

Supplier Evaluation

A detailed photograph of an owl with large orange eyes and prominent ear tufts, perched on a green, needle-covered branch. The background is a soft-focus green forest.

[Supplier] evaluation ... without action is not effective (Gordon, 2008).



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Introduction

Supplier evaluation is a continual process within purchasing departments and part of the pre-qualification step within purchasing. Evaluation can take the form of a questionnaire, an interview, or site visit. It includes appraisals of various aspects of the supplier's capacity such as financials, quality assurance, organisational structure and processes and performance (Varley, 2001). Supplier evaluation is one of the fundamental steps to evaluate a supplier's adaptability towards an organisation. This can be done through the Supplier Evaluation Framework (SEF) which is a generic framework set by an organisation for establishing supplier credentials and capabilities. Tan, Lyman and Wisner (2002) propose an evaluation model which involves the following dimensions and aspects: (1) product and delivery assessment evaluates quality level, on-time delivery, correct quantity, service level and price/cost of product; (2) capacity assessment which evaluates willingness to change product/services and to meet changing needs; and (3) information assessment which evaluates the willingness to share sensitive information and to participate in new product development.

To evaluate existing suppliers it is important for organisations to meet certain standards in their operations and practices. Some stipulate that suppliers must meet equivalent standards to their own while others use a certification of an existing industry or environmental standard. Once all standards and requirements are in place, there are a number of ways to validate if an existing supplier meets those requirements. In some cases, performance decisions are made based on the completed questionnaires from supplier. In other cases, written documentation is sufficient. Other evaluation methods can include inspection of goods received, onsite evaluations or assessment of suppliers, auditing per International Organisation for Standardization (ISO) standards and/or other protocols for monitoring and validating supplier operations (PPRC). Leading companies also frequently track and evaluate contribution of suppliers to product development and/or process improvement (Ram et al., 2002).

Definition

The term 'supplier evaluation' can refer to the process of evaluating and approving potential suppliers by factual and measurable assessment (Roylance, 2006). Supplier evaluation can also be viewed as a process applied to existing suppliers in order to measure and monitor their performance in order to reduce costs, mitigate risk and drive continuous improvement (Gordon, 2008). Sometimes the terms 'supplier evaluation' and 'supplier appraisal' are used interchangeably with (CIPS: How to appraise suppliers).

Successful Application

According to CIPS there are three methods for supplier evaluation implementation: (1) Desk appraisal, based on research of published or unpublished information - predominantly applicable to product and financial appraisals (catalogues, product data sheets, test report furnished by suppliers, supplier websites and articles in trade or technical journals); (2) field research, mainly targeted at high risk/high value suppliers, includes visits to supplier premises; (3) party appraisals, may be undertaken by a variety of agencies (including BSI Register of Firms of Assessed Capability, certification by major companies, approval by supplier consortia, approval by independent management consultants). In the UK, the United Kingdom Accreditation Service (UKAS) is recognised by Government as the sole national body

responsible for assessing and accrediting competences of organisations (CIPS: How to appraise suppliers).

Steps to Successful Application

- Develop a high-level plan: requires cross-functional team members and key shareholders to develop a communication plan on one hand, and the financial department to estimate possible cost saving solutions on the other.
- Develop process plan: schedules are set and reported to related departments.
- Acquire data: internal and external data from existing or potential suppliers is collected and analysed, current procurement processes and a list of potential suppliers are mapped.
- Evaluate suppliers: the criteria to narrow the potential supplier pool are developed and benefits of the project are estimated.
- Select suppliers: actual benefits of the project are calculated and key shareholders are communicated.
- Implement the project: reports can include expected results, economic benefits, project procedure and measurement of performance.
- Measure performance and continuously evaluate: elected suppliers can be required to gain certification through an appropriate standard setting body, such as the International Standards Organization (ISO).

