Supplier Development Concept: Systematically Building Capable Suppliers

A supplier development concept is a structured plan for systematically improving existing suppliers in terms of quality, cost, delivery capability and sustainability. It combines supplier evaluation, clear targets and joint improvement measures into an end-to-end development process. For buyers, it is a central instrument of strategic procurement for sustainably raising supply performance instead of operating reactively.

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Key facts at a glance

01 A supplier development concept systematically describes how suppliers are improved along defined criteria.

02 It is typically based on supplier evaluations, audits and metrics such as on-time delivery, complaint rate and price development.

03 Typical measures range from process optimisation and qualification workshops to joint investments.

04 In practice, developing and critical suppliers usually require more intensive support than standard suppliers.

05 Success is monitored through regular scorecard reviews and defined KPI target values.

06 An effective concept requires clearly allocated responsibilities in procurement and clear escalation paths.

Definition: supplier development concept

A supplier development concept is a documented process model that defines which suppliers are to be developed with which objectives, methods and resources. It translates the results of supplier evaluation into concrete improvement measures and responsibilities.

Distinction from supplier evaluation

Supplier evaluation describes the current state using metrics and audits; the supplier development concept takes these results and derives target corridors and measures from them. Evaluation and development form a control loop: evaluation provides data, development implements measures, and subsequent measurement shows the impact. Without development-oriented follow-up processes, an evaluation often remains a scoring system with no operational impact.

Placement within the supplier strategy

The concept is the implementation instrument of the supplier strategy and the procurement guiding principles. Principles defined there – such as partnership on equal footing, sustainability or dual sourcing – are translated into segment-dependent development plans. Segmentation, often following Kraljic, determines the intensity: strategic suppliers receive joint development programmes, running-rate suppliers receive standardised improvement cycles.

Segmentation and objective setting in the supplier development concept

Before any development begins, the question is which supplier should be developed at all. Sound segmentation prevents resources from being wasted on interchangeable standard suppliers.

Supplier segments

Four segments have proven effective in practice: strategic suppliers (high value-add, difficult to replace), developing suppliers (high potential, limited performance), critical suppliers (risk because alternative sourcing is difficult) and standard suppliers (competitive procurement market, easily replaceable). For strategic and critical suppliers, development is the preferred alternative to switching; for standard suppliers, a price or source change via e-sourcing is often the better option.

SMART development objectives

Development objectives should be measurable and time-bound, for example: on-time delivery increased from 90 to 97 per cent within twelve months, complaint rate halved, lead time reduced by 20 per cent, or certification to ISO 9001 or IATF 16949 achieved. Sustainability objectives are gaining in importance, for example commitment to Science Based Targets or the provision of CO data. Every objective needs a responsible contact person on both sides, ideally mapped in a RACI scheme of procurement roles.

Methods and approach of supplier development

The development process typically follows a multi-stage cycle from analysis through measures to verification. Standardisation helps to develop several suppliers in parallel and on a comparable basis.

Analysis and potential audit

The starting point is analysis workshops and on-site audits. A contractually agreed right to audit gives procurement access to processes, documents and sub-suppliers. Typical areas of examination are process capability, capacity planning, quality assurance, technology use and financial stability. The result is a joint catalogue of measures prioritised by effort and benefit.

Catalogue of measures and implementation

Proven measures include qualification workshops, joint process optimisation (for example based on lean principles), the definition of clear specifications, sample engineering alignment and interface agreements for automatic replenishment and transaction processes. In the event of quality problems, deviation approval and a defined deviation workflow regulate quantities as short-term exceptions until the root causes have been eliminated. Building second sources – controlled via a second source threshold – complements development where risk and potential diverge.

Review cycles and anchoring

Effective concepts work with quarterly scorecard reviews and annual strategy meetings. Progress is documented, and open items are given deadlines and responsible persons. If success fails to materialise, the arc closes back to risk management: escalation, pull-up of parts, building alternative sourcing or ultimately contract termination subject to the agreed notice period.

Key KPIs of a supplier development concept

Without robust metrics, development success cannot be demonstrated. The KPIs should be identical to those used in supplier evaluation so that targets and measurement match exactly.

Operational key metrics

Core metrics are on-time delivery (OTD), complaint or defect rate (PPM), adherence to delivery dates and quantities, and response times to enquiries. When defining metrics, the shipping terms agreement – e.g. ex-works or inclusive of transport (DPU) – must be taken into account, as measurement points significantly influence the values. Payment terms such as 2/10 net also indicate in trends whether a supplier is under liquidity pressure.

