



Supplier Selection



What is a supply base?

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Supply base - chapter 9

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Supply base - chapter 9

- How does a buyer find suppliers for a product?
 - Check current suppliers. Even if a supplier is not currently making a part, if they are a good supplier, they might be interested in expanding their business. In this case, either the supplier or the buyer must have the technical capability to produce the part or be willing to obtain it. This is one form of supplier development.

Supply base - chapter 9

- How does a buyer find suppliers for a product?
 - Check with other buyers in the firm.
 - Check in supplier information files:
 - Departmental
 - Individual buyer
 - Supplier catalogs - frequently kept in a company library.
 - Trade journals - Iron Age, Machine Design, etc.

Supply base - chapter 9

- How does a buyer find suppliers for a product?
 - Thomas' Register of American Manufacturers
 - Take a look at these (in the library). There will be a final exam question on them (like what color are they).
 - Sales personnel
 - Not only can they give you information about their own firm, but they can give you information about firms they have done business with and, inadvertently, their competitors. That is why all salespeople should be treated courteously.

Supply base - chapter 9

- How does a buyer find suppliers for a product?
 - Trade exhibits/shows
 - Note that the text says that buyers “must often find time to visit trade exhibits after working hours”, i.e. on their own time.
 - FOAFs
 - International sources
 - See page 177.

Supply base - chapter 9

- The most important part of buyer's job is to be able to discriminate the salespeople who understand your problems, want to solve them and represent companies who have the capability of solving your problems from those who will say anything to make a deal.

Marshall Giant

Formerly of Walker Manufacturing

Supply base - chapter 9

- How can you tell if a salesman is lying?
Check to see if his lips are moving.

Marshall Giant

Formerly of Walker Manufacturing

Supplier relations

- The buyer should be the point of contact for the supplier. If the buyer is not responsive to the supplier, the supplier may start to go directly to other personnel in the company. Numerous problems can occur if purchasing is left “out of the loop.”
 - Don’t waste a salesperson’s time. Be on time for scheduled appointments. Salespeople are paid commissions, so their time is money.

Supplier relations

- Buyers should aid suppliers who have new products or technologies in presenting these to the firm. While a buyer should not push a supplier on the company, they should work to see that they are given a fair hearing in the company. All people have a natural resistance to new ideas and change, and the buyer should work to overcome these.

Supplier relations

- Supplier goodwill is an important commodity.
 - Long term supplier can spend less on selling, more on improving the product.
 - Long term supplier relationships provide both parties with an understanding of each others business which can be used to improve the performance of the relationship.
 - If there is a good relationship between the buyer and the supplier, then the supplier may be more willing to boost output when demand jumps, accept cancellations when demand drops, etc. If materials are short, the supplier will generally handle their best customers first.

Supplier relations

- Long term partnerships
 - Successful long-term relationships should provide numerous benefits to both firms, however, no empirical data has been published to date that supports this widely held opinion.
 - Chan Hahn et. Al. (from BGSU) make some good points about why long-term partnerships should produce better results (p. 181).

Why long-term partnerships should produce better results

#1. Significant cost reductions in manufacturing are typically achieved through significant investments in facilities, equipment, engineering, R&D, etc. If a supplier cannot count on long-term income from a buyer, he may not be willing to risk investing to reduce costs.

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Why long-term partnerships should produce better results

#2. Buyers must provide fully developed and precisely described product descriptions to successfully use competitive bidding. With fully developed products and a short term contract, suppliers are not encouraged to develop product improvements.

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Why long-term partnerships should produce better results

#3. By changing suppliers, the buyer deprives himself of the learning curve benefits of using one supplier.

Supplier relations

- Supplier development (management)
 - Supplier development/management is a proactive approach to the supply problem.
 - Suppliers should be evaluated periodically from a strategic perspective. Factors to look at include.
 - Buying firm's future plans and projected need for supplier's products.
 - Suppliers growth plans, future capabilities, expansion plans, etc.

Supplier relations

- Supplier development (management)
 - The buying firm should either:
 - Assist supplier in growth and development
 - Look for new supplier
 - Develop capabilities in-house

Early Supplier Involvement (ESI)

- ESI can impact
 - Material specifications
 - Tolerances
 - Standardization
 - Order sizes
 - Supplier process changes
 - Packaging
 - Inventory
 - Transportation
 - Assembly changes in buyer's plant
- With ESI you can
 - Get supplier inputs before the design is frozen
 - Capitalize on the latest technology
 - Shorten the design cycle
 - Make supplier “part of the team”

Number of suppliers

- The trend is certainly to reduce the supplier base. With partnerships and ESI, it is virtually impossible to work with more than one supplier.



