

## Advantages and Disadvantages of Single Sourcing

### INTRODUCTION

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*A company faced with the need to recurrently purchase materials must decide between sourcing from one or multiple vendors. This whitepaper considers how factors such as market conditions, supplier and product characteristics, that may influence a company's decision. Given the risks of relying upon a single supplier, the paper discusses important considerations that may help mitigate potential negative effects of a single-sourcing arrangement.*

#### ***Explanation of Single-Sourcing***

*Single-sourcing refers to a procurement strategy in which a single, particular supplier of a given product or service is chosen by the buying organization, even when multiple suppliers are available. This is different from “sole sourcing,” which occurs when only one supplier is available in the market for a given product or service.<sup>1</sup>*

*Single-sourcing decisions are made on a strategic basis at the senior management level, based on how much value single-source relationships add – for example, through the ability to negotiate reduced material costs or more favorable purchasing conditions.<sup>2</sup>*

<sup>1</sup> (Larson and Kulchitsky, 1998; Van Weele, 2010).

<sup>2</sup> (Leenders et al., 2002)

## ADVANTAGES OF SINGLE SOURCING

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In addition to providing the potential to negotiate lower costs and better purchasing terms, single sourcing can be justified when one supplier offers unique capabilities, or higher quality, or when the order is too small to divide among multiple suppliers.

In situations in which concentrating purchases with a single supplier can lead to price/cost reductions – or when just-in-time delivery is easier with a single supplier – the justification for single sourcing becomes obvious.



### Forging Closer Supplier Business Relationships

One key motivation for pursuing a single-source buyer arrangement, is the buyer's desire to forge a closer business relationship with the vendor for key strategic and operational advantages. For example, the buying organization may determine that they can benefit from a particular vendor's ability to understand their business more deeply, thus adding value through a single-source purchasing arrangement.

### Negotiating Material Cost Reductions

As previously mentioned, the ability to achieve material cost reductions is often the most compelling reason for a buying organization to pursue a single source relationship with one vendor. In cases where awarding all the business to one supplier allows the supplier to achieve production efficiencies that result in cost savings that are passed on to the buyer, the buyer has strong incentive to negotiate a single-source contract. In cases where the supplier is able to achieve these production efficiencies, and still generate a reasonable profit, the supplier has a strong incentive to formulate an aggressive pricing strategy that satisfies both parties.

### Achieving Better Control of Materials and Processes

Another advantage of single-source purchasing is the ability to achieve tighter control over materials, processes, production schedules and other factors, which can be negotiated during the procurement process. This allows the buying organization to specify the precise requirements needed in the production of its goods and services, allowing it to go to market with products and services that meet its brand standards and go-to-market strategy (for example, a requirement to use conflict-free minerals, which is a commitment at All-Pro Fasteners). At the same time, this

arrangement allows the supplier to put procedures in place that ensure the buyer's specifications are consistently addressed. The result is a mutually beneficial arrangement whereby the buying organization is assured of receiving goods and services that comply with their exact requirements, and the supplier can adopt processes that allow it to deliver the goods and services efficiently.

## **DISADVANTAGES OF SINGLE-SOURCING**

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Along with the advantages of single-sourcing, a number of potential disadvantages must be considered which, depending on the exact circumstances involved, can make it difficult to evaluate the pros and cons of a single-sourcing strategy.<sup>3</sup>

### **Potential Production Interruptions or Supply Shortages**

One potential downside of a single-source buying decision is the increased dependence on a single supplier which can present potential risks to the integrity of the buying organization's supply chain.

The risk of an interruption in the delivery of essential goods or services must be carefully identified and evaluated, and specific efforts must be taken to mitigate this risk during negotiations with the prospective supplier.

### **Potential Price Increases**

A single-source buying arrangement can amplify the dependency between the buyer and supplier, and a number of factors must be addressed during negotiations in order to minimize associated risks. One such risk is the potential for price increases from the supplier, once the business patterns of the single-sourcing program are well established. The risk of potential price increases must be considered during negotiations between the parties, and, if possible, defined or circumscribed on the basis of maximum percentage increase allowable, and/or the time frames allowed for price increases. Successful negotiation of these items can turn this disadvantage into an advantage for the buying company.

### **Potential Shutdowns**

Whether the result of business failure, financial crisis, accident, labor dispute or "Act of God" (i.e., natural disaster), the risk of a potential production or business shutdown on the part of the supplier must be evaluated. An in-depth review of a supplier's financial health, current insurance policies, contingency plans and production redundancies can help to establish the degree of risk associated with a potential shutdown. Since a potential supplier disruption could present real risks to the buying organization –from an inconvenient short-term shutdown, to a catastrophic long-term stoppage – due diligence must be performed to determine and mitigate the risk.

