

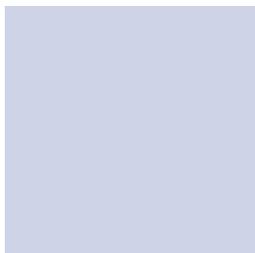
How to appraise suppliers

Introduction	2
Why appraise?	3
When to appraise	6
What should be appraised?	7
How to appraise	11
Who should appraise?	14
Supplier approval	15
Appendices	16

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*This title in the CIPS 'How to Buy' series has been prepared by Dr. Kenneth Lysons, a Fellow of the Institute.
The writer would gratefully acknowledge the assistance of Judith Ray in the preparation of this text.*



How to appraise suppliers

Introduction

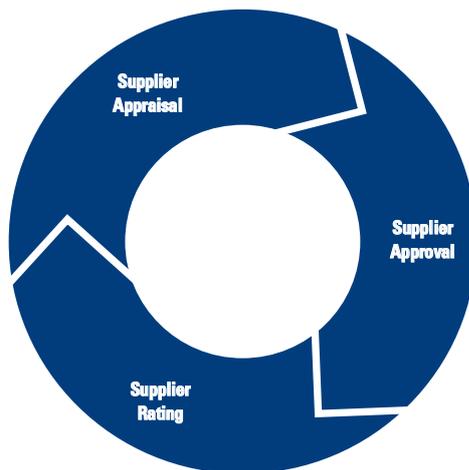
The three terms supplier appraisal, supplier approval and supplier rating are sometimes confused. Each of the three terms has been defined as follows¹:

- Supplier appraisal – Assessment of a potential supplier's capability of controlling quality, delivery, quantity, price and all other factors to be embodied in a contract.
- Supplier approval – The placing of an enterprise on an approved list of suppliers following a process of supplier appraisal.
- Supplier rating – an index of the actual performance of a supplier.

Each term has one or more synonyms. Thus supplier or vendor evaluation is synonymous with supplier appraisal; supplier certification with supplier approval and supplier performance with supplier rating. As shown in Figure 1 the three activities may be regarded as aspects of a continuous process. Supplier appraisal leads to supplier approval followed by supplier rating. Supplier rating may lead either to re-approval or re-appraisal and removal from the list of approved suppliers.

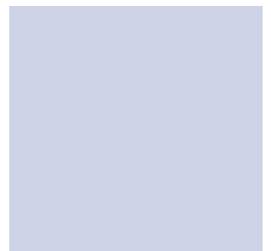
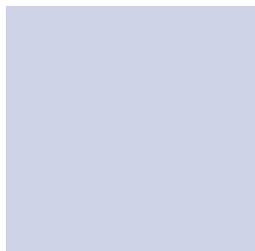
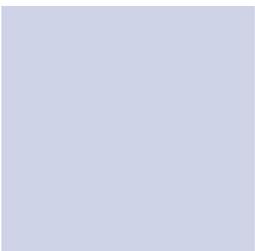
This handbook, primarily concerned with supplier approval follows the approach, but not the order, of the questions posed by Rudyard Kipling²

*I kept six honest serving men
(They taught me all I knew)
Their names are what and why and when
And how and where and who.*



¹The definitions of supplier appraisal and supplier rating are taken from Compton H. K. and Jessop D.A. *The Official Dictionary of Purchasing and Supply*, Liverpool Business Publishing 2001

² Kipling R., *Just So Stories*. *The Elephant Child* 1902



How to appraise suppliers

Why appraise?

The importance of supplier appraisal is that it is an essential aspect of both strategic sourcing, supplier management and the achievement of competitive advantage.

Strategic sourcing

Strategic sourcing may be defined as:

The location, evaluation and selection of suppliers capable of meeting the requirements of a particular category of purchase and contributing competitive advantage to the purchaser.

This definition focuses on four aspects of appraisal.

