9 Steps
to a Strong
Supplier
Approval
Program

TRACEGAINS

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Introduction

The increasingly global reach of today's supply chain means that even the most stringent quality control measures might not be enough to protect a company from supply chain threats. Nowhere is this truer than in the food, beverage, and dietary supplement industries, where product safety relies heavily on the quality of the items and ingredients suppliers provide.

Proactive and Predictive Supplier Approval Programs Work Best

Robust supplier approval programs must be proactive and predictive to sufficiently address evolving consumer preferences and rapidly changing business environments. With the growing complexity of the supply chain, suppliers and their customers face an endless procession of food safety threats. Today, the three top areas of concern are: an increased dependence on imported items and ingredients, rampant food fraud, and intentional adulteration.

There's also the persistent challenge of accurately assessing supplier value. When the price is the sole driver, it's easy to underestimate the total cost of ownership, which considers customer service, quality of goods, and reliability. An effective approval program ensures suppliers' items and ingredients, services, and outsourced processing and packaging, meet acceptable food safety standards, legality, quality and authenticity, service, and ethical business practices.

Safe, High-Quality Products Require Good Suppliers

Manufacturers must carefully control purchasing materials used to make finished goods by establishing close working relationships with suppliers and holding them to the highest standards. Companies should commit to a supplier only after they complete the appropriate assessments and approvals. Constant monitoring confirms that suppliers meet legal and contractual arrangements per any agreed standard, specification, contract, or service schedule. Also, supplier verification remains an integral part of the Food Safety Modernization Act (FSMA) and an essential consideration if companies want to stay compliant.

Finding Reliable, High-Performing Suppliers is Crucial

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Benefits of a Strong Supplier Approval Process

The benefits of an effective supplier approval program can't be overstated. With better processes in place, buyers and suppliers can forge stronger relationships that reap extensive benefits.

An improved supplier approval process gives manufacturers the ability to:

- Achieve a competitive advantage through strategic sourcing.

- Avoid expensive rework and production delays.

- Reduce risk for adverse scenarios such as environmental problems, defects, or safety issues.

- Identify issues early and implement corrective actions before issues spiral out of control.

- Evaluate supplier product recall procedures.

- Traceback items and ingredients to the source if safety and quality issues arise.

- Improve collaboration between buyers and sellers, which increases efficiency and productivity.

- Enhance regulatory document compliance and mitigate food safety and supply chain risks.

Strategic Sourcing: *The location, evaluation, and selection of suppliers capable of meeting the requirements of a particular purchase category and contributing competitive advantage to the purchaser.*

STEP 1:

A Supplier Approval Checklist Keeps the Process on Track

A standardized supplier checklist lies at the heart of an effective supplier approval program. Building this checklist keeps teams organized and efficient throughout the process. It's used across departments to ensure responsible parties understand their roles, complete required tasks, and stay informed.

For example, Purchasing needs to examine costs and minimum order requirements for new ingredients, Quality Assurance (QA) must inspect the potential ingredients for quality, and R&D needs to review and approve test samples.

Each company should put thought into the checklist and how it's implemented and maintained.

Elements of a Supplier Approval Checklist:

- Company personnel.
- Available products and services.
- Quality management.
- Food safety systems.
- Certifications.
- Past performance.

Supplier Questionnaires Ensure Quality and Compliance

Global Food Safety Initiative (GFSI) standards mandate a documented approval process for packaging, raw material, ingredient, and service suppliers. Additional requirements within the code include documenting past performance and assigning a risk level to each supplier material or service.

What Does the Supplier Need to Include in the Questionnaire?

- **Contact Information:** Contact information for key departments and responsible parties.

- **Quality System:** Confirm that a quality program is in place that meets industry standards, including organization charts, job descriptions, Hazard Analysis and Critical Control Point (HACCP) program, control programs, etc.

- **Audits:** Must be open to internal or third-party audits.

- **Regulatory Compliance:** Prove compliance with local, state, and federal agencies.

- **Specification Compliance:** Agree to meet product requirements and respond quickly to changes.

- **Certificates of Analysis (CoAs):** Provide CoAs to confirm adequate specification testing and alignment.

