**MNP 2601 Purchasing Management**

**Chapter 5: Evaluation and selection of suppliers**

Purchasing and supply is the fundamental link between an organization and its suppliers – The purchasing and supply professional is responsible for the inputs into an organization.

But it is fairly managing suppliers, the P & S manager effectively protect the cost structure of the organization.

**Environmental forces influencing supplier selection**

The selection of suppliers cannot be made in isolation. The environment, company policies, strategies etc must be considered.

The business environment must also being considered. Factors include makro, market and micro factors.

Environmental forces influencing decisions. See table 5.1 on page 77 in the textbook

**Supplier assessment criteria**

Cost, quality, delivery and environmental issues are regarded as the main key performance indicators of supplier Assessment.

The key driver for the use of a supplier is competitiveness or cost.

Many successful organizations based the operational expertise and the key performance objectives of quality, cost, speed, dependability, flexibility and service which form the basis for the criteria for selection and evaluation of suppliers.

Purchasing needs to consider many additional criteria:

* Quality and quality accreditations
* Price, cost and cost structure
* Delivery
* Time
* Flexibility
* Service
* Financial status
* (OPC) – Operations planning and control
* The technology and process capability
* Supply chain management
* Environmental issues, and social responsibility
* BBB EE

*Quality and quality accreditations*

Quality products and services improve:

* the productivity of the organization due to fewer operational interruptions and better working conditions,
* quality of the final output
* better customer service

*Price, costs and cost* structure

One of the primary roles of a purchasing professional is to defend the cost structure without compromising quality.

The determination of the cost structure of a supplier can lengthy process.

*Delivery*

Importance of on time delivery cannot be overstressed. There is always pressure to reduce inventories, and make smaller and more frequent deliveries.

*Time*

Time based competition is one of the current management buzz words which includes reducing time in order to gain an advantage.

Reducing time means improvement in productivity. Individual organisations and supply chains are looking for improvements in all aspects of time reduction.

Suppliers should be actively involved in analyzing and reducing cycle times using cross functional teams and techniques such as process/time mapping.

*Flexibility*

The supplier can be flexible with regard to:

* *volume – ability to change the number of products supplied*
* *Variety ability to offer a range of products*
* *Mix – ability to provide varying proportions*
* *New products – ability to adapt in order to develop new products*

*Service*

Essentially a fusion of the above key criteria.

Suppliers should not just want to qualify to be considered a supplier, they need to win orders and win them consistently.

Service would also include the supplier’s attitude to managing the customer’s inventory to providing in consignment stock facilities.

*Financial status*

Is imperative to determine the Financial Health or condition of the supplier. It’s an wise to select a supplier who is in difficult financial straits.

*Systems: operations planning and control, E commerce*

And assessment of the operations planning and control (OPC ) systems used by a supplier is important.

Trend nowadays is away from traditional forecasting and information systems towards real time demand planning systems based on current happenings.

The ability to communicate electronically between customer and supplier is rapidly becoming a mandatory prerequisite for suppliers.

*Technology and process capability*

In considering a potential suppliers technology and process capability, the purchasing manager needs to look at:

* If the suppliers equipment and processes will meet the requirements of more demanding specifications
* If the supplier has the technological ability to meet future requirements
* The design capability of a supplier
* The ability to develop new products and services
* If the supplier has the available capacity to meet future demands

*Supply chain management (SCM)*

Considered as a separate criterion for supplier selection due to importance due to the following reasons:

* Suppliers position, role and importance in the supply chain
* Suppliers appreciation and awareness of the concept of SCM
* The supplier sourcing policies and criteria
* Effectiveness of the suppliers transport and distribution
* The suppliers potential with regard to lean manufacturing
* The suppliers long-term relationship potential – Partnerships

*Environmental issues, ethics and social responsibility*

Important that suppliers become increasingly sensitive to the environment and environmental issues. Include the following:

* Adoption of environmental management systems such as ISO 14001
* Environmentally friendly packaging
* RE use, recycling and RE Manufacturing
* Waste disposal

Also consider whether a supplier has a code of ethics, social awareness and social responsibility.