Warning

- Merely reducing the supply base to reduce the supply base does not make sense. Management goals, like “reduce the number of suppliers by 30% this year” usually have the wrong effect. Each acquisition should be evaluated separately. If welding wire is available from three suppliers and no price breaks can be gained by buying all welding wire from one source, then maintaining three suppliers gives the firm more assurance of continuous supply while the cost of buying from three suppliers is not significant greater.

Warning

- One approach is to award 70/30 split contracts. The supplier with 70% of the business can provide needed services, while the supplier with 30% of the business provides safety of supply and also puts pressure on the large supplier.
- Some firms like to become a big portion of their suppliers business so that they can apply pressure on the supplier.

Other supplier selection issues

- Local or national - some of the considerations are:
 - Volumes and discounts
 - Delivery speed (especially with JIT)
 - Ease of communication (visits, dispute resolution)
 - Community relations
 - Technical support
 - Capabilities

Other supplier selection issues

- Manufacturer vs. distributor
- Dishonest suppliers
 - Don't get caught by the "I've got a deal..." telephone scam.
 - Reciprocity / countertrade



Supplier relations

- Remember, whole generations of purchasing personnel have grown up with the idea that a quasi-adversarial relationship with suppliers is best. They feel that only through competition can the maximum efforts of a firm be obtained. If you land a job with a firm that has this philosophy, it would be wise to move slowly in any efforts to change the firm to a partnership oriented approach to suppliers.

Supplier evaluation - chapter 10

- Some firms require little in the way of evaluation. For supplies like stationary supplies, the firm's long term financial outlook does not matter as long as they do not go bankrupt before they ship your order. Their technical capabilities are not particularly important. If they have supplies of sufficient quality, are reputable and have low costs, then they should be qualified.

Supplier evaluation

- For other cases, it is the evaluation of the firm and its capabilities that is of the most importance (Lion Industries case).
- For critical purchases, the evaluation can be performed in two stages--Preliminary Surveys to narrow the field of potential suppliers, and then a plant visit or supplier evaluation conference to provide information to make the final selection.

Supplier Evaluation

Preliminary surveys should be used to obtain information on:

- Company officers and titles
- Bank references
- Credit references
- Sales and profit history for past 5 years
- Referral list of customers
- Number of employees
- Factory space
- Equipment and tools
- Defect rate and quality control capabilities

Supplier Evaluation

- Financial evaluation
 - A satisfactory financial position is a requirement for a supplier. In many firms, a person from the finance department will make this determination. If it is determined the financial position of the supplier is inadequate, they will not be considered further.

Supplier Evaluation

- Plant visit/supplier evaluation conference, should be conducted at the suppliers site.
 - A lot can be learned about a firm by looking at a firms housekeeping and organization. The quality of a firms employee relations can be determined from observation during the plant tour. Is the equipment well maintained? Are innovative production ideas being used. Do shop personnel understand and follow procedures in the same way that management describes them?

Supplier Evaluation

- Plant visit/supplier evaluation conference (Continued)
 - Plant tour survey form is an excellent idea. The example on pages 212-217 is a good example. If you don't keep this book (which is a good idea), you should at least keep a copy of these pages.

Competitive bidding

- A request for quote (RFQ) is sent to all qualified buyers. The lowest bidder is selected. Bids can be rejected only if they are unreasonably low or do not completely respond to all requirements of the RFQ.
- Six conditions should exist if competitive bidding is to be used (see next)...

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Conditions that should exist to use competitive bidding

- #1. The dollar value must be sufficient to justify the expense to both the buyer and supplier of this method.
- #2. The specifications must be explicit to both the buyer and the supplier. The seller must know or be able to accurately estimate the cost of producing the item or providing the service.

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Conditions that should exist to use competitive bidding

