

Supplier Evaluation Procedure

Introduction:

The evaluation of suppliers, structuring the supplier base is an important task in any organization. It assumes utmost importance in the current scenario of global purchasing. Every Organization especially manufacturing organizations need to have a Supplier evaluation matrix or model in place. This paper tries to bring in a typical Supplier Evaluation Framework, which blends with company's basic values, and help in establishing a Strategic sourcing policy. It also outlines ways and means to reward a supplier and establish long-standing relationships with suppliers.

Supplier Evaluation:

Principles

A supplier evaluation shall comprise all aspects that are important for a well-set and cordial working co-operation between the Customer firm and the supplier. A typical Supplier Evaluation Framework shall be used in all cases where the standard of a supplier for production material is to be defined. It can be used both for existing and potential suppliers. Existing suppliers can also be "coached" with the framework to bring them up to mark and also used to monitor an existing supplier and help in its corrective action. It also helps companies in rewarding suppliers for their excellent performance and punishing them or de-listing them if found otherwise. If a firm or customer organization has various divisions and Organizations then the division or SBU that is having the maximum business with a supplier will undertake to do the evaluation. This helps in a strategic focus of the supplier towards the highest buying organization.

Why Supplier Evaluation

Supplier Evaluation is one of the fundamental steps to evaluate a supplier on the adaptability towards one's organization. The Supplier Evaluation Framework (SEF) is a generic framework to achieve the objective of a customer organization in establishing a supplier's credentials and capabilities in supplying specific goods/services to the customer organization.

Description of Supplier Evaluation Framework (SEF)

The purpose of the framework is to:

1. Make available a basis for evaluation of potential and existing suppliers.
2. Provide a unified procedure for all companies to allow full exploitation of the results within the parent Organization.
3. Provide a supplier data set within various components, functional and technological
4. Areas.
5. Deepen the knowledge about each supplier.
6. Act as an improvement tool for developing suppliers and the supplier structure.
7. Assist in fact-based decision making.
8. Give basic data for running supplier reward programmed.
9. Share information about suppliers to various other disciplines. Specific company personnel earmarked for Evaluation need to carry out evaluations in cross-functional teams (Supplier Quality Assurance, Design, Logistics, After-marketed.). A Supplier Evaluation Framework's-lead auditor normally located in the purchasing organization should manage the team. Evaluations can be performed for existing as well as new suppliers.

Preparations and collection of facts

In connection with the planning of an evaluation, the supplier company can be asked beforehand to present fact based data and presentation material in order to carry out the evaluation as effective as possible. Likewise internally in one's company, available data are collected to make the evaluation as objective as possible. These data collection tools will help in the auditor in getting prepared ahead of his evaluation exercise.

Short description of evaluation criteria

The Various criteria and parameters that are used to evaluate and short comments concerning what characterizes a good evaluation result will be discussed here. This gives a clear guideline on the various parameters and actions, which need to be carried out in completing a wholesome evaluation.

Company profile

One of the basic parameters for evaluation is screening the profile of the supplier company and the various factors to consider are in screening a company profile are:

Ownership:

Stability in ownership and willingness to invest in long-term view. A person needs to evaluate co-operations and joint ventures from a risk point of view. This indicates the long-term stability of the company.

Global ability:

The supplier's possibility to support the Customer Organization within all the Geographical areas where it's operating. The supplier's activities can contain all areas of manufacturing e.g. product engineering, industrial engineering, and production or delivery and distribution in a global context. For e.g. If a customer organization / Firm has factories around the globe, the supplier's ability to supply components and assemblies to all its location is a major criteria to select a supplier for the customer organizations global sourcing commitments.

Dependency:

The business volume given by the customer organization and the size and importance of the customer business will give an idea of how dependent the supplier is on the customer. Large dependency as well as small should be considered. The supplier's final customers structure is also analyzed to see if the supplier perceives the customer organization as a serious one

Management

The Next parameter to consider is how the Supplier Company is Managed and various factors to be evaluated in establishing the management credentials are

Operations Management:

The application of modern work procedures, e.g. cross-functional Teams, long-term business plans etc need to be seen. This indicates the robustness of the management of the operations.

