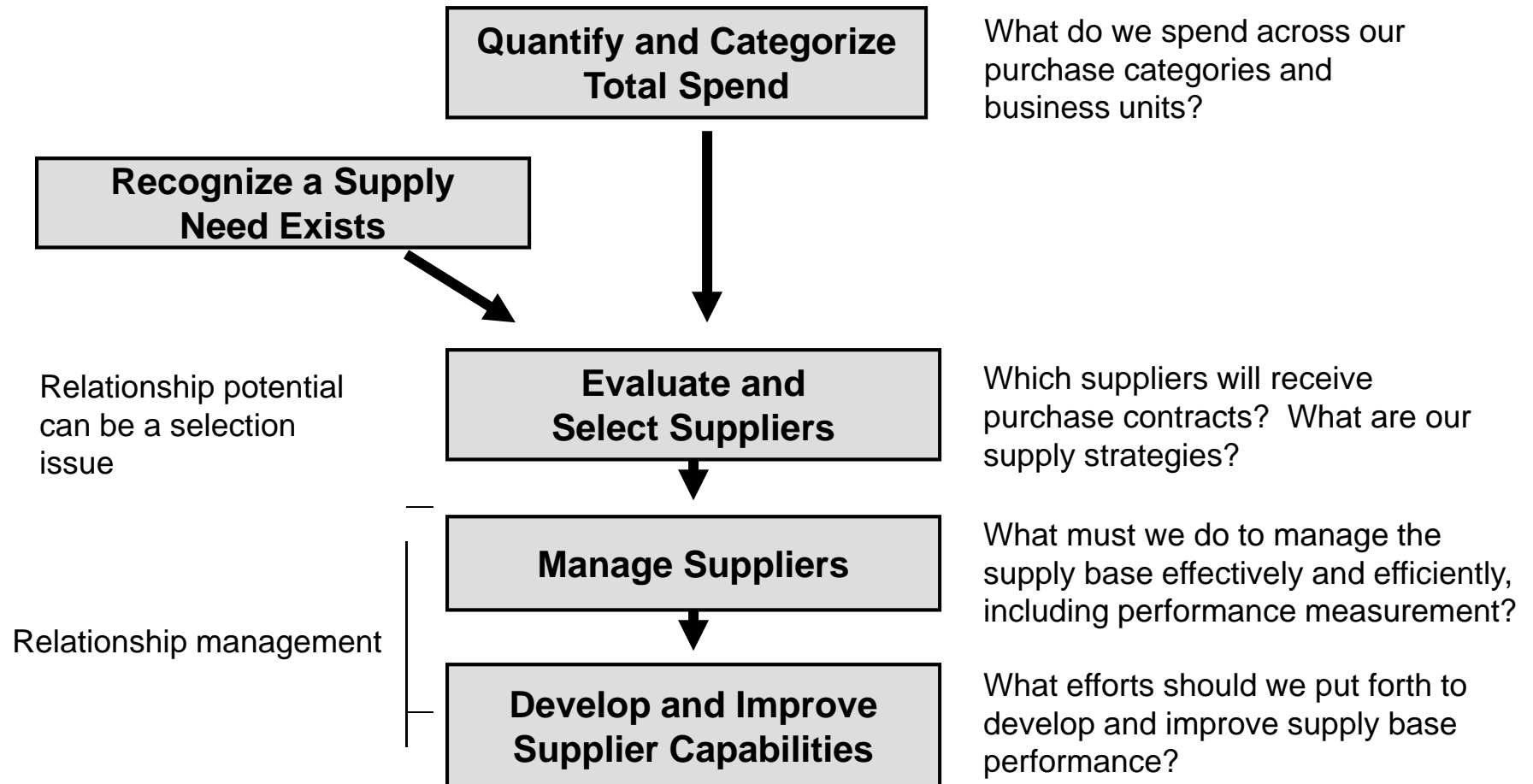


SUPPLIER EVALUATION AND SELECTION

BEST PRACTICES AND PROCESS

The Supply Management Process



Supplier Evaluation and Selection Best Practices

- Best practice firms...
 - Have executive managers that believe supplier selection is one of the most important business processes in place today and support it accordingly
 - Rely on cross-functional teams to make important selection decisions
 - Rely on International Purchasing Offices (IPO's) to support the selection process with overseas suppliers

