



Supplier evaluation takes more than a pulse and a price

BY ROBERT MENARD, CPP

The buzz about supplier evaluation has caused some misunderstanding in purchasing circles. A coherent supplier management strategy requires the best practice of evaluation so let's clarify some of the major points that make an evaluation program a success.

Is supplier evaluation the same as certification?

Supplier certification or qualification is an initial screening process by which suppliers are approved to compete for our business. It means that the supplier meets certain objective standards. For example, a hardware distributor can not qualify to provide catering services.

Supplier evaluation, sometimes called score-carding, is an objective method for measuring performance. It applies metrics (standards of measurement) to calculate ratings in important cost categories and combines these to obtain an overall score. This evaluation score represents the Total Cost of Ownership (TCO) of doing business with a supplier.

Why evaluate?

Supplier evaluation is an essential tool in managing performance and reducing costs. The business adage of "We cannot manage what we cannot measure" relates directly to supplier evaluation. The three compelling business arguments driving supplier evaluation are to:

- Justify decision
- Improve performance
- Reward performance

What to measure?

Universally there are four major elements of cost—Quality, Service, Delivery and Price. The sum of these four amounts to the TCO. Since the importance of each element depends upon the purchase, take the example of replacement valves for cardiac surgery.

Quality is the most important element, hands down. Purchasing should consult with the surgical staff to learn exactly what technical quality standards should be measured.

Delivery is the secondary cost element. Cardiac surgery is often a scheduled event so on-time delivery might be good a metric.

Service is third since the valve may require maintenance over time. A useful metric may be ease of maintenance, such as external or minimal intrusive electronic adjustment.

Price is least important, especially if you are the patient! Therefore, the scorecard or evaluation methodology will be established to place greater weight on Quality, and then in descending order, Delivery, Service, and Price.

Which suppliers should be evaluated?

In general, the greater the potential disaster, the more the supplier's performance is monitored. How often and how detailed the evaluation depends upon your analysis of the potential burn. "Partner, key, strategic, or core competency" suppliers are among those which will receive the greatest the most thorough evaluation scrutiny.

How to create a model to measure supplier performance

First, enlist the aid of internal customers or end users. Supplier evaluation is not idle exercise and will have a lasting impact on supplier and customer alike. The buyer must ensure that the supplier understands how its performance will be measured. Proactive buyers also require the supplier to internally audit their own performance and have a

EVALUATION SHEET

Superb

Excellent

Great

Good



scorecard to compare with the buyer at periodic review meetings.

Other benefits of supplier evaluation

Your evaluation model is just that, a model. It offers an excellent starting point for negotiations with suppliers on how to justify, reward and improve performance. When the supplier understands and accepts how their TCO performance affects their ability to continue to do business with us, the business dynamic shifts away from personality based selling of Price to the solution centered concept of lowest TCO. Objective, quantifiable data driven decisions are undisputable facts, not subjective opinions.

By identifying specific areas of improvement, lowest TCO suppliers may be justifiably rewarded with larger books of business while low performing, high TCO suppliers can be justifiably removed, shrinking the supplier base to a leaner profile.

Supplier evaluation events are ideal opportunities to ask the supplier how we, the customer, can improve. They may be able to offer suggestions to reduce the costs of doing business that are not so obvious to us.

There is every reason to adopt the best practice of supplier evaluation and move away from the pulse and price basis of doing business.



ROBERT MENARD, Certified Purchasing Professional, is a purchasing & negotiation expert, author of *You're the Buyer—You Negotiate It*, professional trainer and consultant with clients in the U.S. and abroad.