

TOPIC 6

Supplier Sourcing and Evaluation

Introduction

This chapter introduces students to supplier sourcing and evaluation. They will be exposed to the stages of the supplier sourcing process, sources of information about potential suppliers, supplier sourcing options and supplier evaluation criteria.

Sourcing Defined

Choosing the right supplier is frequently the key to obtaining quality, performance and price; hence the sourcing exercise is critical to optimal purchasing performance. However, it is not sufficient to merely select the most suitable supplier in the first instance. It is crucial for long term success that the performance of the supplier is monitored, maintained and improved. This obviously requires consideration of issues such as supplier appraisal and assessment, procedures for monitoring and the development of the most suitable relationship between the parties

Sourcing is the process of identifying, selecting and developing suppliers. It is a key purchasing activity. The aim of sourcing is to find a supplier who will offer the best service at the most favourable cost. When sourcing, it is vital to know the qualities of a good supplier, the basis on which a supplier will be judged to be good or bad, the sources of information about suppliers and the sourcing options available.

As we look for suppliers, it is important that we know the qualities / attributes of a good supplier. Some of the attributes are listed below:

Attributes of a good supplier

- Delivers on time
- Provides consistent quality
- Gives a good price
- Is responsive to the needs of customers
- Keeps promises
- Provides technical support
- Keeps the buyer informed on progress
- E.t.c

The Sourcing Process

The sourcing process refers to the stages undertaken to get the desired or right supplier. The stages in the process are:

- (a) Need identification – before looking for the supplier, it is important that you know exactly what you need. At this stage, identification and specification of the need at hand is very important.

Recap: students are asked to revise “specification” that is covered in chapter one.

- (b) Decision on whether to meet the need internally (make) or meet the need by purchasing from an external party (buy). **(Make or Buy decision)**
- (c) Conducting market research. Buyers should be aware of the present and potential suppliers by obtaining information from different sources.
- (d) Identification of possible suppliers – this is possible after undertaking market research.
- (e) Screening suppliers and developing a short list. Potential suppliers who are likely not to meet organisational needs are eliminated at this stage. Suppliers are screened on several aspects like size, location, and possession of ISO certification, e.t.c.
- (f) Sending enquires to request for information from the short listed suppliers. The enquiry may include a questionnaire for the potential supplier to complete and return to the buyer for analysis.
- (g) Evaluating / weighing responses. Suppliers are rated according to pre-determined criteria that reflect the needs of the organisation. The major areas of appraisal are quality, financial, commercial, environmental and ethical issues.
- (h) Selecting the supplier – the supplier who emerges as the best is selected. After this, negotiations with the chosen supplier will take place and if an agreement is reached, a contract will be signed; an order placed and the required items will be delivered.

Sources of Information about Suppliers and Market Conditions

It is important for us to understand the sources of information about suppliers and market conditions. Sources include:

- Sourcing Services – a number of agencies will provide information to buyers about potential sources of supply
- Supplier representatives – these represent suppliers and provide useful information to buyers about potential sources of supply.
- Exhibitions – these events may provide the buyer with an opportunity to compare similar products from different sources.
- Colleagues – personnel in other departments within the company are often knowledgeable about sources of materials.
- Other buyers – communications with fellow professionals in the purchasing field might be useful in discovering new sources.
- Agents – stockists and distributors might provide comparative information on different manufactures and their products.
- Organisations promoting trade – e.g. UMA, association for small scale industries, UIA, e.t.c

- Approved lists – individual organisations may maintain lists of companies that have been assessed and approved.
- Recorded performance – the purchasing department may maintain records, which may provide information on past performance of suppliers who have been used in the past.
- Trade directories
- Catalogues
- Publications
- Professional associations
- Government sources like ministries, bureaus of statistics, e.t.c
- E.t.c

Activity

List any other sources of information on suppliers and market conditions that you believe should have been mentioned in the above section

Sourcing Options

The options include:

- Whether to make or buy requirements
- Whether to use local or foreign suppliers
- Whether to use one, two or more than two suppliers
- Whether to use small or large suppliers

Make or Buy Decisions

When firms decide to “make”, they have taken the option of manufacturing their own inputs instead of obtaining them from an external source, which is a supplier. On the other hand, when they decide to “buy”, inputs are obtained from sources external to the organisation.

Why Firms Decide To Manufacture Their Own Inputs

1. Cost reasons
2. Reduction of lead-time
3. Need to utilise idle resources
4. When quantities required are too small and buying them from external parties proves more expensive
5. Confidentiality reasons
6. Need to train staff, build experience and expertise

Activity

Discuss the challenges that a firm may face when a decision to make supplies instead of buying them from external parties is taken.

Local versus Foreign Suppliers

Local sourcing involves obtaining supplies from domestic suppliers while foreign / global / international sourcing is obtaining supplies from suppliers outside the borders of one's country.