- **Returned Goods Policy:** A clear policy for returning unacceptable products.

QA must review the questionnaire to determine if the supplier meets company standards and requirements. QA can approve or reject the supplier or issue corrective actions the supplier must respond to for approval. Companies must track these items within the master checklist and ensure they're updated in the supplier questionnaire. With so much information and documentation required, companies benefit from a single repository to house all supplier, item, and ingredient documents.

What Information Must Manufacturers Track?

- Names and codes of all ingredients.

- Lot or batch number coding.

- Approved primary and alternate suppliers.

- Associated hazards for each ingredient.

- Methods used for accepting ingredients.

- Supplier approval process.

- Supplier performance management program.

- Information on allergens.

- Claims information and substantiation.

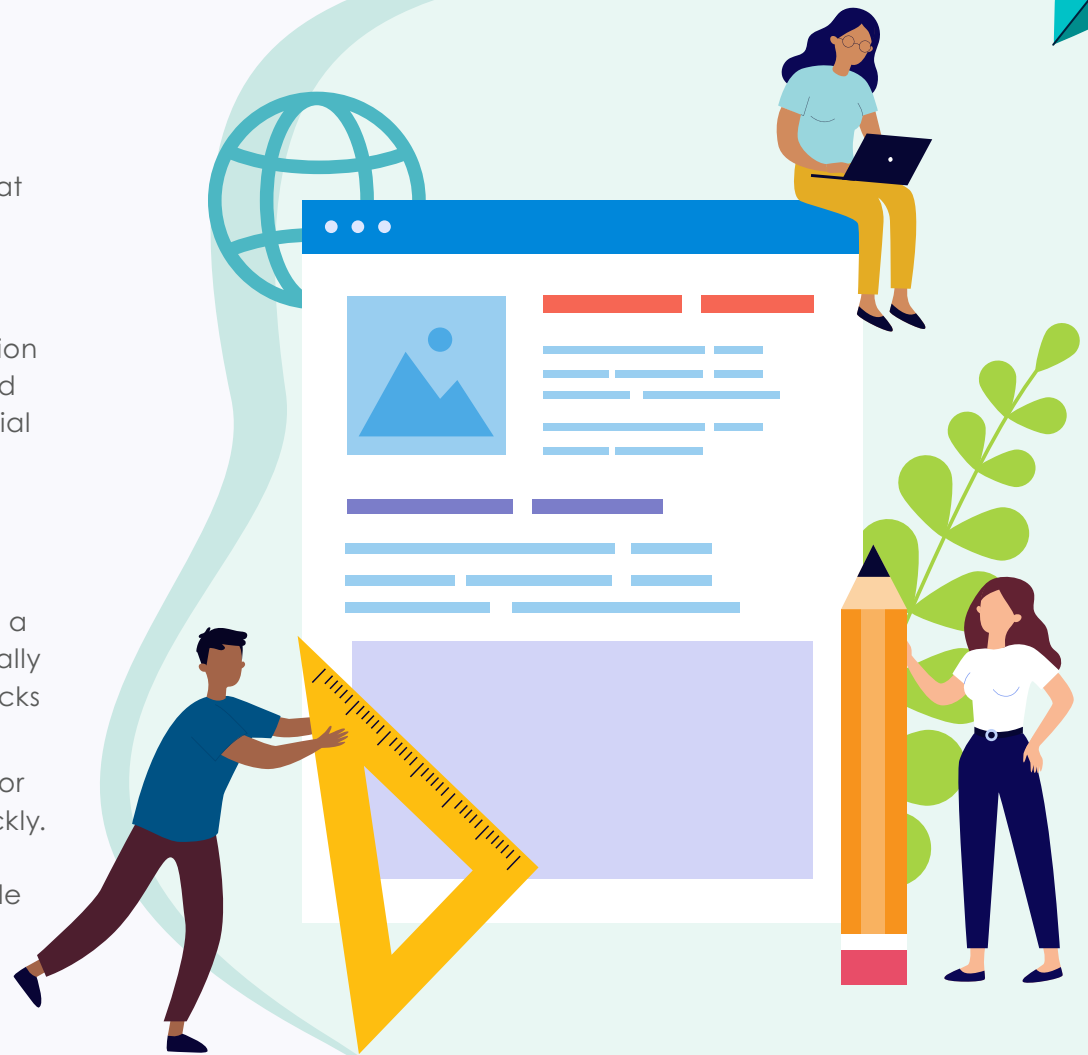- Nutrition or supplement label details.

