Supplier Selection and Evaluation: How to Find And Work with The Right Suppliers

To succeed in today's competitive market, you need top-notch, affordably priced, and reliably sourced raw materials and services to produce the goods and services your business offers.

Perhaps unsurprisingly, the first step to securing these goods and services lies in proper supplier selection and evaluation.

You know you need good suppliers—but they don't just appear in your supply chain like magic.

In order to form strong, strategic, and proactive relationships with reliable suppliers, it's crucial to follow best practices and invest the time necessary to transform potential suppliers into trusted partners.

Why Supplier Selection and Evaluation

Matters

In the distant past, supply chain optimization was often limited to a single factor: price.

But thanks to increasingly sophisticated digital data management tools and the growing prevalence of digital transformation, the view of suppliers as mere vendors is giving way to a more nuanced one that regards them as potentially powerful partners in shared success.

Today, vendors share data, integrate systems, and work closely with procurement specialists to help identify opportunities for product development and innovation, take advantage of cost-cutting measures, and engage in shared initiatives to expand market share or improve competitive advantage for both partners.

With proper supplier relationship management, your procurement team can put every potential supplier through a detailed and transparent evaluation process to determine

Not every vendor will become a key supplier or partner in creating a new product, of course.

Nor will you forge a lasting, long-term relationship with every vendor in your supply chain.

But with help from data-driven supply chain management and process optimization tools, deciding which suppliers meet your exacting standards for product quality, lead time, and relevance to your own core competencies is much easier to accomplish.

Making supplier relationship management the primary thrust of your overall supply chain management—and using the right tools to do so—makes it possible to use both qualitative and quantitative metrics to:

- Keep product quality levels high, lead times low, and suppliers' performance and compliance within acceptable parameters.
- Integrate important criteria such as sustainability and continuous improvement into your sourcing strategies and supply base.
- Plan ahead with contingency-based sourcing to insulate against business

disruptions and preserve business continuity.
- Take corrective actions in a timely fashion to keep potential problems from snowballing into disasters, simplifying risk management.
- Avoid supply chain bloat while still allowing flexibility to quickly evaluate and add suppliers as needed.

In addition, establishing supplier evaluation criteria provides direct benefit to your business by strengthening your negotiation position.

A supplier who has high marks in most areas but struggles in another may be amenable to better terms or pricing in order to secure your business.

You can then leverage those savings to create a contingency plan in your supply chain to address the supplier's weakness (and eliminate any excessive risk created) and still come out with a net gain in profits, competitive advantage, etc.

> *Reliable suppliers ship the right items at the agreed terms for quality, price, and on-time delivery. They also have contingency plans in place to protect their own business continuity, reputation, and compliance; they're ready to get the job done, not pass the buck or excess risk on to you.*

How the Supplier Selection Process Works

Building a reliable, flexible, and resilient supply chain requires an effective supplier selection process. Most selection methods rely on ranking each potential candidate using a scorecard.

When developing and implementing your supply chain optimization strategy, you'll likely use two different supplier evaluation and selection processes: one for existing vendors, and one for new suppliers.

The former is generally used to secure positive changes in supplier relationships (better terms and service, discounts, a shift to a partnership role) or to "trim the fat" and eliminate or rehabilitate suppliers who have proven themselves unreliable, too costly, or simply a bad fit for your company's ethics and culture.

Both of these processes require you to have clear and documented standards for supplier performance and compliance.

They both follow the same simple three-step process:

1. ## Potential Supplier Identification

   When choosing new suppliers, collect and record each potential candidate's score for your chosen criteria on their scorecard. The process is the same when reviewing existing suppliers, but includes additional evaluation criteria based on suppliers' record with your company.

   So, while a company building its supply chain will likely rely on reputation and referrals, a company streamlining its existing supply chain will have its own data for supplier compliance and performance to add to the mix when scoring candidates for retention, revision, or removal.

2. ## Supplier Evaluation

   Once you've identified your best candidates, it's time to score them using your chosen criteria. During this time, you can create a short list of favorites and then move them along in the process through negotiations.

   The process for optimizing existing supply chains is, again, very similar. However, instead of a list of candidates to be added to the system, you may generate multiple lists of candidates you wish to elevate to a partnership role, negotiate with to secure better pricing or terms, or replace with other, more favorable options.

3. ## Supplier Selection

   During the final supplier selection, you engage the winner(s) in contract negotiations to become a vendor in your supply chain. If you're evaluating your existing supply chain, this period will instead be used to modify, enhance, or terminate your relationships as circumstances and your needs dictate.

It's worth noting that, whichever approach you're taking, having a centralized, cloud-based data management solution such as PLANERGY at the heart of your procurement function makes it much easier to evaluate and select suppliers.

With advanced process automation, analytics, and artificial intelligence, as well as complete and fully transparent integration with your existing software environment, you can collect, organize, and analyze the information you need to make smart and strategic sourcing decisions with confidence.

Traits to Look for In Potential Suppliers

Every company's approach to supply chain optimization and supplier relationship management will have its own unique elements.

Different industries have different priorities and competitive paradigms, as well as material needs.