## Potential Competitive Disadvantages

One of the chief motivations of a buying organization entering into a single-source purchasing agreement, is to lock in competitive advantage(s) with the supplier. These competitive advantages can be based on price, product quality, manufacturing technology, vendor exclusivity, and other factors. In some cases, what seemed like an initial competitive advantage, can turn into a disadvantage. This can occur if the supplier lags behind others in technological development, product design or manufacturing quality. The extent of potential risk to the buying party depends on many factors which must be carefully understood and evaluated. These factors include the level of technology inherent required in product development, the importance of continuous technological advancement, the supplier's quality assurance programs and certifications, and other considerations.

## Potential Imbalances in the Buyer-Vendor Relationship

A successful single-source purchasing program is a win-win for both parties. The buyer receives high quality goods and services, on time, at pricing levels that allow them to be competitive in the marketplace. The supplier enjoys the ability to realize a reasonable profit margin, predictable workflow and assured production levels, allowing them to make appropriate plans and investments to support the business. As in any business relationship, imbalances can emerge over time in which one party finds less advantage in doing business than at the outset of the relationship. These imbalances can be caused by factors such as supply chain cost increases at the manufacturing level, changes in anticipated production volume, or other dynamics at work in the market. To guard against these imbalances, regular reviews of the business relationship should be conducted, giving both parties the opportunity to engage in transparent dialogue, to rectify imbalances before they become serious problems.

### **Considerations When Contemplating Single-Sourcing**

*Any decision to enter into a single-source relationship is of significant strategic importance to both the buying organization and the supplier, and this decision can depend on various (and sometimes unique) factors of doing business. While all circumstances are different, there are factors that should be considered when evaluating the efficacy of a proposed single-source arrangement.*



## What Efficiencies Can Be Achieved

Would single-sourcing help to make the purchasing, sales, manufacturing, distribution and/or accounting processes more efficient for one or both parties? If so, the economic incentives for entering a single-source arrangement can be compelling. How well these efficiencies can be structured for the mutual benefit of both parties can determine the long-term efficacy of the single-source relationship. These efficiencies can lead to benefits such as lower costs, increased profitability, and reduced overhead for one or both parties.

## Benefits vs. Downsides

Do the benefits of the proposed single-source solution outweigh the potential downsides? An in-depth analysis allows the procurement team to compare the benefits and potential downsides of proposed single-source relationship, in order to make a determination based on all variables. Does the vendor offer higher quality products, or superior lead times, that are critical to the buyer's success in the marketplace? Do they offer innovative logistics solutions that reduce the costs of going to market? If the benefits offered by the supplier represent a significant upside to the buying organization, compared to potential downsides, then a single-source approach to procurement may be the right answer.

## Supplier Trouble Shooting and Backup Plans

Does the vendor have trouble-shooting plans in place in case of emergency? Can production be shifted to another facility in the event of a disruption? Does the vendor have access to multiple sub-suppliers if the supply of manufacturing materials is disrupted? Are backup plans in place to guard against potential outages? By understanding the ins-and-outs of the supplier's operations, and engaging in the necessary dialog to ascertain the details, the buying organization can help protect itself, and ensure proper due diligence has been conducted to lay the groundwork for success.

## Size of the Business & Services Required

Is the business large enough to give the supplier the ability to realize efficiencies that can be passed on to the buying organization? Is the business too large to make single-sourcing feasible? By analyzing the production capacities of the supplier, both parties can ensure the single-source approach can be balanced, practical and economically workable for both parties.

In addition, if specific or specialized services will be required of the potential vendor(s), this will also be a major factor in evaluating the feasibility of a single-source option. For example, if special packing, specialized distribution, customized paperwork or extraordinary delivery requirements will be part of the requirements, potential vendors must be screened accordingly. Are Vendor Managed Inventory (VMI) services required? Are special testing procedures on critical parts necessary for the items produced? Before considering whether to single-source or

multi-source the business between two or more suppliers, it is important to define the specific services that are required on each product that is to be delivered, and evaluate the ability of each supplier to meet the requirements. This will help determine which suppliers are qualified to handle the business, and whether single-source or multi-source contracting is the most appropriate option.

## Buyer-side Contingency Plans

Can your business find a backup vendor in case of emergency? If so, the risk of entering a single-source agreement is minimized. If a long lead-time could be required to bring a new supplier online, then a single-source purchasing arrangement may not be to your company's long-term advantage. A more prudent approach might be to cultivate supplier relationships with more than one provider.