Development and programme metrics

At programme level, the proportion of developed suppliers achieving their targets, the average time to target achievement, savings from projects and the rate of completed audits and measures all count. These figures flow into procurement reporting and make the contribution of supplier development visible to management. A procurement ETL process can consolidate data from ERP, quality systems and portals.

Risks, controls and current developments

Supplier development ties up resources and partially creates dependencies. Clear control mechanisms and an eye on current trends keep the concept effective and future-proof.

Risks and compliance

The main risks are time invested without return, unintended knowledge transfer and increasing dependence on the developed supplier. Countermeasures include dual sourcing, clear knowledge protection arrangements and risk policy guidelines on maximum dependency per supplier. Regulatory aspects include product directives such as RoHS, security standards for data exchange (AEO certification) and supply chain due diligence obligations; the legal assessment should be carried out on a case-by-case basis.

Digitalisation and sustainability

E-sourcing platforms, supplier portals and automated data pipelines significantly reduce the effort required for monitoring and make reviews data-driven. At the same time, sustainability is moving to centre stage: emissions data, social standards and declaration obligations are becoming integral parts of scorecards. Supplier development and sustainability management are increasingly merging into an integrated process that also covers topics such as trade compliance (e.g. Intrastat reporting).

Typical metrics

Metric	Typical value
On-time delivery (OTD)	> 97 % *usual target value for developed strategic suppliers*
Complaint rate (PPM)	< 500 PPM *industry-dependent, target is usually halving the initial value*
Development programme target achievement rate	> 80 % *proportion of completed suppliers with the target achieved*
Time-to-target	6–18 months *typical duration to target achievement depending on measure weighting*

Practical example

A medium-sized mechanical engineering company is struggling with a strategic casting supplier: on-time delivery of around 85 per cent, rising complaint rates, no alternative source. Instead of switching source immediately, procurement launches a structured supplier development concept.

- Joint audit with right to audit to analyse process capability and capacity bottlenecks on site

- SMART objectives: on-time delivery of 97 per cent and halving of PPM within twelve months, quarterly scorecard reviews
- In parallel, requalification of a second supplier via e-sourcing until the second source threshold is reached
- In the event of short-term bottlenecks, clear arrangements via deviation approval and escalated alternative sourcing

Conclusion

A supplier development concept makes supplier development plannable rather than reactive: from status through segments, objectives and measures to measurable control. It links the results of supplier evaluation with operational implementation and gives procurement an instrument for jointly improving performance, risk and sustainability. Success depends less on the document than on discipline in reviews and a clear allocation of roles. Those who consistently combine development with risk mitigation such as dual sourcing gain robust supplier partnerships without blind dependency.

Frequently asked questions

? What is a supplier development concept?

A supplier development concept is a structured plan for deliberately improving selected suppliers in terms of quality, cost, delivery capability and sustainability. It is based on supplier evaluations and defines objectives, measures, responsibilities and review cycles. As such, it is a core element of strategic procurement.

? Which suppliers should be developed?

Typically strategic suppliers with high switching costs and developing suppliers with high potential. For critical suppliers, development combined with risk mitigation is worthwhile, whereas standard suppliers can usually be managed better through the market. Segmentation by business impact and supply risk provides the basis.

? Which KPIs belong in a supplier development concept?

Key indicators are on-time delivery (OTD), complaint rate or PPM, schedule adherence and response times. In addition, programme metrics such as target achievement rate, time-to-target and realised savings count. It is important that evaluation and development metrics are defined identically.

? How does a supplier development project work in practice?

After selecting the supplier, the process usually begins with an audit or joint workshop to analyse potential. From this, a prioritised catalogue of measures is created with objectives, deadlines and responsible persons on both sides. Quarterly reviews secure implementation and progress; if unsuccessful, escalation and, if necessary, second sourcing come into play.

? What is the difference between supplier evaluation and supplier development?

Supplier evaluation measures and assesses current performance using metrics and audits. Supplier development uses these results to implement concrete improvement measures with the supplier. Together, both form a control loop in supplier management.

? What are the benefits of supplier development in procurement?

It reduces complaint and failure costs, improves on-time delivery and creates joint cost reduction potential instead of pure price pressure. At the same time, supply availability becomes more robust because weaknesses are addressed early. In the long term, it strengthens the innovative capacity and competitiveness of the company's own value creation.

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