Hints and Tips

- A success factor for supplier evaluation is a customer-oriented approach that will increase performance and ensure positive results (Sarangapani, 2010).
- Committed leadership is required from every manager in order to establish organisational unity and therefore a consistent supplier evaluation scheme in the organisation (Sarangapani, 2010).
- Participation across organisational functions can ensure that all organisational members will perform and develop their task to ensure successful implementation the evaluation model (Sarangapani, 2010).
- Foresight, forethought and planning are key factors for a successful evaluation model (Sarangapani, 2010).
- Targeting towards continuous improvement is vital for a successful evaluation model. Competitiveness requires continuous improvement and renewal of all facets of operations (Sarangapani, 2010).

Potential Advantages

- Well-conducted supplier evaluation can contribute to competence development (Sarangapani, 2010).
- Supplier evaluation is an essential element that enables companies to achieve competitive advantage (CIPS: How to appraise suppliers).
- Supplier evaluation is a good way of uncovering and removing hidden waste and cost in the supply chain (Gordon, 2005).

Potential Disadvantages

- Supplier evaluation can be time-consuming and should therefore be selective (CIPS: How to appraise suppliers).
- Supplier evaluation can be situational as it is related to the requirements of the particular purchaser (CIPS: How to appraise suppliers).
- Supplier evaluation requires resources and cost commitments to establish and maintain an effective evaluation system (Gordon, 2005; Erridge and McIlroy, 2001).

Performance Monitoring

- Financial health: important measures for evaluating suppliers or long-term partners - can include sales, profitability and liquidity metrics; can be obtained via credit reports, banks and trade references (Gordon, 2005).
- Operational performance metrics: can cover on-time delivery, quality, lead times, responsiveness, inventory turns and customer service call response times; can be extracted from the enterprise system, supplier reports, internal supplier satisfaction surveys (Gordon, 2005).
- Business processes and practices: can be reviewed to see how a supplier runs its business and provides a product or service at the best value, on time and exactly as required for its customers; can be based on quantitative and qualitative facts; can be obtained through questionnaires, surveys, or during site visits; critical for creating and maintaining mutually beneficial long-term relationships; supplier assessment software tools for this purpose are available for organisations (Gordon, 2005).

Case Studies

- In Procter & Gamble (P&G) 'potential to innovate' is a key criterion for suppliers evaluation and suppliers are expected to contribute 50% of development to the global baby care business unit (Ram et al., 2002).
- In 2008 HP was awarded the Process Award for its successful Social and Environmental Responsibility (SER) programme. The company heavily focused on working with existing suppliers to improve SER activities and through self-assessment evaluation was able to identify around 200 high risk suppliers around the world (Faulkner, 2007).
- In the 1990s the cost of bringing new drugs to market for Solvay was about US\$1bln, making it hard for the company to capitalise on its research skills. While Solvay had R&D competencies, it had to rely on 50 external suppliers to hold clinical trials. To reduce costs, following a thorough selection process, Solvay's R&D unit formed a strategic alliance with only one supplier, Quintiles. By 2007 Solvay managed to reduce the total cycle time for clinical studies by 40% and save up to €35,000 per site - a study can have 20 to 150 sites (Kaplan et al., 2010).

Further Reading/References

Web Resources

- [Supplier evaluation blogspot](#)
- [Forum on supply evaluation](#)
- [Categories of suppliers](#)
- [Sample supplier evaluation form](#)

Books

- Supplier Evaluation and Performance Excellence: *Sherry Gordon* - Supplier evaluation performance essentials
- Profit-Focused Supplier Management - How to Identify Risks and Recognize Opportunities: *Ostring* - Opportunities regarding suppliers: evaluation and selection of suppliers
- GMP/ISO Quality Audit Manual for Healthcare Manufacturers and Their Suppliers, Sixth Edition (2 Volume Set): GMP/ISO Quality Audit Manual for . 1 - With Checklists and Software Package) – *Leonard Steinborn* - Quality check on suppliers: evaluation processes
- The Supply Management Handbook, 7th Ed: *Joseph L. Cavinato* - Essentials on supply management: how to evaluate your suppliers

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Video

Supplier and vendor evaluation

https://www.youtube.com/watch?v=30_7JDTqbul

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