Customer satisfaction:

Do the supplier organization have effective procedures to monitor customer satisfaction? This helps in establishing a system and method of how the supplier will satisfy the needs of the customer organizations.

Quality Work procedures:

Does the Supplier Organization use any criteria for Quality awards in their own quality development and deployment? Examples are Malcolm Baldrige National Quality Award etc. In evaluating these the customer organization will come to know the importance the supplier organization places on Quality.

Risk management:

Does the Supplier organization have the Knowledge and procedures in the field of Risk management? Are they having any contingency plans, have fire protection and Plans for Environmental risks and administrative hazards; do they properly manage Data and what are their Data backup plans. These risk

mitigation and Risk assessment plans help the customer organization in identifying the various Business continuing plans (BCP) of the supplier organization. These parameters will help in establishing the wellness and readiness of a supplier organization to meet the various demands of the customers.

Environment

The current environmental regulation in most developed countries ask for an in place Environmental Management System (EMS). An all round environmental focus will ensure the supplier treads a greener path and indicate the concern the supplier shows for a greener environment. One of the main indicators that the supplier is maintaining an environment friendly organization is application and certification of Environmental Management System accredited to ISO 14001. Some of them will have a company level Environmental assessment for their plant and also for the products and services offered by them

Quality

Quality is one of the main criteria in supplier evaluation. The Quality of their product, process, systems, facility and People drive the way the company works. Some of the Major quality norms applicable to automobile industry are QS-9000, ISO 9001:2000, DA 6.1, EAQF, AVSQ, ISO/TS 16949. Some of the major aspects in determining the Quality standards of an organization are

Quality Planning and Part quality assurance

A Well organized and applied procedure for quality planning including the use of quality methods like FMEA, capability testing etc ensures the quality health of the organization is maintained.

Quality performance of deliveries.

The quality work will result in fault-free deliveries. Evaluation should be done partly on how set targets are met and the supplier's output related to best practices.

Reliability

Reliability is the quality performance of a vehicle (or product) in use by the end customer. Reliability is determined by warranty cost, failure frequencies, customer complaints, and service ability. The Reliability of the supplier product when used in a customer product will give a fair idea of how reliable the supplier is. For evaluation take in to consideration the supplier's existing clientele and product base and see the reliability history.

Problem solving

Formalized problem solving process with forecasting and evidence of process efficiency by a supplier ensures that he has problem solving system in place.

Logistics

The application of a system for logistic management of incoming material, production control and distribution, which indicates his Delivery precision/ Service level, is also the criteria for supplier evaluation. The Evaluation of the supplier's proved ability to meet requirements for on-time deliveries and quantities establishes that he has robust logistics systems in place.

After-market support

If a supplier has design responsibility then the supplier's ability and willingness to support the customers with technical product documentation is one of the major criteria which comes in to focus for evaluation for Example take Service literature what we evaluate here is the supplier's ability to support concerning service and repair manuals etc.

Co-operation and after market support:

Co-operation and After market support is another major factor wherein the supplier's ability to give spare part provision over set time frames, keep good price stability and otherwise support the after-market work is evaluated.

Warranty:

The length of warranty that the supplier has with the customer is also a major part in determining his after market support and presence.

Competence

Competence is nothing but the level of usage of technology and skills in putting a new product, shop or workforce in to place. The major methods to effectively evaluate the competence and its areas are

Product and industrial technology

Evaluation of supplier's total product knowledge, functional systems, Research and development and the industrial processes gives the customer organization inputs on the supplier's capability in technology. The internal competence in Product / Process development also should be considered in evaluating the Technology. This evaluation determines how quick a supplier will turnaround a new product development with the effective use of his systems and machines in manufacturing.

Recognition for Suppliers

The Supplier evaluation Framework is a means to get the current status of a current supplier or the new supplier. The customer companies can as per decision of the top management implement a system, which awards to suppliers to give prominence to supplier companies who have shown excellence in performance and / or improvements in their co-operation with the customer companies. Such awards to companies are morale boosters for the supplier companies and help the customer companies in creating a competitive environment within their supplier base and also ensure excellent supplier relations and loyalty.