Appraisal begins with a specification

Potential suppliers must know what is required and purchasers must have criteria against which quotations and tenders can be evaluated. Specifications can broadly be divided as those, relating to:

- **things**, e.g. raw materials, components, assemblies, final products, systems
- **actions**, e.g. functions, processes, procedures, services

Specifications may be:

- specifically prepared for a particular purpose. Such specifications should only be necessary in respect of non-standard applications or projects. For most standard industrial and consumer products it is usually sufficient to use manufacturer's standards as stated in catalogues or other promotional literature or national or international standards. Often existing specifications may be amended to meet new applications, as is the case with construction projects or computer systems.
- alternative specifications. These include the use of brand or trade names and specifications by sample.

For further information on specifications see *How to Write Specifications* in the CIPS 'How To...' series.

Appraisal does not apply to all purchases or suppliers

Purchases can be categorised according to whether they are standard or non-standard, strategic or non-strategic, high or low value.

Categorisation as standard or non-standard

In terms of specifications these have already been referred to above. An alternative classification is into:

- Purchases which can be sufficiently predefined as to allow the user to select from a catalogue. Examples include:
 - office supplies, furniture and equipment
 - construction and maintenance materials/components such as piping, valves, gaskets, electric cabling etc.
 - tools and safety clothing
 - training courses offered by training providers.
 Such requirements are often categorised as MRO (Maintenance, Repair and Operating) purchases and, are particularly suitable for eProcurement.
- Purchases of more complex goods or services where a precise specification and the capabilities of the product or scope and nature of the service need to be agreed in discussions between the supplier and the purchaser. Examples include:
 - complex main plant items such as a compressor
 - purchase of a production control or computer system
 - placing a contract for the design and construction of an industrial building
 - placing a contract for the provision of travel or hotel services
 - outsourcing catering, welfare or plant maintenance.

How to appraise suppliers

Why appraise?

Categorisation according to strategic importance

Kraljic³ has stated that the strategic importance of a given supply item is related to (1) its profit impact and (2) supply risk. Profit impact can be defined in terms of:

- volume purchased
- percentage of total cost
- impact on product quality or business growth.

Supply risk is measured against such criteria as:

- short and long term availability
- number of suppliers
- competitive demand
- make or buy opportunities
- storage risks
- substitution possibilities.

Kraljic depicted the two variables, profitability and risk, as a two-dimensional matrix as shown in Fig 2.

High	LEVERAGE PRODUCTS High profit impact Low supply risk Medium level decision making (Chief buyer) Suitable for short-term competitive bidding	STRATEGIC PRODUCTS High profit impact High supply risk High level decision making (Directors) Suitable for long-term partnership strategy
	ROUTINE PRODUCTS Low profit impact Low supply risk Lower level decision making (Buyers) Suitable for systems contracting	BOTTLENECK PRODUCTS Low profit impact High supply risk Higher level decision making (Heads of activities) Strategy designed to ensure long-term supply
Low		

Figure 2
The purchasing product portfolio technique (adapted from Kraljic)

Categorisation according to value

As a generalisation low profit, low supply risk routine purchases account for about 80% of purchasing activity and about 20% of expenditure or, conversely, 80% of expenditure accounts for 20% of items purchased. This is the basis of ABC analysis under which items can be classified as follows:

Category	Percentage of items	Expenditure
Class A 'the vital few'	About 20%	About 80%
Class B medium usage 'normal' items	About 30%	About 15%
Class C 'the trivial many'	About 50%	About 5%

This is a comparatively simple approach to identifying items requiring regular review. While all purchases should be evaluated from the standpoint of price, quality and delivery, it follows that detailed supplier appraisals in the context of strategic sourcing is particularly relevant to:

- purchasing of complex goods or services to non-standard individual specifications
- strategic (high profit/high risk) and 'bottleneck' (low profit/high risk) items
- Category A items.