Activity

1. Explain why firms may choose to buy from:
 - (a) Local suppliers
 - (b) Foreign suppliers
 2. Highlight the challenges that are likely to be faced when obtaining items from
 - (a) Local suppliers
 - (b) Foreign suppliers
-

Large Versus Small Suppliers

Firms may choose to buy from small or large suppliers. Suppliers are described as large or small in this case, basing on their output.

Activity

1. Explain why firms may choose to buy from:
 - (a) Large suppliers
 - (b) Small suppliers
 2. Highlight the challenges that are likely to be faced when obtaining items from
 - (a) Large suppliers
 - (b) Small suppliers
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Single Sourcing

This is obtaining all supplies from one supplier.

Why single sourcing?

1. Monopoly – the supplier of the particular good or service may be a monopoly. E.g UMEME, NWSC
2. Less administrative and overhead costs are involved.
3. It is easier to establish co-operation
4. When orders are very small
5. Need to obtain volume discounts
6. Easy communication and scheduling of supply requirements
7. Standardisation is made very easy
8. E.t.c

Activity

- (a) Discuss the challenges that may be faced by a firm undertaking single sourcing.
 - (b) Give suggestions on how the above challenges can be overcome or minimized
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Multiple Sourcing

This obtaining supplies from more than two suppliers. For example, three suppliers, each providing a percentage of the supplies.

Why multiple sourcing?

1. Avoidance of over dependence on one supplier
2. Need to increase bargaining power of the buying firm
3. Supply security – need to be assured of supply
4. Need to spread risks
5. Legal obligations
6. Required capacity may be higher than one supplier is able to meet
7. Geographical factors
8. It can be used as a way of supporting small, local or new suppliers

Activity

Highlight the challenges that are likely to be faced when obtaining items from Highlight the benefits and challenges of undertaking multiple sourcing

SUPPLIER MANAGEMENT

Supplier management is the process of managing the relationships between a business and its suppliers in order to optimize the supply chain. It involves identifying, evaluating, collaborating with, and monitoring suppliers to ensure they are meeting business objectives.

Supplier management is an essential part of the procurement process. It ensures that the company is getting the best quality products and services at the best possible price. It also helps to streamline the supply chain and avoid costly delays or disruptions.

The supplier management process begins with the identification and selection of qualified suppliers. This involves researching and evaluating potential suppliers based on their qualifications, capabilities, and pricing. Once a supplier is selected, the supplier must be managed to ensure they are meeting their contractual obligations.

This includes monitoring performance, managing the supply chain, and addressing any issues that arise. It is also important to develop a strong relationship with suppliers. This can be done through regular communication and collaboration.

The goal is to ensure that both parties understand the terms of the agreement and are working together to achieve mutual goals. Finally, supplier management should focus on continuous improvement. This means regularly reviewing supplier performance and taking steps to improve it.

This can include providing training, setting up incentives, and introducing new technologies. By following the steps outlined above, businesses can ensure that they are getting the best out of their suppliers and optimizing the supply chain. This will help to improve customer satisfaction, reduce costs, and increase profits.

Benefits of Supplier Management

As organizations look to stay competitive and capture new business, supplier management has become an increasingly important topic. It's critical for organizations to have a reliable supplier management strategy in place in order to remain competitive and maximize the value of their relationships with suppliers. Supplier management can provide a range of benefits, from improved product and service quality to cost savings and competitive advantages.

Improved Quality

One of the key benefits of supplier management is the improved product and service quality it can provide. Supplier management ensures that suppliers are held to high standards, providing organizations with a reliable source of quality products and services.

Supplier management also ensures that suppliers are held accountable for their performance, which can help to identify potential quality issues before they become a problem.

Cost Savings

Supplier management can help organizations reduce costs in a variety of ways. By identifying the most cost-effective suppliers and negotiating better pricing, organizations can improve their bottom line. Supplier management can also help organizations to reduce their inventory costs by ensuring that the right amount of inventory is purchased from suppliers.

Increased Efficiency

Supplier management can help organizations increase their efficiency by streamlining the procurement process and automating tasks. This can free up valuable resources and allow organizations to focus on their core activities.

Supplier management can also help organizations to reduce the amount of paperwork involved in the procurement process, which can help to speed up the process.

Improved Risk Management

Supplier management can help organizations to reduce the risk associated with their procurement activities. By working with reliable and dependable suppliers, organizations can ensure that they are getting the best quality products and services at the best price. Supplier

management can also help organizations to identify potential risks and take steps to mitigate them, such as diversifying their supplier base.

Improved Relationships

Supplier management can help organizations to build better relationships with their suppliers. By setting clear expectations and developing strong communication channels, organizations can ensure that there is a mutual understanding between the two parties.

This can help to create a more collaborative and successful relationship with suppliers, which can lead to improved products and services. Supplier management is a critical part of any successful organization's operations.