## Other Considerations

Other considerations include the presence of prior commitments on the part of the buyer or prospective supplier, successful past relationships between the prospective parties or other third parties, or the existence of ongoing relationships between the parties and/or competitive organizations.

## ALL-PRO AND SINGLE-SOURCING

*All-Pro Fasteners seeks to create mutually beneficial, advantageous and prosperous relationships with its customer partners. In most cases, each company has a successful procurement process in place that supports single-sourcing or multiple-sourcing. Our goal is to expand on our partners' success by being flexible to their needs.*

*We do this by offering solutions to both single- and multiple-supplier sourcing. What works best for one company in one market, does not mean it will work for all. We work with each customer based on their unique requirements, structuring business in ways that create a win-win result based on those requirements.*



## **SINGLE SOURCING ADVANTAGES WITH ALL-PRO**

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There are a number of advantages to partnering with All-Pro Fasteners on a single-source basis.

1. **Building and maintaining a relationship with All-Pro Fasteners is easier than with two or more suppliers.** As a trusted supplier of a wide range of fasteners, products and industrial supplies, we build close relationships with our customer partners, working to understand their needs, and employing teams to handle every aspect of their business, from design and manufacturing, to quality control and delivery. Working with All Pro Fasteners on a single-source basis makes it easier for our partners to build and maintain a reliable sourcing relationship, when compared with the effort required to build and maintain relationships with multiple suppliers.
2. **Administrative and accounting costs are reduced when you place orders using All-Pro Fasteners as a single supplier.** By streamlining procurement activities on a single-source basis with All-Pro Fasteners, our customer partners are able to streamline their administrative and accounting activities, and simplify many operational aspects of their procurement processes. It is easier to procure orders with a single supplier, and with dedicated customer service resources available to support every level of the buying organization, All-Pro Fasteners works to ensure doing business on a single-source basis is as efficient and reliable as possible.
3. **Where advantageous,** All-Pro offers the option of small, frequent delivery programs to improve your inventory control. All-Pro Fasteners offers flexibility in the size and frequency of deliveries that best meet our partners' requirements, and offers a consultative approach to help determine the best operational and logistical options for consideration. Working on a single-source basis, we can tailor our manufacturing, storage and distribution expertise to each partner's unique requirements, helping to pinpoint and eliminate redundancies and inefficiencies in their operations.

## **MULTIPLE SUPPLIER SOURCING ADVANTAGES**

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When considering single-source vs. multiple-source procurement, All-Pro Fasteners believes the best approach is the one that provides the most advantages to the customer, with the least amount of supply chain risk to their organization.

1. **Demand fluctuations can be more manageable if you have a choice of suppliers with whom to adjust order volumes.** In the case of significant demand fluctuations, having multiple suppliers can be an advantage. Our teams are always on call to respond to your needs, regardless of whether we are your only vendor of fasteners, or one of multiple vendors you rely on consistently. If your business experiences dramatic demand fluctuations that result in unpredictable manufacturing and inventory patterns, we can work with you to strategically address these issues as a single-source or multiple-source supplier.

- 2. As a multi-source supplier, we can help mitigate the risk of potential supply disruptions.** On-time, on-spec delivery of key products and components is critical to your organization's success. Having multiple suppliers ensures you have redundant, duplicate and/or backup suppliers in place, to respond quickly to untimely interruptions in any part of your supply chain. At All-Pro Fasteners, we are proud to combine a history of uninterrupted manufacturing with a strong financial and regulatory track record, allowing us to anticipate the ability to continuously meet your ongoing supply chain requirements, and be a go-to source as one of your multi-source suppliers.
- 3. As a multi-source supplier, All-Pro can support buying departments with price and product checks and balances.** Bringing an in-depth understanding of the operation and economics of the fastener business – with experience across virtually every industry – All-Pro Fasteners knows the quality and cost of fastener products. As a multi-source supplier, we can support our customer partners as a resource able to provide trusted checks and balances on the products and services they require.
- 4. You will always be treated as a single-source partner with All-Pro Fasteners.** Whether All-Pro Fasteners is a single-source vendor, or one of several multiple-source vendors, our approach in tailoring our products and services to our partners' requirements is the same. You can count on All-Pro's commitment to on-time delivery of high-quality products.



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All-Pro Fasteners supplies high-quality fastener products to meet a wide range of industrial, manufacturing, and fabrication applications. The teams at All-Pro Fastener go the extra mile with customized inventory management, kitting, custom shipping, and more — offering a full range of service and support that makes your business more efficient.



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