NICHE-SEARCH

WORKSHEET 5 OF 9

Supplier Consolidation Analysis

Use when evaluating whether to reduce the number of active vendors in a category from multi-source to single-source, or when a category has accumulated too many low-value vendor relationships.

Complementary worksheet for
Vendor Negotiation Playbook
by Ibrahim Anwar

READ ON GOOGLE PLAY BOOKS ›

SECTION 1

What This Is For

A category with five vendors looks like risk management. It is often the opposite: split volume means reduced leverage with each vendor, inconsistent quality because no single vendor understands the buyer's standards well enough, higher administrative overhead, and no one vendor invested in the relationship because the volume is too small to prioritize. This worksheet helps the operator see that picture clearly, with numbers rather than intuition.

The trigger is a category review where the operator suspects that the number of vendors has grown beyond what is manageable or economically rational — typically more than three active vendors in a category where specifications are consistent and the top vendor already covers over 60% of the volume. The analysis compares the cost of consolidation (switching costs, concentration risk) against the benefit (leverage recovery, administrative simplification, deeper relationship with a primary vendor).

SECTION 2

Benefits

What you get when you actually run this worksheet on a real situation:

- Calculates which single vendor, if made primary, would concentrate the most volume with the strongest scorecard data — turning a gut-feel consolidation decision into a data-backed one.
- Forces the switching cost estimate that most consolidation decisions skip, preventing moves that look good on paper but cost more in transition than the annual savings justify.
- Applies Deming's single-source criteria explicitly to the category, so the decision is grounded in principle rather than preference.
- Identifies which vendors to keep as a secondary source for BATNA maintenance versus which to drop entirely.
- Surfaces the concentration risk of consolidation — what happens if the chosen primary vendor cannot deliver — and requires a plan before the decision is final.

SECTION 3

Framework To Use

Consolidation Decision Matrix

A four-factor evaluation: performance, volume, switching cost, and concentration risk — mapped against the category's strategic characteristics.

SECTION 4

How To Use

Follow these steps in order. Each one builds on the previous.

1. List all active vendors in the category. For each, enter annual purchase value in dollars and calculate as a percentage of total category spend.
2. Pull the scorecard data for each vendor: on-time delivery rate and defect-free rate from the most recent two quarters.
3. Estimate switching costs for each vendor: the cost of qualifying a replacement, adjusting specifications if needed, and the productivity loss during a transition period (typically 4–8 weeks at reduced output).
4. Identify the candidate for primary vendor: the one with the highest combined score on scorecard data and the lowest switching cost if they were to be expanded.
5. Calculate the concentration risk: if the primary vendor stopped supplying tomorrow, how long before production is disrupted, and what is the revenue at risk during that gap?
6. Apply Deming's three criteria: is this a category where single-source is justified, or a commodity where multi-source competition is worth more?
7. Make the keep/consolidate decision for each vendor and record the rationale. Do not terminate any vendor without first confirming that the primary can cover 100% of the required volume.

SECTION 5

Example Use

A Surabaya beverage packaging manufacturer has accumulated six vendors in the PET bottle category over four years. Total category spend is $280,000 per year. The purchasing manager suspects that splitting volume six ways is costing more than it saves.

The manager pulls twelve months of purchase data and scorecard records. The six vendors break down as follows:

Vendor A: $112,000 (40%), on-time 94%, defect-free 98.5%. Switching cost to expand: low — already at capacity to scale.
Vendor B: $84,000 (30%), on-time 89%, defect-free 97.1%. Switching cost to expand: low.
Vendor C: $42,000 (15%), on-time 76%, defect-free 94.2%. Switching cost to exit: $3,500 (spec adjustment).
Vendor D: $21,000 (7.5%), on-time 82%, defect-free 96.0%. Switching cost to exit: $1,200.
Vendor E: $14,000 (5%), on-time 91%, defect-free 97.5%. Small volume, strong performer.
Vendor F: $7,000 (2.5%), on-time 68%, defect-free 92.0%. Low volume, worst performer.

Vendor F is terminated first: 2.5% share, worst scorecard, and a $7,000 annual purchase is not enough to justify management attention. Switching cost: $400 in admin and transition.