Supplier management

Supplier management may be defined as:

That aspect of purchasing or procurement concerned with rationalising the supplier base and selecting, co-ordinating, assessing the performance of and developing the potential of suppliers.

Supplier management is a more strategic and cross-functional activity than 'purchasing', which is transactionally commercially biased. The relationship between purchasing and supplier management is shown in Figure 3.

³ Kraljic P., *Purchasing must become Supply Management*, Harvard Business Review, Sept – Oct 1983 p.110

How to appraise suppliers

Why appraise?

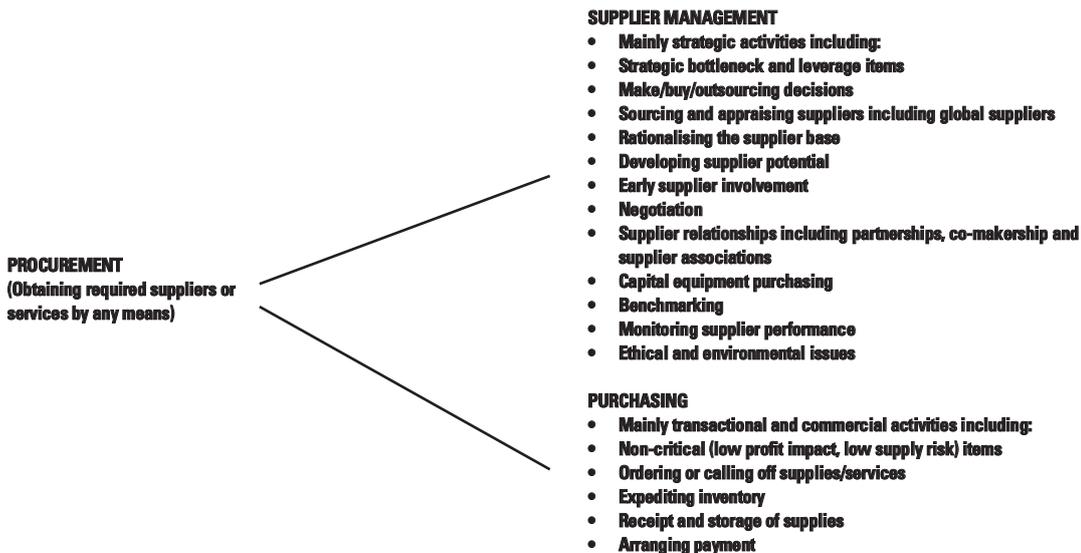


Figure 3
The Relationship between purchasing and supply management

On the basis that it is better to put fences at the top rather than ambulances at the bottom of a cliff, the task of managing strategic suppliers will be much easier if care has been taken in their selection so that subsequent problems are minimised.

Competitive advantage

Competitive advantage may be loosely defined as: Those aspects of an organisation that allow it to compete more effectively than its rivals.

According to Porter 'the goal of a generic strategy' is to 'create value for buyers' at a profit. Day and Wensley⁴, however, argue that there is no common meaning of 'competitive advantage' the term being used interchangeably with 'distinctive competence'. Supplier appraisal may be directed not only at the ability of a supplier to meet a particular requirement but the long-term advantages that the supplier can offer to the purchaser. Examples of such advantages or competences include: innovation i.e. new products or process, co-operation and co-partnership, technology, response time.

A competitive advantage approach focuses on total costs. Fragile and perishable products, for example, have higher handling costs. Maintenance or disposal costs are higher for some items than others. Supplier appraisal should consider how sourcing can help drive such costs down.

