityClose supplier relationships typically ensure better quality control. Regular communication, performance monitoring, and collaborative problem-solving lead to improved product quality and consistency. This, in turn, reduces defects, rework, and customer complaints. Additionally, strong supplier relationships enhance supply reliability, reducing the risk of stockouts or production disruptions3. Increased Operational AgilitySupplier management can streamline business processes, reducing administrative overhead and cycle times. Integration of systems and processes with key suppliers can lead to more efficient order processing, inventory management, and forecasting. This improved coordination results in smoother operations, reduced lead times, and increased agility in responding to market changes.4. Risk MitigationEffective supplier management helps identify and mitigate supply chain risks before they happen. By maintaining a diverse supplier base and developing contingency plans with key suppliers, you can better handle supply disruptions, price volatility, and even geopolitical risks. Bottom line on Supplier ManagementSupplier management in procurement is not just about managing provider transactions; its about building strategic partnerships that drive organizational success.The benefits of methodological supplier management typically extend far beyond cost savings, touching every aspect of the business from operational efficiency to innovation and sustainability. If you want more tips on this, explore our Supplier Management Best Practices Hub.As supply chains become increasingly complex and global, supplier management is one key enabler to help procurement teams stay agile and responsive to market opportunities. Related articles and resources

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