Vendor C is placed on improvement notice: one quarter to reach 88% on-time and 96.5% defect-free, or the 15% volume shifts to Vendor A and B proportionally.

Vendor E is kept as BATNA insurance: strong scorecard, small volume, and their continued small orders maintain a qualified alternative with current pricing.

The proposed consolidation: primary — Vendor A (target 60%); secondary — Vendor B (target 30%); BATNA backup — Vendor E (10%). Vendors C and F exit.

Concentration risk check: if Vendor A stops supplying tomorrow, Vendor B can cover 30% of current volume, and Vendor E can be scaled up to cover another 10%. Maximum coverage without Vendor A: 40%. Revenue at risk at 60% supply gap: approximately $168,000 per year, or $14,000 per month. The manager's recommendation: before shifting 60% to Vendor A, negotiate a supply continuity clause into the next contract — Vendor A must maintain confirmed safety stock equivalent to 30 days of the buyer's monthly requirement.

SECTION 6

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

Supplier Consolidation Analysis

Use when evaluating whether to reduce the number of active vendors in a category from multi-source to single-source, or when a category has accumulated too many low-value vendor relationships.

VENDOR	ANNUAL PURCHASE VALUE ($)	% OF CATEGORY TOTAL	ON-TIME RATE (%)	DEFECT-FREE RATE (%)	SWITCHING COST ESTIMATE ($)	DECISION: KEEP / PRIMARY / BATNA-BACKUP / EXIT

SECTION 6 (CONTINUED)

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. Total the Annual Purchase Value column. Which single vendor, if made primary, would cover more than 60% of category volume? Does their scorecard data (on-time, defect-free) support that concentration? Calculate the monthly revenue at risk if that vendor stops supplying before deciding.

2. Deming's single-source argument applies where: (a) specifications are tight and qualification takes weeks; (b) the vendor has no near-equivalent in the market; or (c) depth of relationship produces measurable collaborative benefit. For standard commodities available from many vendors, multi-source competition is usually worth more. Which description fits this category?

SECTION 7

Tips and Traps

TIPS

- Do not terminate the last backup vendor in a category until the primary has delivered cleanly for at least two full quarters at the expanded volume. The transition period is when quality and delivery problems are most likely to surface.
- Communicate consolidation decisions to vendors you are keeping before you communicate with vendors you are exiting. A vendor who learns they are being consolidated in from your competition before you told them will not trust the relationship.
- When consolidating to a primary vendor, use the volume increase as negotiating leverage. A vendor moving from 40% to 60% of your category should offer better terms — price, delivery priority, or dedicated capacity — in exchange for the increased commitment.
- Keep the BATNA backup vendor alive with a small but regular order. A vendor that has not received an order in six months cannot be reactivated quickly when the primary vendor has a problem.

TRAPS

- Consolidating on the basis of lowest price without checking scorecard data. The lowest-price vendor often becomes the most expensive choice when total cost is calculated. A 5% price advantage that comes with a 3% defect rate and 72% on-time delivery costs more than it saves.
- Not calculating switching costs before deciding to exit a vendor. A vendor who supplies a custom-specification component may have a switching cost that exceeds one year of the price savings from consolidation.
- Consolidating all volume to a single vendor without a supply continuity clause in the contract. Single-source concentration without contractual protection gives the vendor maximum leverage at the next renegotiation.
- Treating consolidation as a one-time event rather than a category management decision. A category that was correctly consolidated 18 months ago may have new vendors worth adding as backup sources today.

