

The Supplier Selection Process



On the surface, it may seem that choosing the right supplier involves simply looking at their price list.

However, the supplier selection process is actually much more complex and making the wrong choice can have a detrimental effect on your organization.

Your supply chain is a critical part of business operations and if one part of that chain fails, you could run into issues that damage your reputation. Your supplier

Choice depends on a variety of factors such as quality, reliability, and value for the money. How you weigh each factor is based on your business's strategy and priorities.

As a startup with limited funds, you may place more weight on an affordable price than an established business that can afford to spend a bit more or hold on to higher inventory amounts to take advantage of bulk pricing.

The supplier selection process is an important part of the procurement department's job. Streamlining the purchase to pay process enables procurement to spend more time finding the right suppliers and negotiating the best possible deals.

Think Strategically

If you can find a supplier that offers products or services that match or exceed the needs of your business, those will be the most effective for you to work with.

Before you start selecting suppliers, nail down your business needs and what you want to achieve by buying rather than simply paying for the items suppliers are looking to sell to you.

For instance, if you're aiming to cut down on the time it takes you to serve your customers, suppliers that can offer you faster delivery will be more important to you than those who compete on price alone.

Consider how many suppliers you really need. Purchasing from a carefully targeted group could give you a number of benefits.

- Your business will become more important to your suppliers
- It will be easier to address supply chain management and maintain supplier relationships
- You may be able to leverage deals that give you a better competitive advantage

Let's say you've got a rush job for one of your most important customers.

Your suppliers will be more likely to go the extra mile if you spend \$1,000 a month than if you're only spending \$250.

That said, it's critical to have a choice of sources. Purchasing everything from a single supplier can be dangerous.

What happens to you if they are unable to fulfill your needs or even worse go out of business?

While exclusivity may lead to suppliers offering you a better deal or service, others may be complacent and decrease their standards.

What to Look for in a Supplier

When it comes to evaluating your suppliers you need to look for the following:

Reliability

Your company can only be as reliable as your suppliers. If your suppliers let you down, you risk letting your customers down.

There may be some instances in which you can recover without the customer noticing an issue, but you can't always count on that being a possibility with every product or service you offer.

Supplier Quality

Your suppliers need to provide consistent quality. Your customers will associate poor quality with your company, not your suppliers.

Value for the Money

While the lowest price may be tempting, it is not always the best value for the money. If you want quality and reliability from your suppliers, you'll need to decide how much you're willing to pay for your supplies along with the balance you want to strike between service, quality, reliability, and cost.

It will do you no good to pay \$1/widget if shipping takes two months, and your customers are left waiting too long to receive their items. You'd be much better off paying \$2+ per widget to get the items within a week to ship them to your customers faster.

Financial Security

Do some research into company history and financial stability. If your supplier doesn't have the necessary cash flow to deliver what you want and when you need it, you won't be able to count on them to provide for your customers.

Consider running a credit check to reassure you that they will not go out of business when you need them the most.

Clear Communication and Service

You need your suppliers to be honest and give you plenty of warning if a situation arises when they cannot deliver your order on time.

The best suppliers will want to communicate with you on a regular basis to find out what your needs are and how they can serve you better.

Partnership

Ideally, your vendors will want a partnership approach. A strong relationship has benefits for both companies.

You want your suppliers to acknowledge how important your business is to them so they make every effort to give you the best service possible.

And you're more likely to create this response by showing your supplier how important they are to your business.

Identifying Potential Suppliers

You can find suppliers through numerous channels. Start by asking friends and business acquaintances for recommendations.

You're more likely to get an honest opinion of a business's strengths and weaknesses from someone who has already used their services.

You can also use directories if you're looking for a supplier in your local area.

If your needs are specific to a particular industry a trade, looks to trade associations that can match you with reputable suppliers.

Trade shows and exhibitions are a wonderful opportunity to network with potential suppliers in the same place at the same time.