Supplier Evaluation and Selection Best Practices (continued)

- Best practice firms...
 - Have a well-defined evaluation and selection process in place that is understood and communicated across the organization
 - Develop flexible company-wide templates and tools to support the decision making process
 - Co-locate supply personnel with internal customers to better understand their requirements
 - Anticipate rather than react to selection needs, which supports a concurrent rather than a sequential approach to decision making

Supplier Evaluation and Selection Best Practices (continued)

- Best practice firms...
 - Involve finance early on to evaluate the financial health of potential suppliers
 - Use a strategy segmentation approach to determine the relative criticality of selection decisions
 - Continuously search for ways to take time out of the selection process without reducing effectiveness
 - Align the selection process with the strategic planning process

Supplier Evaluation and Selection Best Practices (continued)

- Best practice firms...
 - View the supplier selection process as an ideal way to practice total quality principles (i.e., quality at the source, objective decision-making, prevention rather than detection)
 - Continuously benchmark their selection practices against best-in-class firms
 - Align the supplier selection process with supply base rationalization or rationalization targets

Supplier Evaluation and Selection

- Supplier evaluation and selection is one of the most important processes performed at industrial firms
- Why is it critical to view supplier evaluation and selection as a process?

Quality Management Principles

- A well-defined and rigorous supplier selection process relates to which principles of total quality management?

Quality Management Principles

- *An “eclectic” set of quality management principles drawn from Deming, Crosby, and Juran—*
 - Define quality in terms of customers (internal and external) and their requirements
 - Pursue quality at the source
 - Stress objective rather than subjective measurement and analysis
 - Emphasize prevention rather than detection of defects
 - Focus on process rather than output
 - Strive for zero defects
 - Establish continuous improvement as a way of life
 - Make quality everyone’s responsibility

Supplier Evaluation and Selection Process

- **Supplier evaluation and selection is an eight-step process composed of sub-processes**

Step 1: Recognize that a need exists to evaluate and select a supplier

Step 2: Identify key purchasing/sourcing requirements

Step 3: Determine appropriate sourcing strategy

Step 4: Identify potential supply sources

Step 5: Limit suppliers in selection pool

Step 6: Determine method of supplier evaluation

Step 7: Make supplier selection decision

Step 8: Negotiate and execute agreement

Supplier Evaluation and Selection

- Step 1: Recognize that a need exists to evaluate and select a supplier
 - How or when do we know that a need exists to evaluate and select a supplier?