⁴ Day G.S. and Wesley R., *Assessing Advantage, Journal of Marketing* 1988, Vol 52, pp 2-20



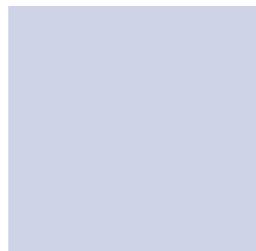
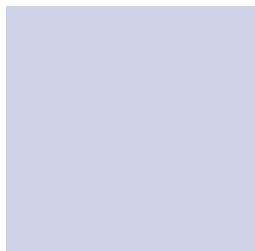
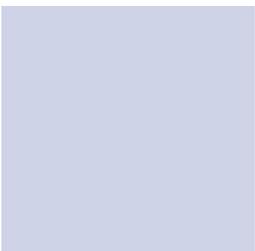
How to appraise suppliers

When to appraise

Supplier appraisal can be a time-consuming and therefore costly activity. It should therefore be selective. There are, however, certain situations in which it is indispensable. These include:

- purchase of strategic high-profit, high-risk items
- purchase of non-standard items
- placing of construction and similar projects
- expenditure on capital items including plant, machinery and computer systems
- for purposes of supplier development i.e. what needs to be done to bridge the gap between a supplier and potential suppliers present resources and competences and the standard required by the purchaser?
- when entering into Just-in-Time (JIT) arrangements
- when contemplating a supplier association. A supplier association has been defined by Hines⁵ as: *A group of companies linked together on a regular basis to share knowledge and experience in an open and co-operative manner.*
- when engaging in global sourcing
- when establishing e-procurement arrangements with long-term strategic suppliers
- when negotiating TQM and quality in respect of high profit/risk items
- when negotiating outsourcing contracts
- before agreeing sub-contracting by a main supplier in respect of important components
- when negotiating service level agreements..

⁵Hines P., *Integrated Materials Management: The Value Chain Redefined*, *International Journal of Logistics Management*, Vol 4, No 1, 1993, pp 13-22



How to appraise suppliers

What should be appraised?

Supplier appraisal is situational. What to appraise is related to the requirements of the particular purchaser. All appraisals, however, will evaluate suppliers from such aspects as finance, production capacity and facilities, human resources, quality, performance, environmental and ethical considerations and information technology.

Finance

The DTI⁶ points out that financial appraisal should reduce, but not eliminate the risk of placing business with a company whose financial viability is in doubt. It does, however, provide information enabling considered decisions to be made either when sourcing suppliers or evaluating tenders. The checks recommended are listed below.

- The assessed turnover of the enterprise over three years.
- The profitability and the relationship between gross and net profits of the enterprise over three years.
- The value of capital assets and return on capital assets and return on capital employed.
- The scale of borrowings, and the ratio of debts to assets.
- Whether the firm has a financial backer or guarantor of some sort.
- The possibility of take-over or merger affecting ability to supply
- Whether the firm is 'tied' to a small number of major customers, so that if one or two withdrew their businesses it might cause the firm financial difficulties.

Such enquiries are advisable for SMEs (small and medium enterprises) in respect of one-off or annual contracts in excess of, say, £15,000. Often the appraisal can be undertaken internally by accounting staff from a study of the supplier's annual report and accounts over the last three or four years. Credit reports may also be obtained from:

- bankers or credit references
- credit reports provided by such agencies as Dun and Bradstreet.

Important information provided by Dun and Bradstreet Supplier Evaluation Reports include:

- sales – gives a picture of the firms financial size in terms of sales/revenue volume
- financial profile – evaluates how the enterprise is doing financially compared to its industry. To understand the profitability and solvency of a supplier five key financial ratios are calculated which provide industry benchmarks against a peer group of suppliers
- supplier risk score – an evaluation of the risk involved in dealing with a supplier. This presents an at-a-glance 1-9 rating based on financial, public records and operational information with 1 being the lowest and 9 being the highest risk. This predictive score helps purchasing to understand the general financial status of a supplier and benchmark the supplier against others.

Production capacity

Capacity has been defined as⁷:

The limiting capability of a productive unit to produce within a stated time period, normally expressed in terms of output units per unit of time.