Before you go to a trade show or an exhibit, it is a good idea to check that the vendors are relevant to and suitable for your business.

You can also turn to local business support organizations such as your chamber of commerce to get some direction on potential vendors.

Creating a Supplier Shortlist

After you've determined exactly what it is you need to buy and you've identified

some potential suppliers, build a shortlist of the vendors that meet your needs.

Ask yourself:

- Can these suppliers deliver what we need when we need it?
- Are these suppliers financially secure?
- How long have they been in business?
- Is there anyone in our network who has used them and can recommend them?
- Are they on any trade association approved supplier list? or are they a government-approved supplier?

Do a bit of research on your own to narrow your list down to no more than four or five potential candidates.

It's a waste of time for you and the potential supplier if you approach them when there is little to no chance of them fulfilling your requirements.

Don't be afraid to ask questions about their quality standards, or ask them to provide case studies to show how they've helped their other clients.

Before you move on to the next part of the procurement process, consider all of your evaluation criteria so you can choose the one that is best for your business overall.

Selecting Your Supplier

With a manageable shortlist, approached the potential suppliers and send a request for quote (RFQ) or a request for proposal (RFP) and if appropriate, a product sample.

Ideally, give them a clear brief summary of what you require, how often you'll need it, and what level of business do you hope to provide. Include your business objectives

Ask potential suppliers to give you a firm price in writing for 3 months. Ask about discounts for high-volume or long-term contracts.

When you've received quotations from all of the potential suppliers, compare them in terms of what matters most to you.

For instance, if the quality of their product or service is the most important and their location doesn't matter, opt for the highest quality product you can afford.

However, if their location is important because of delivery lead times, you may have to sacrifice a bit on quality.

This is why it is important to determine your selection criteria ahead of time.

Remember that while the price is important, it should not be the only reason you choose a supplier.

Lower prices may indicate poor quality goods and services, which in the long run may end up costing you more.

Be confident that your vendor can make a sufficient margin at the price quoted for the business to be commercially viable.

Be sure to check that the vendor you employ is the one that will be doing the work. Some suppliers may outsource their work to subcontractors.

If that's the case, you also need to investigate the subcontractor to determine if this is a satisfactory arrangement.

If possible, I arranged to meet potential suppliers face to face and see how their business operates.

Understanding how your vendor works will give you a better sense of how it can benefit your business.

Always keep in mind that your business's reputation could be judged on the labor practices of your suppliers.

As such, it makes good business sense to consider the ethical parts of your supply chain.

After you settle down the suppliers you'd like to work with, it's time to move into negotiating the terms and conditions and drawing up a contract with payment terms.

Getting the Right Supplier for Your Organization

Know What You Need

Make sure you know what you need. Don't allow sales pictures that don't match the requirements to tempt you.

Understand the difference to your business between a strategic partner who provides services or goods that are essential to your business compared to non-strategic suppliers who provide low-value supplies.

Spend more time selecting and managing the strategic suppliers compared to the ones providing your basic office supplies.

Invest Time on Research

If you're in a hurry, don't try to save time by purchasing from the first supplier you find it could be suitable.

Take a bit of extra time to ensure the decision you make is the right one because a mistake here will end up costing you more time and money in the future.

It's important to think about the total cost during your supplier evaluation because a cheaper unit cost with an astronomical shipping cost takes away some of the value.

It may be worth more to work with a supplier that's priced higher, but offers better shipping rates - especially if you'll be ordering from them a lot.

Agree on Service Levels Before Starting

By agreeing on service levels before you start working together, you'll know what to expect from your supplier and they will know what to expect from you.

Keep a Close Eye on the Number of Suppliers You

Work With

By purchasing from a limited number of suppliers, it will be easier for you to manage your supply base, and more than likely more cost-effective. This is especially the case with low value-added suppliers.

However, you never want to have just a single supplier. It's always worth having an alternative supplier ready to help in difficult times. This is especially important when it comes to strategic suppliers providing mission-critical goods and services.

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