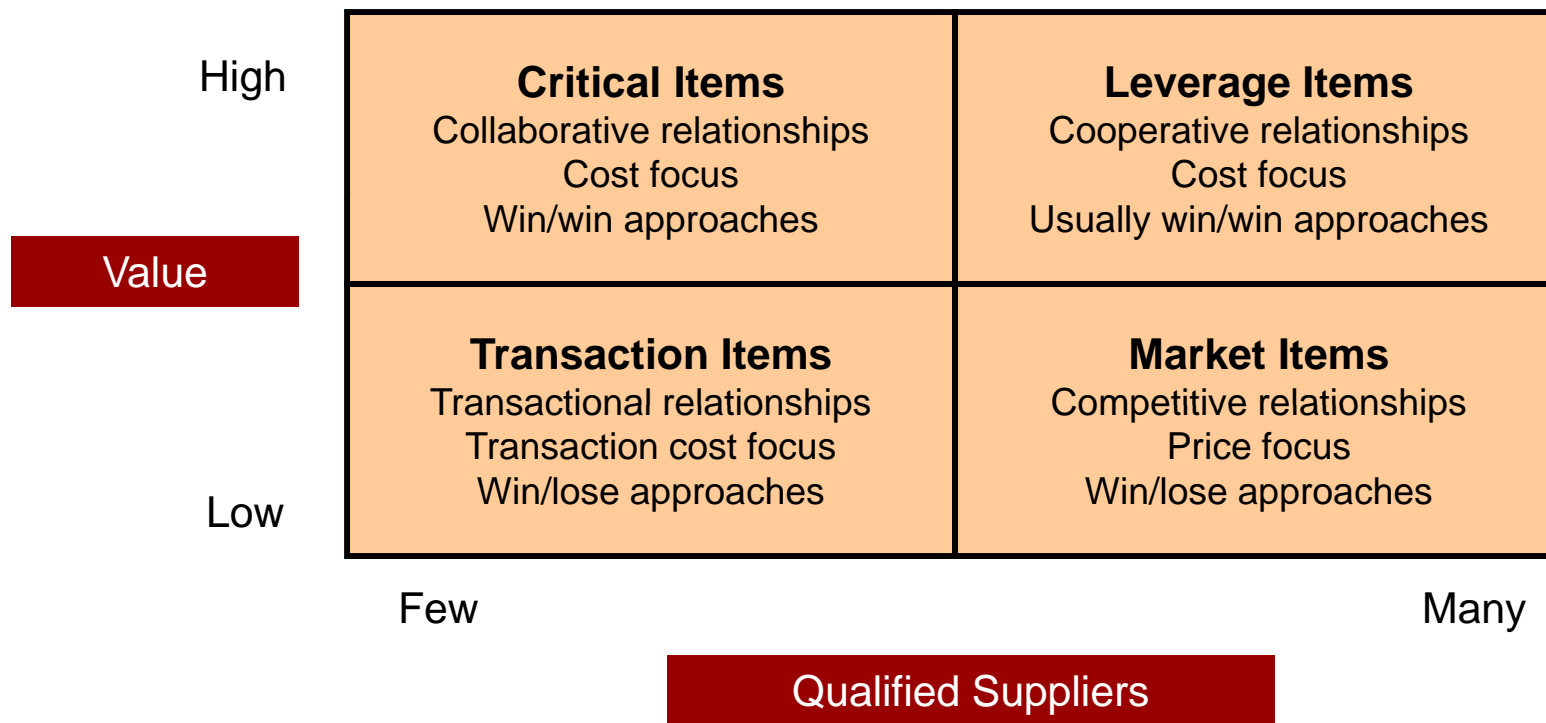
Supplier Evaluation and Selection (continued)

- Step 2: Identify key purchasing and sourcing requirements
 - What are our internal requirements in quality?
Cycle time? Cost? Technology? Responsiveness?
Delivery? Design support? Other?
 - How do we know or determine these internal requirements?

Supplier Evaluation and Selection

- Step 3: Determine purchasing/sourcing strategy
 - No single strategy will satisfy the requirements of every purchase requirement
 - Firms often develop strategies around commodities using a portfolio analysis approach (discussed in an earlier module)

Segmenting Supply Relationships and Approaches



Items = purchased goods and services

Supplier Evaluation and Selection

- Step 3: Determine purchasing/sourcing strategy (continued)
 - Various purchasing strategy considerations exist—
 - Single versus multiple suppliers
 - Number of suppliers to maintain in the supply base
 - Domestic versus foreign
 - Short-term versus longer-term purchase contracts
 - Full-service suppliers versus non full-service suppliers
 - Potential collaborative relationships versus traditional relationship
 - Sources of power

Supplier Evaluation and Selection

- Step 4: Identify potential supply sources
 - What are the various sources of information available when identifying supplier candidates?
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Supplier Evaluation and Selection

- Step 5: Limit suppliers in selection pool
 - Purchasers often perform a first cut or preliminary evaluation of potential suppliers to narrow the list
 - Time and resources prohibit in-depth evaluation of all suppliers
 - Methods to reduce suppliers in the pool—
 - Financial risk analysis (discussed later)
 - Evaluation of previous performance
 - Evaluation of supplier provided information What kind of information should we ask suppliers to provide?