That said, the vendors regarded as "good suppliers" share a common set of traits you can look for when evaluating both your existing suppliers and any new ones you may be considering adding to the fold.

1. ## Reliability

   Price used to be king of the vendor castle, but even the heftiest savings matter little if you can't get the raw materials and services you need, when you need them, or ensure the quality and total cost of your own products are up to snuff. Reliable suppliers ship the right items at the agreed terms for quality, price, and on-time delivery. They also have contingency plans in place to protect their own business continuity, reputation, and compliance; they're ready to get the job done, not pass the buck or excess risk to you.

2. ## Stability

   New suppliers deserve their shot, of course, and there's room in most supply chains for non-critical goods and services to be filled by newcomers. But your key suppliers should be well-established, with a strong track record, a solid reputation, and ready referrals to accompany their pricing and terms.

3. **Location**

   It’s a global economy, to be sure, and companies can often secure substantial savings by outsourcing raw materials, goods, and even services from remote suppliers. However, the more miles between your business and its suppliers, the greater the risk for supply chain disruptions, delays, and unforeseen expenses. And if you need something critical on the double, you might find yourself paying a hefty premium to get it from distant suppliers—if you can get it at all.

4. **Core competencies**

   You’re competing in a world driven by data and digital transformation, where time, accuracy, and insight are of the essence. If you find yourself waiting for your vendors to play catch up, you might find you’re the one who’s been left standing at the roadside of progress. Attractive suppliers have:

   - Well-trained, knowledgeable staff prepared to work strategically with your procurement team to meet your specific needs and criteria.
   - A clear understanding of the latest technologies, and the ability to connect their systems with yours to improve data collection, management, and analysis.
   - High quality levels, attractive pricing (and financing, where relevant), and a proactive, positive attitude toward working with you as a client and potential partner in shared success.

5. **Price**

   While cost savings and lowest possible price formerly dominated most supply chain and supplier relationship management models, that’s no longer the case. Instead, companies are increasingly oriented toward centering procurement as a value center for their organizations, prioritizing both cost avoidance *and* cost savings to do so. That said, price remains an important concern, and a useful area for negotiation. Just remember that it’s the total cost of every purchase—along with potential savings and overall value created by positive relationships, overall supplier quality, and strategic decision making—and not just price that determines the return you're getting on your investment.

Additional Criteria: Ray Carter's 10 Cs of Supplier Evaluation

As you establish the most important criteria you'll be using during supplier selection and evaluation, it may prove useful to revisit Dr. Ray Carter's 10 Cs of Supplier Evaluation.

Created in 1995 and published in the *Journal of Purchasing and Supply Management* by Dr. Ray Carter, the director of DPSS Consultants, these supplier selection criteria provide additional areas of consideration, including:

1. **Competency**

   How well does the supplier meet its obligations and the expectations of its customers? What is its reputation with other businesses like yours?

2. **Capacity**

   Can the supplier meet your company's requirements for quality, lead time, and price? What sort of materials management system do they have in place? Do they have the resources required to take corrective action when business disruptions strike?

3. **Commitment**

   How does the supplier demonstrate its commitment to quality, performance, value, and overall excellence? Does it meet critical certifications and standards for its industry? Does the supplier have a reputation for going "above and beyond" to meet customer needs?

4. ## Control

What internal controls does the company use in their own policies, processes, and supply chain? How do they manage risk and quality assurance while ensuring they can meet customer expectations regardless of circumstances or exterior dependencies? Does the supplier comply with important regulations such as the International Standards for Organization's ISO9001, the General Data Protection Regulation (GDPR) in the EU, or the Sarbanes-Oxley Act in the United States?

5. ## Cash

What kind of cash flow profile does the supplier have? Do they have sufficient working capital to meet their needs and obligations while still holding enough in reserve for innovation, growth, and unexpected expenses? What evidence can they present to show a history of consistent financial health?

6. ## Cost

How does the supplier's pricing, and the total cost of doing business with them, compare to their competitors?

7. ## Consistency

Does the supplier have a strong track record for product quality and service? What procedures are in place to ensure this consistency? Are they willing to provide samples and/or demonstrations?

8. ## Culture

How well does the supplier's corporate culture mesh with yours? Do they share your company's workplace values?

9. ## Clean

Does the supplier match your standards for sustainability and environmental responsibility? Do they have a reputation as a “green” company? Are they committed to, and have a reputation for, ethical business practices?

10. ### Communication

    Is the company open, transparent, and committed to both communication and collaboration? What plans does it have in place for communication during crises? Do their methodologies and technologies align with yours?

Better Suppliers for a Better Supply Chain—and a More Successful Business

Your success in today’s market depends not only on what you buy, but from whom you buy it.

Take the time to evaluate suppliers carefully, and select those who bring not only cost savings, but lasting value and the potential for growth, product innovation, and stronger competitive advantage.

With a proactive and data-driven approach, you’ll be able to keep your number of suppliers under control, build useful long-term relationships with key suppliers, and minimize risk to your reputation, operations, and financial stability while ensuring you always have access to the materials, goods, and services you need.

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