

Vendor / Supplier Rating



Vendor rating is the process of establishing performance categories, and collecting and analysing data to monitor trends and identify areas for further action (Bossert et al.)



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Introduction

Suppliers are arguably among the best intangible assets of any company (Muralidharan et al., 2002), making supplier selection and relationship management critical activities (Cousins, P (MBS) & CIPS: Relationship management).

Vendor rating regular feature as a basic component of comprehensive quality programmes and initiatives (Bossert et al., 2004). It is widely used by major organisations that have developed sophisticated quality approaches (e.g. TQM, Six Sigma) and implemented programmes relying on ship-to-stock, manufacturing resource planning (MRP II), just-intime (JIT) and similar material control operations (Bossert et al., 2004). In this respect, it is important to ensure that suppliers maintain at least satisfactory, but ideally superior, performance.

All suppliers have various strengths and weaknesses which require careful assessment before placing an order (Muralidharan et al., 2002). The process of vendor rating helps companies to establish performance categories, collect and analyse data to monitor trends and identify areas for further action (Bossert et al., 2004). To be effective, a vendor rating system requires a training programme to ensure that ratings are attributed with minimum bias (Monczka et al., 2009). Bossert et al. (2004) identify six uses of vendor rating systems: performance evaluation ranking, action planning, meeting with suppliers and creating a platform for buyer-supplier dialogue, product and process audits (i.e. special audits may be needed when problems occur), corrective action programmes and supplier recognition.

Other common rating criteria include product quality (mean time between failure, percentage of incoming rejects/delivery accuracy, warranty claims), service quality against agreed service level agreements (call-out time, customer service response time, performance against agreed delivery lead times), relationship/account management (accessibility and responsiveness of account management) and commercial ratings (reduction in costs). Ideally, ratings criteria should be discussed with suppliers before being implemented. This can help to ensure that the criteria are fair and feasibly achievable. Moreover, the supplier has a better understanding of how to improve its performance and is more aware of the needs of the purchase.

Definition

A vendor rating system (also referred to as a supplier rating) "complements the evaluation and accreditation system in that it measures the performance of approved suppliers on an ongoing basis". It also allows for meaningful feedback in order to improve supplier performance (Roylance, 2006:56).

Successful Application

The initial stages of vendor rating implementation require the identification of performance categories and assigning weights (Muralidharan et al., 2002). Another important consideration is the design of a rating scale. Monczka et al. (2009) propose the use of a simple four-point scale: (1) Major nonconformity - 0 points; (2) The absence or total breakdown of a system to meet a requirement, or any noncompliance that would result in the probable shipment of a nonconforming product, minor nonconformity - 1 point; (3) A noncompliance (although not major) that judgment and experience indicate will probably result in the failure of the quality system or reduce its ability to ensure controlled processes or products, conformity - 2 points;

(4) No major or minor nonconformities were noted during the evaluation, adequacy - 3 points (Monczka et al., 2009).

Steps to Successful Application

1. Identify supplier evaluation categories: e.g. quality, management capability, financial condition, supplier cost structure, expected delivery performance, technological capability, systems capability and a general category of miscellaneous performance factors.
2. Assign a weight to each evaluation category. Performance categories normally receive a weight that reflects the relative importance of that category. The total of the combined weights must equal 1.0.
3. Identify and weigh subcategories. Where relevant, identify any performance subcategories within each broader performance category.
4. Define scoring system for categories and subcategories: Develop a quantitative measurement scale that clearly defines what a specific score means.
5. Evaluate the supplier directly by visiting their facilities to perform the evaluation. A cross-functional team should perform the evaluation, allowing team members with different knowledge to ask different questions.
6. Review evaluation results and make the selection decision. Decide whether to recommend or reject the supplier.
7. Review and improve supplier performance continuously: the emphasis now shifts from the initial rating and supplier selection to continuous supplier performance measurement.

Monczka et al. (2009)

Hints and Tips

- The sum of any subcategory weights should equal the total weight of the performance category (Monczka et al., 2009).
- The weightings should reflect the needs of the organisation. For instance, if just-in-time techniques are used, then 'delivery' will probably require a higher weighting than 'price' (CIPS: Appraisal and performance monitoring of suppliers).
- A smaller scale (e.g. four-point) is often better than a larger scale (e.g. 10-point) as it reduces ambiguity in the scoring process (Monczka et al., 2009).