Supplier Evaluation and Selection

- Step 6: Determine method of supplier evaluation
 - What are some ways to evaluate suppliers?
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Supplier Evaluation and Selection

- Step 6: Determine method of supplier evaluation (continued)
 - Cross-functional teams often evaluate suppliers directly through on-site visits
 - What are the areas we could evaluate during a supplier visit?

Supplier Evaluation and Selection

- Step 6: Determine method of supplier evaluation (con't)
 - Develop and conduct supplier audits
 - Firms are increasingly willing to commit the resources to develop a supplier performance audit and then use that audit to evaluate suppliers directly

Supplier Evaluation and Selection

- Step 6: Determine method of supplier evaluation (continued)
 - Supplier audit development process (continued)
 1. Identify key supplier evaluation categories
 2. Weight each evaluation category
 3. Identify and weight subcategories
 4. Define scoring system
 5. Evaluate supplier directly
 6. Review evaluation results
 7. Make selection decision

Supplier Evaluation and Selection

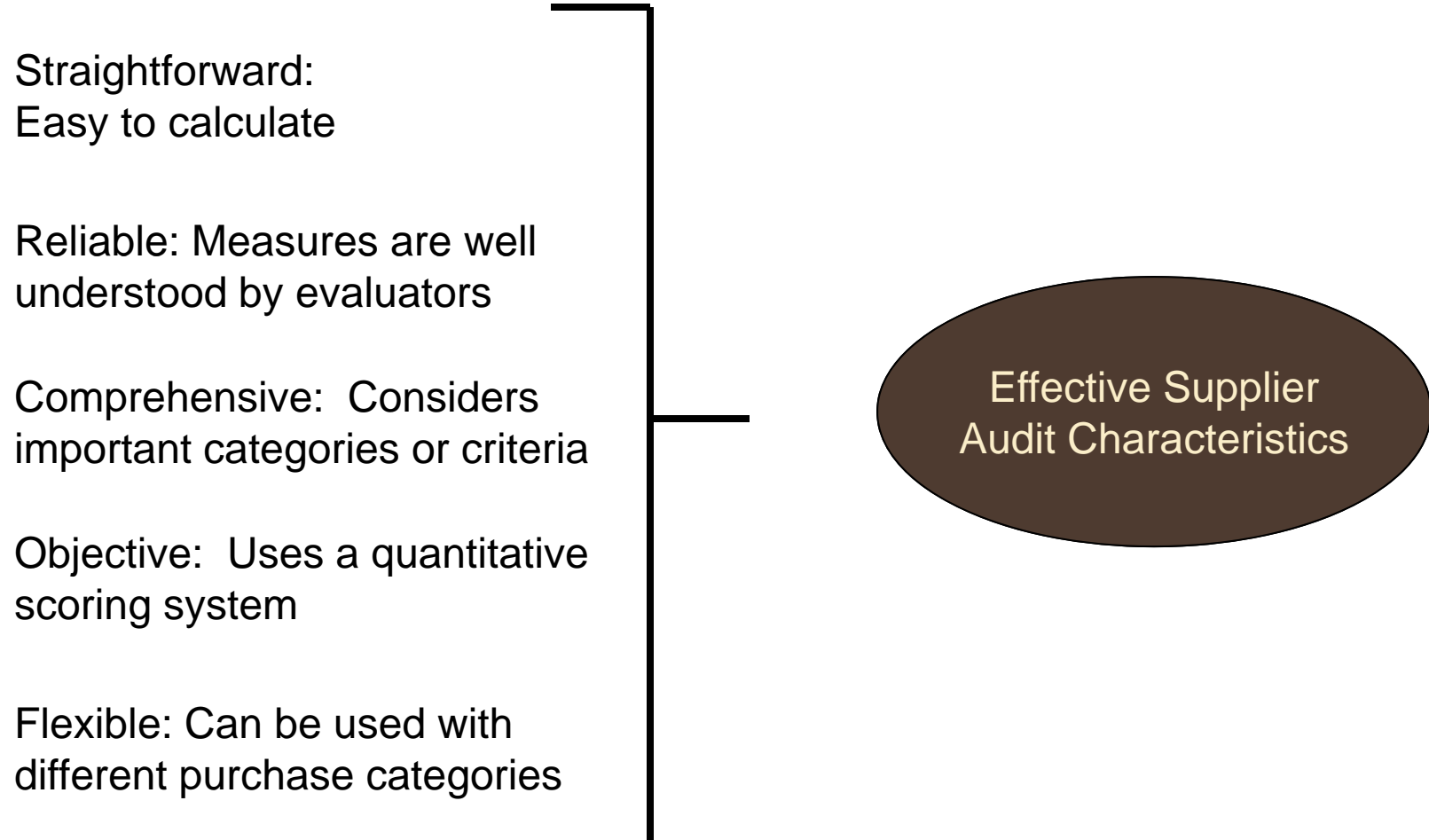
Straightforward:
Easy to calculate

Reliable: Measures are well
understood by evaluators

Comprehensive: Considers
important categories or criteria

Objective: Uses a quantitative
scoring system

Flexible: Can be used with
different purchase categories



Effective Supplier
Audit Characteristics

Supplier Evaluation and Selection

- Step 7: Make supplier selection decision
 - Activities associated with this step vary depending on the purchase requirement
 - Routine items may simply require notifying the supplier and awarding a purchase order

And the selected supplier is....



Supplier Evaluation and Selection

- Step 7: Make supplier selection decision (continued)
 - Other selection issues
 - Size relationship
 - Distance
 - Competitors as suppliers
 - Countertrade requirements
 - Corporate social objectives

