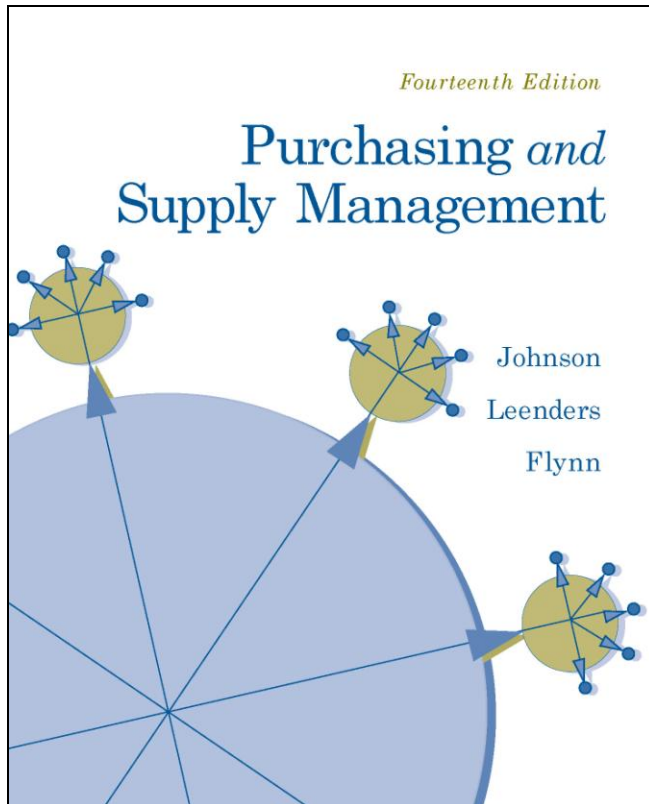
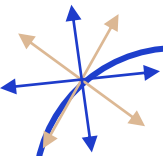




Chapter 12

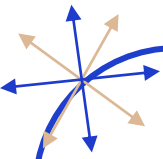


Supplier Selection

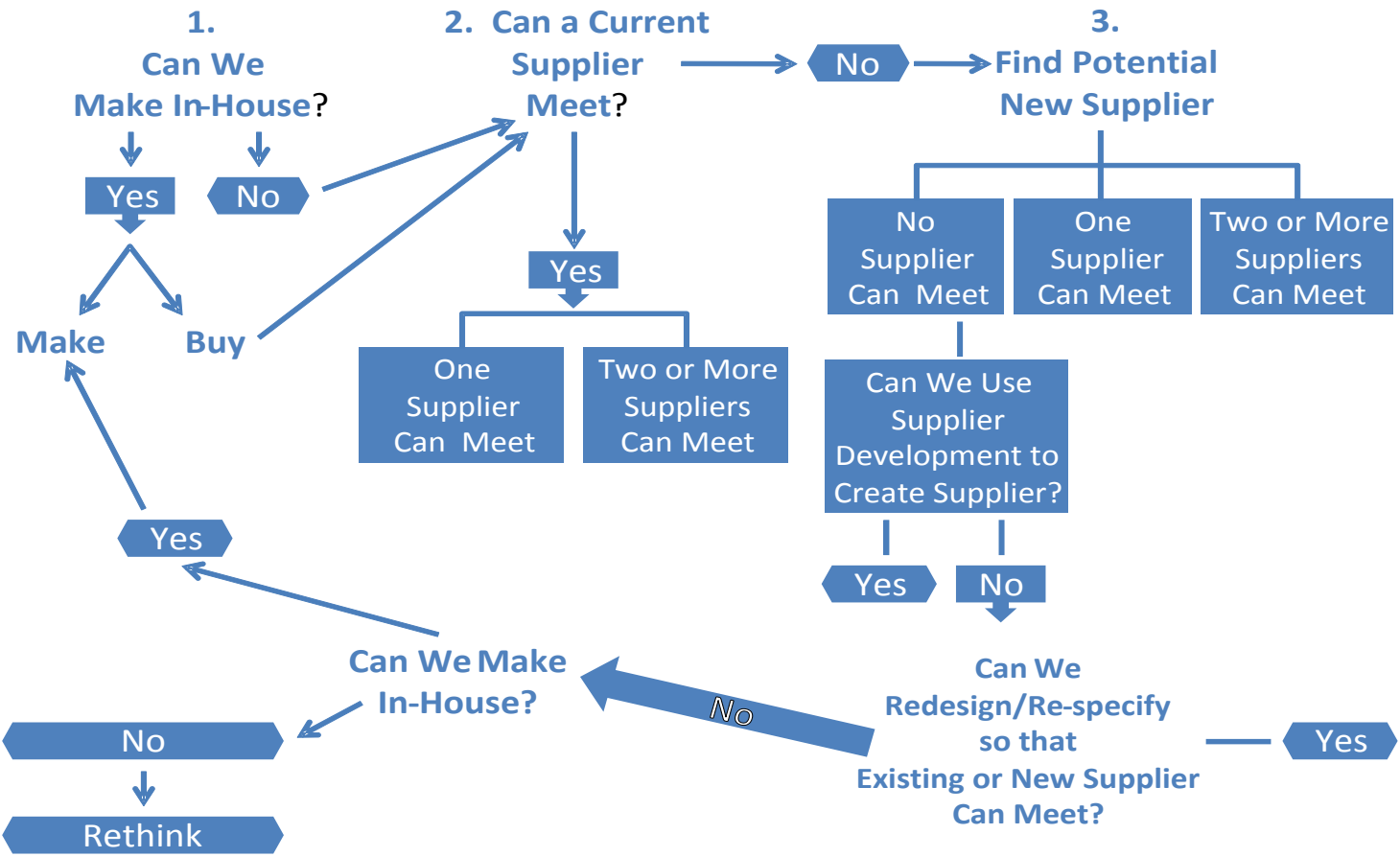


Numerous Potential Sources of Information

- Online sources
- Catalogs (online and printed)
- Trade journals
- Trade directories
- Visits to suppliers
- Supplier and commodity databases
- Sales contacts and interviews
- Colleagues, networking, professional contacts
- Your own records



Identification of Potential Sources





Supplier Selection Decisions

- Should we use a single source, dual sources, or more than two?
- Should we buy from a manufacturer or a distributor?
- Where should the supplier be located?
- Relative to our organization, should the supplier be small, medium, or large?
- If no supplier can be found, should we use supplier development?