Potential Advantages

- Purchasers can achieve considerable flexibility by evaluating suppliers before there is any actual purchase requirement (Monczka et al., 2009).
- Vendor rating systems allow purchasers to review a supplier for consideration for expected future business, not just for a specific contract (Monczka et al., 2009).
- Ratings can be used as the basis for continuous improvement initiatives, for example, kaizen (CIPS: Appraisal and performance monitoring of suppliers).

Potential Disadvantages

- A rating system that is too broad, ambiguous or poorly defined will likely result in greater variability in vendor ratings as judged by individual raters. This will impact the outcomes and conclusions drawn (Monczka et al., 2009).
- Even the most robust of ratings systems is subject to rater bias and subjectivity because of human cognitive (thought/belief) processes (Monczka et al., 2009; Toegel and Conger, 2003).
- Rating systems require considerable investments in time and resources to carry out measurement activities and to visit supplier sites to collect data (CIPS: Appraisal and performance monitoring of suppliers).

Performance Monitoring

- Price measures: marketplace competitiveness, discounts and payment terms offered, flexibility, estimate timeliness and accuracy (Roylance, 2006).
- Quality measures: number of defects, specifications met, all-round quality of products and services received (Roylance, 2006).
- Delivery measures: on-time deliveries (as specified by the purchase order), percentage of early deliveries, percentage of late deliveries, percentage of over order quantity, percentage of under order quantity (Bossert et al., 2004).

Case Studies

- SGP, a property management company, manages the performance of about 100,000 suppliers on behalf of its clients. The company uses a 'traffic light' supplier rating system: if a supplier falls into the 'red zone', the company will work alongside the vendor to identify the problem, the severity level and ways to resolve it (Leach, 2011).
- Boeing Commercial Airline Group's suppliers are subject to rigorous scrutiny across a range of performance measures using report cards and a gold, silver and bronze rating system. Of the company's 3,100 suppliers in 1999, 166 were found to be meeting or exceeding cost-improvement goals and only 13 were recognised as a 'supplier of the year' (Stundza, 2000).
- H.B. Fuller, an international chemical manufacturer, visits supplier plants on a regular basis to engage in dialogues with supplier staff and explore the infrastructure and machinery. The company tries to build a 'supplier intelligence profile' based on these visits, arguing that morale and work environment are difficult to quantify into numbers and dollar amounts (Varmazis, 2007).

Further Reading/References

Web Resources

- Tips for rating and evaluating suppliers http://www.inc.com/guides/2010/12/7-tips-to-rate-and-evaluate-your-suppliers-and-vendors.html#channel=f31dbe70f59fcb4&channel_path=%2Flib%2Ffacebook%2Fchannel.php%3Ffb_xd_fragment%23xd_sig%3Df14be2a6181a61c%26&origin=http%3A%2F%2Fwww.inc.com

- Supplier's evaluation: The ISO 9001 standard requirements
<http://www.9001quality.com/purchasing-iso-9001-requirements/56-iso-9001-purchasing-requirements/97-suppliers-evaluation-the-iso-9001-standard-requirements.html>
- How to evaluate suppliers <http://www.assemblymag.com/articles/82672-how-to-evaluate-suppliers>
- Short case study on supplier rating <http://www.supplymanagement.com/news/2011/sgps-traffic-light-monitoring-system-stops-supply-chain-issues/?locale=en>
- Supplier appraisal using Kraljic's matrix
<http://www.supplymanagement.com/resources/how-to/guide-to-supplier-appraisal/using-the-kraljic-portfolio-purchasing-model/?locale=en>

Books

- [Excellent guide to supplier selection and rating procedures.](#)
- [Practitioner-friendly purchasing guide with information on rating.](#)
- [Good chapter devoted to supplier rating.](#)
- [Sections on supplier relationships, evaluation and rating.](#)
- [Substantial management handbook, covering buyer-supplier issues.](#)

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- Toegel, G. and Conger, J.A. (2003) 360-degree Assessment: Time for Reinvention. Academy of Management Learning and Education, Vol. 2(3), pp. 297-311.
- Varmazis, M. (2007) How to Narrow Your Supply List. Purchasing, 17 July.

Video

P&G supplier environmental sustainability scorecard

https://www.youtube.com/watch?feature=player_embedded&v=5rSrnT2E1dI

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