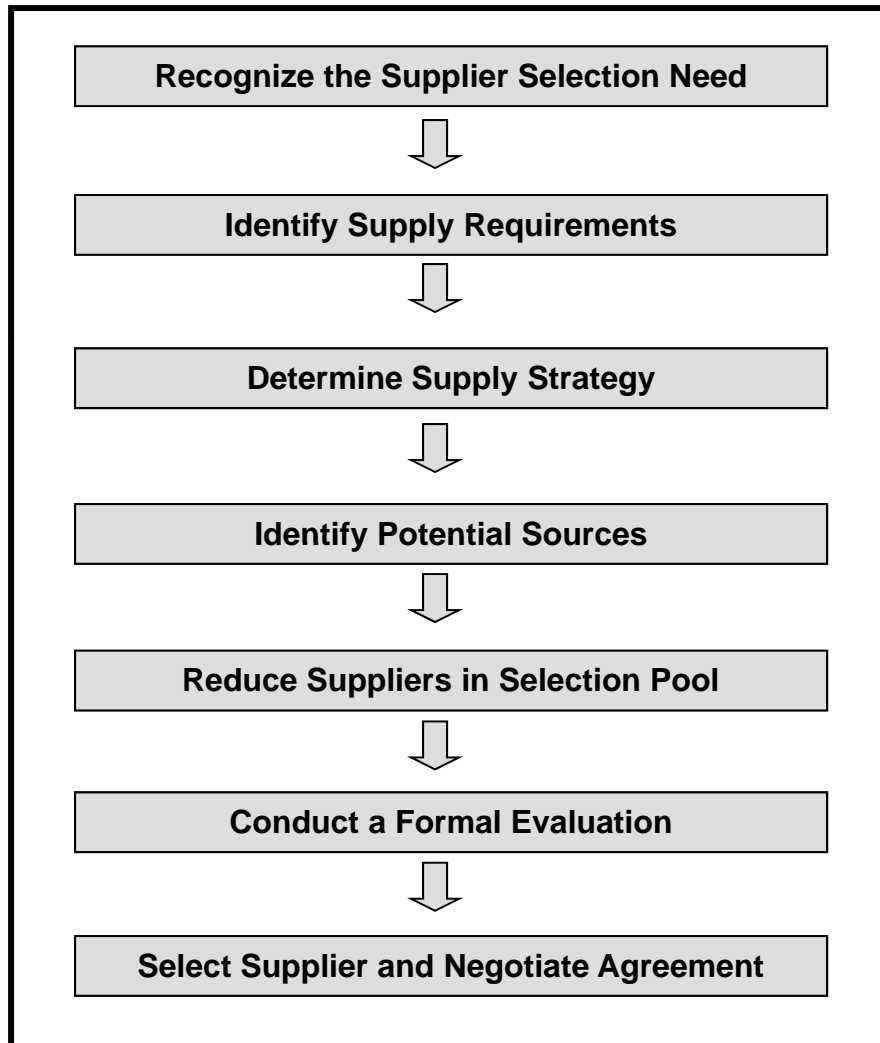
Supplier Evaluation and Selection

- Step 8: Negotiate and execute agreement
 - Major purchases may require a cross-functional team negotiating with the supplier to reach agreement about specific contract issues
 - Load contract into corporate systems

Supplier Evaluation and Selection

- How can we take time out of the supplier evaluation and selection process steps and still maintain effectiveness?

Evaluation and Selection Process Steps



Time Reduction Activities

Supply Base Rationalization

- Supply base rationalization is the process of determining the right mix and number of suppliers to maintain
- This is different than optimization. The technical definition of *optimize* is to make something as perfect, effective, or functional as possible
- Supply base rationalization is often a key consideration during supply strategy development and supplier selection

Supply Base Rationalization

- Rationalization strives for the ideal number and mix of capable suppliers
 - Rationalization does not only mean adding or reducing suppliers. It can mean switching suppliers, also
 - Rationalization does not mean supply base reduction, although historically North American firms have maintained too many tier one suppliers
- As companies continue to rely on fewer total suppliers, the selection process takes on even greater importance

Supply Base Rationalization

- Why is rationalization critical?
 - The costs associated with multiple suppliers for each purchased good or service usually outweigh any perceived reduction in supply risk
 - Rationalization is a critical prerequisite to the development of a world-class supply base
 - Some leading-edge activities and strategies are simply not feasible with too large a supply base—
 - Supplier integration