By taking the time to develop and implement a robust supplier management strategy, organizations can reap the many benefits it provides. From improved product and service quality to cost savings and increased efficiency, supplier management can provide organizations with a competitive advantage.

4 Steps for Effective Supplier Management

Step 1: Establish Clear and Effective Communication

Clear and effective communication is the foundation of successful supplier management. This involves setting up channels of communication between the supplier and your organization.

It also includes establishing protocols for exchanging information between the two parties. This could include a specific frequency of communication, a process for responding to requests, a format for sharing data, and guidelines for resolving disputes.

Step 2: Develop a Supplier Evaluation Program

A supplier evaluation program is an essential part of managing suppliers. This program should include criteria for evaluating suppliers, such as quality, value, delivery, and customer service.

You should also consider other factors, such as financial stability, sustainability practices, and compliance with regulations. A supplier evaluation program should also include a process for monitoring suppliers' performance.

Step 3: Negotiate Agreements

Negotiating agreements with suppliers is an important part of supplier management. You should negotiate contracts that clearly define expectations and responsibilities, such as delivery schedules, payment terms, and quality standards. You should also consider developing long-

term agreements with suppliers that offer discounts or other incentives for meeting certain performance standards.

Step 4: Monitor Performance and Manage Risk

Once the agreements are in place, it's important to monitor suppliers' performance over time. This includes evaluating suppliers to ensure they are meeting their contractual obligations.

Additionally, you should also be aware of any changes in the supplier's financial health or other risk factors. This will allow you to take corrective action if necessary. By following these four steps, your organization can ensure that it has a successful relationship with its suppliers.

This will help to ensure that your organization is able to acquire the best quality products and services at the best price. Additionally, it will help to reduce the risk of supply chain disruptions and ensure that your organization is able to meet customer demands.

Challenges in Supplier Management

Supplier management is a critical component of any business. It's essential for organizations to ensure that their suppliers are properly managed in order to maintain a successful working relationship. However, managing suppliers can be a difficult and challenging task. Here are some of the most common challenges associated with supplier management:

Visibility

One of the major challenges in supplier management is having a clear view of all suppliers and their related activities. It can be difficult to keep track of all the different suppliers that a business works with and ensure that all of its activities are monitored and reported on in a timely manner.

Communication

Effective communication is essential for any successful supplier relationship. Without proper communication, misunderstandings can occur, leading to delays and inefficiencies. It's important to make sure that all suppliers are kept up to date on changes and are informed of any issues that may arise.

Quality Control

Maintaining a high level of quality control is essential for any business. Achieving this can be difficult when dealing with multiple suppliers, as each supplier may have different standards and processes. It's important to ensure that all suppliers are held accountable to the same quality standards.

Cost Management

Suppliers can often be a major cost center for businesses, and it's important to ensure that costs are kept to a minimum. This can involve monitoring supplier prices, negotiating better terms, or exploring alternative suppliers.

Regulatory Compliance

Many organizations must adhere to certain regulatory requirements when dealing with suppliers. It's important to be aware of any regulations that may apply to the business and to ensure that all suppliers are compliant.

Managing suppliers can be a difficult and challenging task. It's important to ensure that all of the above challenges are addressed in order to ensure a successful supplier management program.

By addressing these issues, businesses can ensure that their suppliers are properly managed and that a successful working relationship is maintained.

Tips to Overcome Challenges in Supplier Management

Supply chain management is a critical part of any business, and it's essential to ensure that the suppliers you choose are reliable and trustworthy. However, managing suppliers can be a challenge, as there are many factors to consider, such as cost, quality, delivery times, and ethical standards. Here are some tips to help you to overcome the challenges of supplier chain management.

Perform Thorough Research

Before selecting a supplier, it's important to do thorough research and evaluate their credentials. Make sure to look into their background, past performance, and customer reviews to get an accurate idea of their reliability.

Establish Clear Communication

Communication is key when it comes to supplier chain management. Make sure to establish clear lines of communication with your suppliers and ensure that they are informed of any changes or updates.

Monitor Performance

It's important to keep an eye on supplier performance and ensure they are meeting their commitments. If any issues do arise, make sure to address them quickly and efficiently.

Negotiate Terms

Negotiating with suppliers can help you to get better terms and prices. Make sure to be clear about what you need and be willing to negotiate to get the best deal.

Streamline Processes

Streamlining processes can help to reduce costs and improve efficiency. Investing in technology such as supply chain management software can help to automate tasks and reduce manual labor.

Leverage Relationships

Building strong relationships with suppliers can help you to get better deals and better customer service. Make sure to nurture these relationships and keep your suppliers informed of any changes or updates.

By following these tips, you can ensure that your supply chain management is as efficient and cost-effective as possible. With the right strategies in place, you can make sure that your business runs smoothly and that your suppliers are reliable and trustworthy.