In various countries, regions and branches systems have been developed for the presentation of quality awards. Examples of such awards are Malcolm Baldrige (USA), European Quality Award, Deming Application Prize (Japan) etc. We can take a leaf out of this quality awards to come out with the best possible criteria for Supplier awards and Recognitions The defined criteria as basis for evaluation within the award systems have become

a driving factor for quality development in broad terms as well as the pronounced thinking about the correlation between the total management in an organization and the results. Some of the major criteria and core values in giving a supplier award are as follows (picked up from the Malcolm Baldrige awards and the European Quality awards)

Customer Orientation

The long-term success of an organization depends on its ability to create value for the people it exists to serve - customers. The stated or implied needs, demands, requests and expectations of internal and external customers should guide the organization, its staff and its operations.

Committed Leadership

Personal, active and visible commitment is required from every manager to create a culture, which puts the customer first. The leaders' most important tasks are to give the organization direction, take advantage of the potential in individuals' experience and differences and to define and follow up the goals in dialogue with them.

3.3 Participation by Everyone

One requirement for a successful organization is that every employee feels that he/she is trusted by the organization to perform and develop his or her tasks. Consequently, everyone must understand how they fit into the whole, must have clear goals, have the means to attain them and be aware of the results achieved.

3.4 Competence Development

An organization's collective competence is decisive for its success and competitiveness. Competence development must therefore be viewed in both an organizational and an individual perspective, so that competence can be developed and added in such a way as to strengthen both the individual and the organization as a whole.

3.5 Long-Range Perspective

The activities of the organization must be viewed from the perspective of longterm development and competitiveness. Sustainable development leads to increased productivity and efficiency, better environment, more satisfied customers and enduring profitability.

3.6 Public Responsibility

Every organization has a duty to society, which goes further than observance of laws and regulations. The organization and its employees must see their processes, goods and services in a wider perspective, and should actively promote improvements in both society and in the environment.

3.7 Process Orientation

The activities of the organization should be seen as processes, which create value for customers. Process orientation stimulates analysis of, and improvement to work flows and work organization, and paves the way for customer-oriented organizational development.

3.8 Prevention

It is profitable to prevent faults from occurring and to remove risks in processes, goods and services. Foresight, forethought and planning are keywords for improvement activities in which customers and suppliers will also be involved.

3.9 Continuous Improvement

Competitiveness requires continuous improvement and renewal of all facets of operations. This requires methodical improvement work throughout the organization and a culture, which stimulates continuous learning, creativity and new ideas.

3.10 Learning from Others

In order to develop further, the organization and its staff must acquire new knowledge about what can be achieved and how it should be achieved. This requires comparison with those who are best at doing a specific process, irrespective of the industry or sector to which they belong.

3.11 Faster Response

In all business, shorter response times, shorter cycle times and faster response to customer requirements are of decisive importance. This applies to development, production and supply of goods and services, and to administrative processes.

3.12 Management by Facts

Decisions must be based on documented and reliable facts. Each employee must be able to measure and analyze the relevant variables for customer satisfaction and productivity in the area concerned.

3.13 Interaction

Interaction permeates every successful organization. It is essential that interaction should operate on several levels and in different respects involves the competencies and experience of employees, customers, suppliers, partners, owners and principals.

Developing relationships

A Possible way of establishing co-operation between the supplier and customer in managing the core values and establishing a cordial relationship is by regular meetings between the top management of suppliers and the customer purchasing organization. Some of the activities that drive in establishing a professional cordial relationship are

1. Development and follow-up of common metrics for performance
2. Driving improvement process by benchmarking
3. Creation of pre-requisites for a common knowledge of customer needs, expectations and experiences - Voice of the customer.

Conclusion

It is of utmost importance that the co-operation between customer and suppliers is based on common values and that the improvement work is focused at all times. The Supplier Evaluation Framework is a way

to point at the requirements and values, which are put on the supplier's development. By a close co-operation and common processes for target setting (quality, delivery, productivity etc.) and suited measuring systems the common competitive strength of the Customer – Supplier will be enhanced. This idea of the author is to give a fair idea of how to evaluate suppliers, the basis for rewarding them and retaining them. This Supplier evaluation framework will help a firm in establishing a process for supplier selection and continuous evaluation of the suppliers helping the firm in establishing a responsive and superior network of suppliers with respect to the firm's objectives.