SECTION 8

Appendixes

Appendix A — Switching Cost Estimation Method

```
Component 1: Qualification cost
  Time to qualify a replacement vendor        = Q weeks
  Internal staff time per week (hrs)          = H
  Staff hourly cost ($)                       = C
  Qualification cost                          = Q × H × C

Component 2: Specification adjustment cost
  External testing or adjustment needed?      = Y / N
  Estimated cost if Y ($)                     = T

Component 3: Transition productivity loss
  Weeks at reduced output during transition   = W
  Average revenue per week ($)                = R
  Contribution margin (%)                     = M
  Transition productivity loss                = W × R × M × estimated_output_reduction_%

Total switching cost = (Q × H × C) + T + (W × R × M × reduction)

Rule of thumb: for standard commodity vendors with no
spec adjustment needed, switching cost is typically
$500–$2,500. For specialized component vendors requiring
qualification and spec adjustment, switching cost can
reach $5,000–$25,000 depending on category complexity.
```

Appendix B — Consolidation Decision Checklist

```
Before consolidating to a single primary vendor, confirm:

[ ] Primary vendor scorecard is above all targets for
    2 consecutive quarters at current volume
[ ] Primary vendor can confirm they have capacity
    to absorb the full consolidated volume
[ ] Supply continuity clause negotiated into the next
    contract (e.g., vendor maintains 30-day safety stock)
[ ] At least one BATNA backup vendor is qualified and
    has received an order in the past 90 days
[ ] Switching cost for exiting secondary vendors is
    less than 12 months of price-savings from consolidation
[ ] Concentration risk is calculated: revenue at risk
    if primary vendor stops supplying, duration until
    backup can cover, and maximum coverage gap
```

WHERE THIS WORKSHEET COMES FROM

Vendor Negotiation Playbook

The First Price Quoted Is Not the Best Price Available

by Ibrahim Anwar

This worksheet is one of nine in the *Vendor Negotiation Playbook* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

Read the source book on Google Play Books:

https://play.google.com/store/books/details?id=KEfXEQAAQBAJ

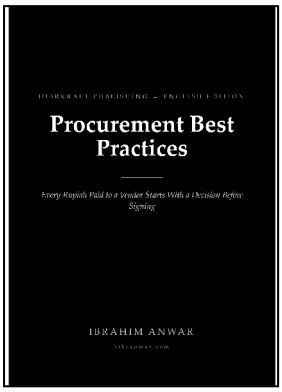
OPEN ON GOOGLE PLAY ›

PT Hibrkraft Kreasi Indonesia · Cileungsi, Bogor · hibranwar.com

CONTINUE THE SERIES

More from the Operator's Handbook

Each handbook is a 9-worksheet companion pack like this one. Tap any cover to open it on Google Play Books.

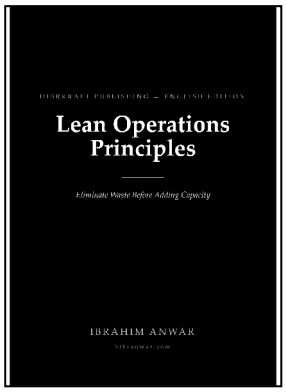


NO. 08 · OPERATOR'S HANDBOOK

Procurement Best Practices

Every Dollar Paid to a Vendor Starts With a Decision Before Signing

OPEN ON GOOGLE PLAY ›

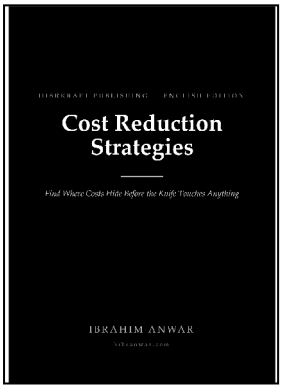


NO. 12 · OPERATOR'S HANDBOOK

Contract Negotiation Tactics

A Clear Contract Is a Healthy Relationship

OPEN ON GOOGLE PLAY ›

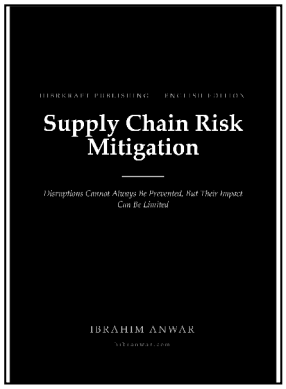


NO. 01 · OPERATOR'S HANDBOOK

Cost Reduction Strategies

Find Where Costs Hide Before the Knife Touches Anything

OPEN ON GOOGLE PLAY ›



NO. 09 · OPERATOR'S HANDBOOK

Supply Chain Risk Mitigation

Disruptions Cannot Always Be Prevented, But Their Impact Can Be Limited

OPEN ON GOOGLE PLAY ›