*BBBEE*

A core requirements of the SA business environment.

*Capabilities, responsiveness and motivation : present and future*

These criteria consider several desirable supply traits:

* Supply management and staff capabilities
* Employer/employee relationships
* Staff morale
* Suppliers attitude to on-going education of staff and management
* Responsiveness of the supplier
* Motivation of suppliers to meet organizational requirements

*Geographic location*

Suppliers should be located near the purchasing organization.

The more geographically dispersed the supply base, the more complex the supply chain.

Different combinations of selection criteria will be required for different situations.

See the full diagram in figure 5.1 on page 80 of the textbook

See figure 5.2 on page 83 of the textbook the 7 steps involved in the supplier selection process.

**The supplier selection process**

Entails the surgeon added occasion of possible suppliers, elimination of unsuitable ones and the indepth study and ensuing evaluation of shortlisted suppliers against the key criteria.

Also to ascertain whether the supplier warrants preferred supplier or certified supplier status.

The supplier selection process has three stages. The first are carried out consecutively while the third is performed after a suitable period of time.

***Step one:***  ***identification of potential suppliers: sources of information for initial selection and assessment***

There are many sources available to identify suppliers:

* Internet search engines
* Chamber of commerce or business
* Embassies and consular general offices
* National associations
* Trade directories, trade journals and business directories
* Industrial trade fairs
* Credit bureaus

***Step two: Prescreening to reject unsuitable suppliers***

Done to eliminate any that may be unsuitable. There are many grounds for the elimination of suppliers at the early stage:

* Suppliers that do not need the organisations quality requirements
* Suppliers in a poor financial situation
* Suppliers experiencing the labour issues and strikes
* Suppliers previously rejected
* Where there is a reasonable risk of interruption in supply

***Step three: conduct research and potentially suitable suppliers***

The depth of the investigation and the criteria used can vary widely depending on the product or service being purchased. Information sources include:

* Supplier visits – time consuming and usely costly
* Suppliers surveys or questionnaires

***Step four: choose the assessment method and analyse the suppliers***

Ranges from informal to formal

Informal techniques include:

* Using the purchasing manager’s judgement for low value purchasing
* Executive roundtable as a semi formal method

Formal techniques include:

* Weighted point supplier performance rating – goods and criteria are weighted according to the importance.

***Step five: select the supplier or suppliers***

**The supplier management (maintenance) stage or post assessment phase.**

It is essential to maintain and develop suppliers after selection.

***Step six: ongoing measurement of supplier performance***

Supplier performance measurement can be done by using the weighted point evaluation method – See figure 5.3 on page 85 of the textbook.

***Step seven: supplier accreditation***

Successfully proven suppliers can be classified in three groups:

* Approved suppliers – suppliers they have made the requirements
* Preferred suppliers – suppliers whose past performance consistently meets or exceeds the organisations required levels of quality, cost, production and delivery of service
* Certified suppliers – the ultimate supplier accolade. Requires an in-depth assessment of the supplier.

**Supplier relationship management**

Many organizations rely on their suppliers to reduce costs, enhance quality and develop new products faster than their competitors suppliers.. As a result, organisations build networks of suppliers that can help them learn, improve and grow.

***What constitutes a buyer-supplier relationship?***

The relationship can be defined as the connection or association.

Relationships can be low value , transaction based or high value strategic ones.

***Types of buyer - supplier relationships:***

Three principal classes of relationships

* Transactional relationships – straightforward between buyer and seller, no close involvement. Simple exchange of goods or services for payment. Little sharing of information.
* Collaborative relationships – adoption of a high level of corporation had to maintain a trading relationship overtime
* Alliance relationships – enhancement of collaborative relationship. Existence of institutional trust - Prudent trust