STEP 3:

Good Supplier Relationships Begin with Specs

A strong supplier relationship starts with brands defining what they need from a supplier to approve them. The first step is telling a potential supplier what's required via purchasing specifications.

Many companies don't fully employ suppliers as collaboration partners when building specifications, resulting in prolonged negotiations and reduced supplier performance. It's essential to create unique specifications because, without them, manufacturers must rely on public industrial specifications. That makes it difficult for brands to differentiate themselves from their competitors.

Once manufacturers reach a specification agreement with a supplier, they'll typically submit a "sample." R&D then typically analyzes the sample for compliance, and if everything checks out, the process continues.

The benefit of closer supplier collaboration is the potential for expansion and the ability to identify new opportunities quickly. In addition, when customers demonstrate to suppliers that they're not expendable, suppliers are generally more flexible in meeting customer needs.

Single Platform

To effectively manage the overwhelming amount of supplier information, companies have increasingly turned to technology solutions. Ideally, companies would leverage a single platform to organize and digitize all supplier, item, and ingredient documents. It should store data on names and codes for all ingredients, approved primary and alternate suppliers, the associated hazards for each ingredient or item, the methods used to approve and accept ingredients, and a way to track supplier performance.

The platform should support the management of additional information for allergens, claims, nutrition and labeling, lot or batch number coding, and anything else that might be necessary for continued compliance.

Conduct Risk Assessments

Scientific data must drive risk assessments. Risk assessments estimate the likelihood and severity of an adverse health effect from hazard exposure. Companies use risk assessments to examine substances added to food like additives or processing aids as well as substances that occur incidentally, such as environmental contaminants, allergens, and naturally occurring toxins.

Manufacturers must assign each item or ingredient a risk rating, which depends on the likelihood of an event occurring and the severity of the injuries should an incident occur. Reviewing regulations and historical evidence can help manufacturers determine item risk. For example, a company can consider an ingredient "high risk" if it's an allergen, if they plan to use it at high volumes, or prone to biological, physical, or chemical contamination.

3 Tips on Effective Risk Assessment

1

Be clear on the hazards

Like any other risk assessment, the idea is to identify what can go wrong (the hazard) and assess the likelihood that it might happen and the consequences if it did. Primary hazards include allergens, microbiological, chemical, and physical. But companies also must consider other things, such as regulatory concerns, intrinsic hazards, and geographical origin.

2

Define risk assessment ratings

Manufacturers must establish clear definitions of the likelihood and consequence ratings. For example, if something is rated a "medium consequence," – what does that mean regarding the identified hazard? What's the impact on both the consumer and the business?

3

Research hazards

Any risk assessment program intends to identify and eliminate potential threats to brands and their consumers. So, it's essential for brand leaders to stay well-informed and continually research issues that could threaten the supply chain.

Risk Assessment: *The scientific evaluation of known or potential adverse health effects from human exposure to foodborne hazards.*

STEP 6:

Qualification & Acceptance

Supplier qualification requirements are situational. Using a risk assessment, manufacturers can dictate the supplier qualification process. If there's low risk associated with a particular supplier, the questionnaire might be enough. If there's a more inherent risk for a supplier, companies might need to conduct an audit.

When it comes to managing receiving points, brands might need to engage processes such as:

- A visual inspection.
- A Certificate of Analysis (CoA) for each shipment.
- A Certificate of Conformance (CoC) for each shipment.

Have A Test Run

After manufacturers qualify and pre-approve suppliers, they must conduct a test run to ensure the plant floor can meet established requirements consistently.

During the test run, it's critical to give the supplier ample shipments/loads to determine compliance patterns and how well they can meet requirements.

Test runs can include specific criteria like scorecard metrics, such as:

CoAs that verify specification compliance with each shipment.

Satisfactory quality inspections.