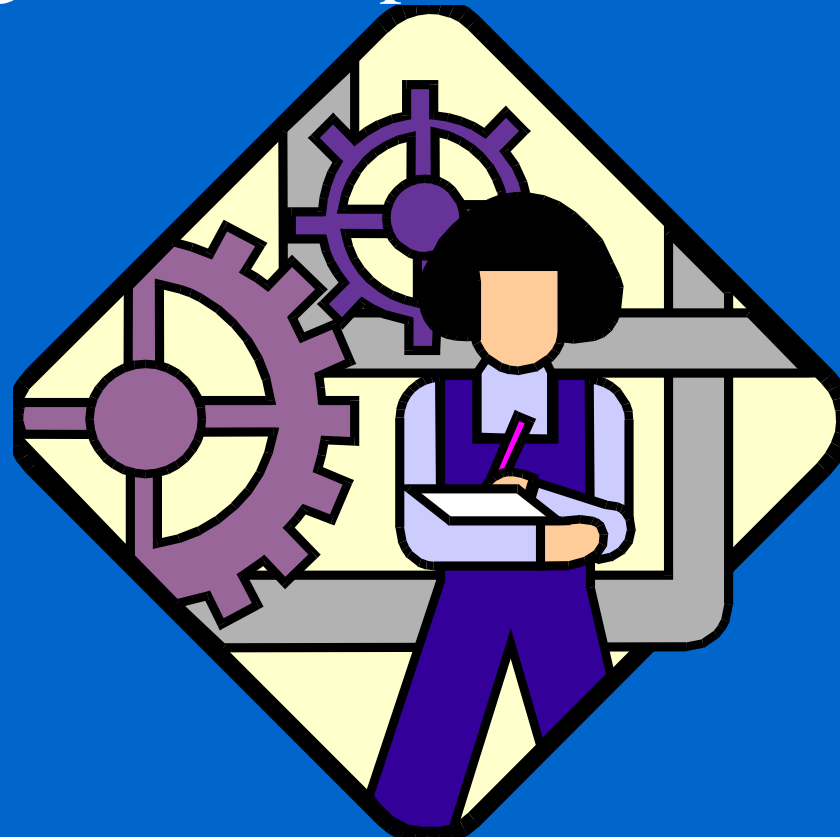
#3. There must be an adequate number of suppliers.

#4. The bidders must be technically qualified and actively want the contract.

#5. Sufficient time must be available for conducting the competitive bid. The book states 30 days is not uncommon for conducting the bid process.

Conditions that should exist to
use competitive bidding

#6. Special tooling and startup costs are not
required.



Competitive bidding

- Remember, competitive bidding is one form of Price Analysis (means of determining if a supplier's prices are reasonable). The other methods are (2) comparison with regulated, catalog or market prices, (3) comparison with historical prices and (4) independent cost estimates.



Competitive bidding

- The buying firm should not attempt to negotiate lower costs with the winning bidder, or firms will not submit low cost estimates in the future.



Negotiation

- Negotiation should be used when the six requirements for competitive bidding are not met. In addition, negotiation has two other advantages.
 - The negotiation process is likely to lead to a more complete understanding of all the issues of the procurement, which should improve the likelihood of the supplier successfully completing the contract.
 - Competitive bidding tends to put too great an emphasis on cost, which may result in poorer performance in other areas like service, quality, etc.

Negotiation

- As the book says, competitive bidding does not assure adequate competition.
- What we really want from a supplier is continuing efforts to improve. Superior suppliers have been known to develop product and process improvements on their own and then instruct the buyer on how to effectively use the improvements. If supplier effort exists, then competition is not required and can, in effect, be detrimental.

Supplier selection

- The Weighted Factor Rating Approach can be useful for evaluating suppliers when one is not clearly superior. The value of the method lies not so much in the actual ratings that are produced but in the thought processes that are used to produce the ratings.

Supplier selection

Factors	Maximum Rating (Weights)	<u>Supplier</u>		
		A	B	C
Technical				
Approach	20	15	20	18
Facilities	10	8	7	10
Personnel	<u>10</u>	<u>7</u>	<u>10</u>	<u>9</u>
Totals	40	30	37	37
Price	15	15	7	12
Managerial Competence	15	8	15	14
Quality Control	<u>30</u>	<u>25</u>	<u>27</u>	<u>26</u>
Rating total	100	78	86	89

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Here is a list of chat prompts or questions that could facilitate comprehensive research on supplier selection in the procurement field:

- 1. What are the most important factors in supplier selection in procurement?**
- 2. What strategies or methods do organizations typically use for supplier selection?**
- 3. What role does cost play in the supplier selection process?**
- 4. How does supplier reliability impact the selection process?**
- 5. How important is geographical location in supplier selection?**
- 6. How does supplier performance get measured?**
- 7. What's the importance of delivery speed and scheduling in supplier selection?**
- 8. How do organizations handle multi-criteria decision-making in supplier selection?**
- 9. How does technological capability influence supplier selection?**

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More chat prompts or questions that could facilitate research on supplier selection in the procurement field:

- 1. How do sustainable and ethical considerations impact supplier selection?**
- 2. Can you explain the concept of Total Cost of Ownership (TCO) in supplier selection?**
- 3. How are risk management strategies integrated into supplier selection?**
- 4. What kind of role does long-term relationship or partnership play in supplier selection?**
- 5. How is supplier diversity considered in the selection process?**
- 6. What are some common challenges in supplier selection?**
- 7. What role do supplier certifications and quality systems play in supplier selection?**
- 8. How does communication and transparency with a supplier influence the selection process?**
- 9. What are some examples of supplier selection gone wrong, and what were the lessons learned?**