Arguments in Favor of Single Sourcing

- Exclusivity: The supplier may be only available source
 - patent protection, exclusive distributorship
- Outstanding quality or service → value
- Order too small to split
- Opportunities for discounts or lower freight costs
- More important customer → more attention from supplier
- Cost of duplication prohibitive
- Easier to schedule deliveries
- JIT, stockless buying or EDI arrangements
- Focus on one, not many suppliers
- Prerequisite to partnering

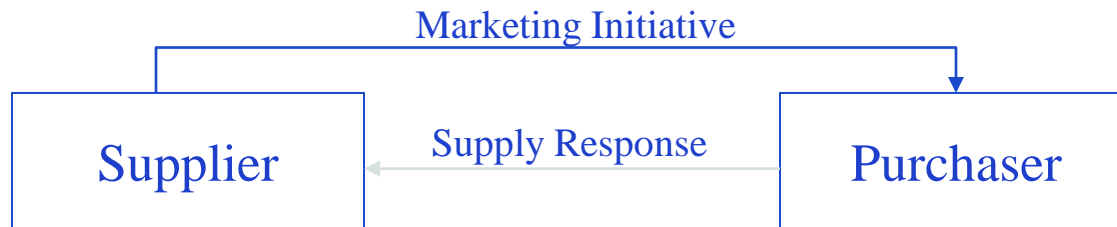


Arguments in Favor of Multiple Sourcing

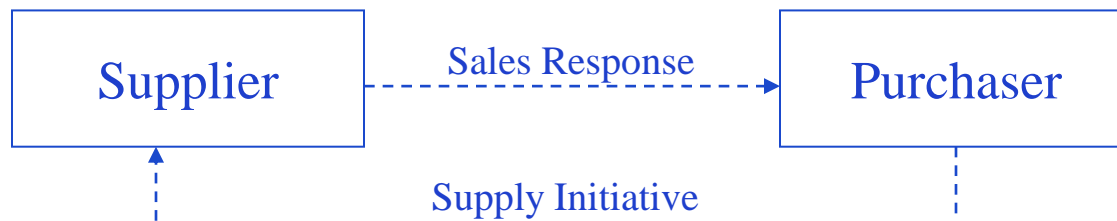
- Traditional practice
- Keep suppliers “on their toes”
- Assurance of supply
- Capable of dealing with multiple suppliers efficiently
- Avoid supplier dependence on one customer
- Obtain a greater degree of volume flexibility
- Strategic considerations; e.g., military preparedness
- Government regulations
- Limited supplier capacity
- Opportunity to test a new supplier
- Supply market volatility

Supplier Development Initiative

The Marketing Context



The Supplier Development Context





Three Levels of Supplier Evaluation

- Level 1 – Strategic
- Level 2 – Traditional: quality, quantity, delivery, price and service
 - Technical, engineering, manufacturing and logistics strengths
 - Management and Financial Evaluation
- Level 3 – Current Additional: financial, risk, environmental, regulatory, innovation, social and political



Evaluation of Potential Sources

- Technical, Engineering and Operations
 - Quality systems and performance
 - Engineering and technical strengths
 - Capacity and flexibility to meet demand (lead time)
 - Process capabilities
- Management and Financial
 - Mission, corporate culture, values and goals
 - Organization structure and decision-making
 - Management controls, information systems, policies and procedures
 - Qualifications and background of managers
 - Financial analysis; e.g., profit, inventory turns, receivables, current ratio
 - Procurement systems



Formal Supplier Evaluations

- Quality
- Price
- Delivery
- Service

Good Performance



Fair Performance

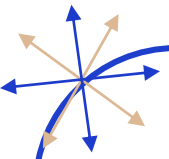


Unsatisfactory Performance

Supply Risks and Dollars Extended

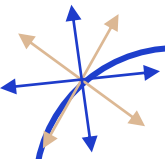
		Bottleneck	Strategic
High	Risk	<ul style="list-style-type: none"> • Unique specification • Supplier technology important • Production-based scarcity • Substitution difficult • Usage fluctuates • Potential storage risk 	<ul style="list-style-type: none"> • Continuous availability essential • Custom design or unique specifications • Supplier technology important • Few adequate suppliers • Changing source of supply difficult • Substitution difficult
Low		Non-Critical	Leverage
		<ul style="list-style-type: none"> • Standard or commodity type • Substitute products available • Competitive supply market 	<ul style="list-style-type: none"> • Unique cost management important • Substitution possible • Competitive supply market
		Low	High
		Value	

Source: Peter Kraljic, "Purchasing Must Become Supply Management," *Harvard Business Review*, September-October, 1983



Weighted Point Evaluation Systems

- Identify suppliers
 - Important suppliers and/or critical goods and services
- Identify factors or criteria for evaluation
- Determine the importance of each factor
- Establish a system for rating each supplier on each factor



Evaluation of Potential Sources: Two Key Questions

1. Is this supplier capable of supplying our requirements satisfactorily in both the short- and long-term?
2. Is this supplier motivated to supply these requirements in the way we expect in the short- and long-term?