 - Collaborative agreements
 - Supplier development
 - Joint total quality/cost reduction efforts

Benefits of fewer suppliers....

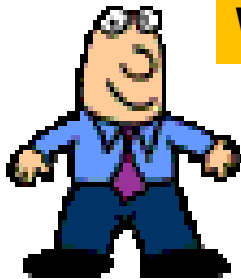
- Fewer contracts or purchase orders to negotiate and write
- Fewer material releases and receipts
- Less effort expended to process and handle material receipts
- Easier material traceability
- Better communication and relationships that support the pursuit of value-adding activities

Benefits of fewer suppliers....

- More attention given to supplier selection, thereby improving the effectiveness of that process
- Fewer accounts payable transactions
- Fewer Requests for Quotations or Proposals to manage
- Improved supply base quality and delivery as lower performers are removed from the base

Benefits of fewer suppliers....

- Lower unit costs due to better leveraging of purchase volumes
- Fewer supplier performance reports or scorecards to generate
- Fewer supplier performance review meetings



What is NOT to like here?

Supply Base Rationalization

- What are the potential risks of a reduced supply base?
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Supply Base Rationalization

- What are some supply base rationalization success factors?
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Rationalization Approaches

Competency Staircase Approach

- Suppliers must pass a series of performance hurdles similar to climbing a staircase
- Hurdles can include performance requirements in quality, technical capability, cost, responsiveness, etc.
- Purchaser defines the hurdles and their required performance levels

Improve or Else Approach

- All suppliers have a chance to remain in the supply base
- Suppliers have a specified period to meet stringent performance requirements
- Suppliers that fall short may soon become ex-suppliers