Consistent and on-time deliveries.

Delivery trucks that consistently meet satisfaction.

Approval

If the test run is successful, manufacturers can move ahead with the approval process and add the supplier to the approved supplier list.

Establishing an Approved Supplier List

Companies must create a process for building and maintaining an approved supplier list, which should include ingredients suppliers, food contact packaging, and services that affect food safety and quality, such as sanitation and pest control.

Manufacturers must make everyone at the company aware of the list, with established rules to ensure all purchases come from approved suppliers. In addition, companies should outline the process to handle circumstances when it might not be possible to buy from an authorized supplier — for example, mandating that all unapproved suppliers need procurement sign-off before purchase.

Supplier approval should be for one year in the first instance, and companies must monitor suppliers' performance closely. If a supplier fails to meet prescribed standards, companies should remove them from the approved list at renewal. Conversely, manufacturers can upgrade suppliers that consistently meet or exceed the prescribed standards after two years from "Approved" to "Preferred."

Monitoring (Supplier Scorecard)

The most crucial element of managing suppliers is consistent monitoring. It's vital to scorecard performance based on specific criteria. Manufacturers must make suppliers aware at the outset that they'll be assessing and recording supplier performance. Companies must advise suppliers of the performance criteria, how it's tracked and measured, and who will have access to the information.

Each company is different in the behaviors they're trying to elicit from suppliers, but the best scorecards are those that include metrics from:

- The purchasing process: How timely is the supplier's response to purchase orders?

- The CoA: How well did the supplier meet specifications?

- The receiving process: Does the product arrive when promised, and are there any issues at receipt?

- The QA process: Does testing validate the provided attributes?

- The floor feedback process: How frequently is the supplier's material involved with production floor issues even though it might have cleared all previous hurdles?

- The documentation process: Is documentation submission timely, and does it meet requirements?

- Certifications: Is the supplier certified to a GFSI scheme, is the HACCP plan certified, does the supplier have Good Manufacturing Practices (GMPs) in place?

In Conclusion

When selecting a new supplier, a company's reputation is on the line. Building a robust supplier approval program and enforcing established procedures will considerably reduce risk.

What is effective supplier performance monitoring?

- Regularly check the supplier's progress against contractual obligations.

- Conduct regular random inspections of the supplied goods and/or services during the contract period to ensure they meet specifications.

- Verify that the supplier is meeting all contract conditions and clauses; the contract manager should be aware of any breaches of contract and be prepared to act if any non-conformance crops up.

- Advise the supplier in writing if dissatisfied with any aspect of performance under the contract.

- Act immediately if a problem occurs and involve senior representatives of both the procurer and supplier to solve any identified issues as soon as appropriate.

- Develop effective mechanisms for obtaining supplier feedback from stakeholders.

- Maintain adequate records of all dealings with the supplier and the administration of the contract.

- Perform regular inspections to ensure compliance with any applicable legislation, contract conditions, quality provisions, or workplace health and safety – depending on the nature of the procurement, its complexity, and associated risks. Frequency can vary.

TraceGains Integrated Suite of Software Solutions

Founded in 2008, TraceGains connects people and information so teams can work smarter. As a global technology company, we provide networked innovation, quality, and compliance solutions to consumer brands that want to reduce supply chain risk, speed up business processes, and take control of data. On average, companies find 80% of their suppliers already on TraceGains Network, allowing them to connect and collaborate instantly.

The TraceGains suite of software solutions provides streamlined information management with unique access to custom dashboards for allergens, organic, nutrition, and countless other critical documents so companies can be ready for any audit at any time. In addition, the system collects and monitors plant floor data, manages lot-by-lot compliance, and allows users to co-author specifications with suppliers. Automated workflows monitor and record business processes and send alerts when someone has a task to complete.

The Power of TraceGains Network

TraceGains Network is where professionals in R&D, Procurement, Quality, and Regulatory departments connect with suppliers and co-manufacturers to bring new products to market faster safely. Thousands of supplier locations and data sources are combined to identify and qualify new vendors, precisely source raw materials, items, ingredients, packaging, and services, request samples, negotiate specifications, and automatically collect supporting documentation.

Learn More

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