Capacity is an elusive concept because it must be related to the extent that a facility is used e.g. it may be the policy to utilise production capacity five days weekly, one shift daily or to produce a maximum of 2000 units monthly. Plant capacity can normally be increased by overtime, adding new facilities and suppliers' attention should be given to:

- the maximum productive capacity in a normal working period
- the extent to which capacity is currently over or under committed. A full order book may raise doubts about their capacity to take on further work. Why is a substantial amount of capacity under utilised?
- how existing capacity might be expanded to meet future increased demand

⁶ DTI, *Sourcing and Supplier Appraisal Document E5*
⁷ Buffa E.S. and Rakesh K.S., *Modern Production/Operations Management* John Wiley 5th Ed. 1987 Ch. 17, p. 548

How to appraise suppliers

What should be appraised?

- the percentage of available capacity utilised by existing major customers
- what percentage of capacity would be utilised if the potential supplier was awarded the business of the potential purchaser. This can also be assessed in terms of annual turnover. Care should be taken to avoid making the supplier over dependent on one or two customers
- what systems are used for capacity planning?

Production facilities

Appraisal of production facilities depends on the purpose of appraisal. Appraisal of machinery, for example, depends on what is to be produced. Under this heading it is not possible to make other than general appraisal suggestions. Attention should be given to the following aspects.

- Has the supplier a full range of machinery to make the required product?
- How would any shortage of machinery be overcome?
- Are machines modern and well maintained? (Machine breakdown will affect delivery)
- Is plant layout satisfactory?
- Is there evidence of "good housekeeping"?
- Has the supplier adopted such approaches as computer-aided design (CAD), computer-aided manufacturing (CAM) or flexible manufacturing systems (FMS)?
- Are health and safety provisions satisfactory?

Human resources

No organisation is better than the people who comprise it. Information should be obtained regarding:

- number of persons employed in manufacturing and administration
- use of human resources – whether economical with everyone busy or extravagant with excess people doing little or nothing
- names, titles, qualifications and experience of managerial staff

- training schemes for supervisory and executive staff
- encouragement of teamwork and empowerment
- worker representation and recognised trade unions
- days lost through industrial disputes in each of the last five years
- turnover in respect of managerial and operative staff
- worker attitudes to the organisation and concern for meeting customer requirement.

Quality

The first requirement is that, where applicable, the supplier should have a quality system certificated as meeting the requirements of BS/EN ISO 9001:2000 (BS/EN ISO 9001:1994 standards remain current until December 2003 by which time organisations should have upgraded to the 2000 series).

BS 9001:2000 defines the standard for and requirements of a quality system under four main headings: (1) management responsibility; (2) resource management; (3) product realisation and (4) measurement, analysis and improvement. Purchasing is referred to under 'resource management' in 7.4.

Paragraph 7.4.1 covers the setting up of procedures to ensure that supplies used meet the purchaser's production requirements and include provisions relating to:

- The purchasing process (7.4.1)
- Purchasing information (7.4.2)
- Verification of the purchased product (7.4.3)

The above sections of BS EN ISO 9000:2000 should, however, be read in conjunction with BS EN 9004:2000 that provides guidance relating to the elements that, as a minimum, a quality system for purchasing should provide. Paragraph 7.4.2 gives examples of ways in which the purchasing organisations can ensure that suppliers have the potential capability to provide the required products 'effectively, efficiently and within schedule' such as:

- evaluation of relevant supplier experience
- performance of suppliers against competitors

How to appraise suppliers

What should be appraised?

- review of purchase product quality, price, delivery performance and response to problems
- audits of supplier management systems.

Cognisance should also be taken of the ISO 14000 series. This supersedes BS 7750 which was the worlds first standard for environmental management systems including those for which purchasing has responsibility.

The benefits of dealing with undertakings that have satisfied the criteria for inclusion in the BSI Register of Firms of Assessed Quality include:

- elimination of the need for additional supplier assessment
- simplification of buying decisions
- provision of assurance that quality needs will be met
- Increased confidence in supplier ability.