Triage Approach

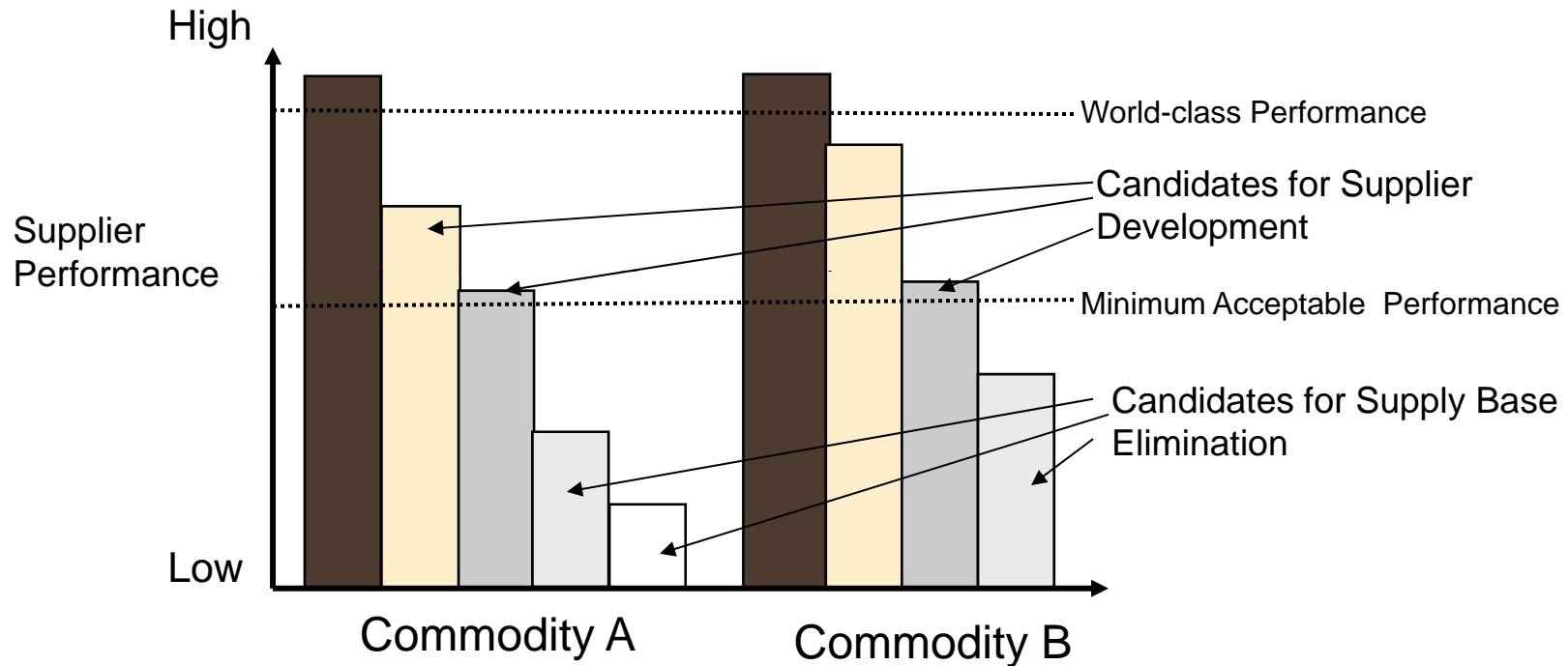
- Place suppliers into one of three categories
- *Category One* includes suppliers incapable of meeting performance requirements
- *Category Two* includes suppliers that would benefit from supplier development support
- *Category Three* includes near-perfect suppliers

20/80 Approach

- Requires an analysis to identify the 20 percent of suppliers receiving the majority of purchase dollars, or the minority of suppliers causing the majority of problems
- The large majority of supplies that receive fewer dollars are candidates for elimination
- This approach often assumes the best suppliers receive the majority of purchase dollars, which may not be true

Adapted from Bhote, K.R., *Strategic Supply Management*, American Management Association, New York, 1989, p.75.

Identifying Rationalization Candidates



Adapted from Robert Monczka, Robert Trent, and Robert Handfield, *Purchasing and Supply Chain Management*, Mason, Ohio: Thomson-Southwestern Publishing, 2005, p. 282