In respect of suppliers not included in the BSI Register appraisal may require satisfactory answers to questions such as:

- Has the supplier met the criteria for other BSI schemes such as Kitemark, Safety Mark and scheme for Registered Stockists?
- Has the supplier met the quality approval criteria of other organisations e.g. Ford Quality Awards, the Ministry of Defence, British Gas etc?
- To what extent does the supplier know about and implement the concept of Total Quality Management (TQM)?
- What procedures are in place for the inspection and testing of purchased materials?
- What relevant test and inspection does the supplier process?
- What statistical controls are applied in respect of quality?
- Does Quality Control cover evaluation of sub-contractors?
- Can the supplier guarantee that the purchaser can safely eliminate incoming inspection? This is especially important in respect of JIT deliveries.

Performance

Particularly when appraising suppliers of non-standard products such as construction projects or the installation of computer systems, questions should be asked regarding:

- what similar projects the supplier has already undertaken
- what current projects are in hand
- what are/were the distinctive features of such projects
- what innovations might be introduced
- what customers can the supplier cite as referees.

Environmental and ethical factors

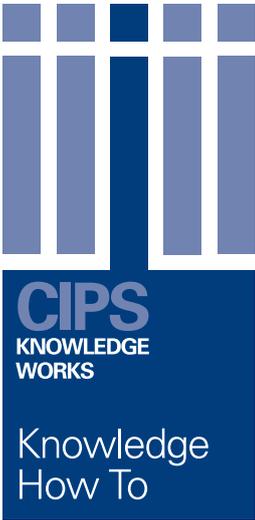
ISO 14001 provides guidelines on environmental policies and, where applicable, suppliers should be expected to have an environmental policy and procedures in place for the implementation of such a policy. A wide number of EU Directives have also been issued relating to air, water, chemicals, packaging and waste.

Apart from reference to ISO 14001 and EU Directives suitable questions include:

- Has responsibility for environmental management been allocated to a particular person?
- Are materials obtained, so far as possible, from sustainable sources e.g. timber?
- What is the life cycle cost of the suppliers' product?
- What facilities has the supplier for waste minimisation, disposal and recycling?
- What energy savings, if any, do the supplier's product provide?
- What arrangements are in place for the control of dangerous substances and nuisance?

Ethical questions may relate to:

- Has the supplier an ethical policy relating to the sale and purchase of items?
- Who is responsible for enforcement of such a policy?



How to appraise suppliers

What should be appraised?

- What guidelines and procedures are provided relating to the confidentiality of information provided by a customer?
- What guidelines apply to the receipt of gifts and hospitality?
- What principles apply in respect of conflicts of interest?

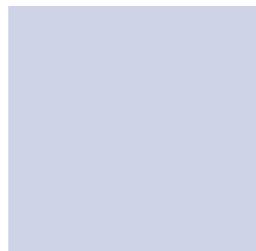
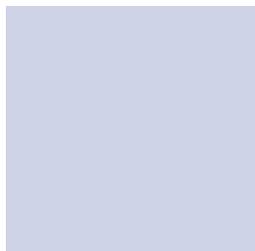
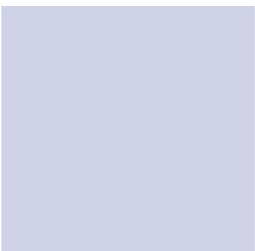
Information technology

Recent research indicates that more than a third of buyers currently use the Internet to conduct transactions and such usage is likely to increase dramatically. Additionally, the web also supports a variety of activities such as identifying new sources of supply; finding product information including products, prices and delivery, tracking orders and receiving technical advice and after-sales service.

It is useful to ask mainly open-ended questions under this heading since the replies will indicate the extent to which the supplier is exploiting the possibilities of e-business. Typical questions might be:

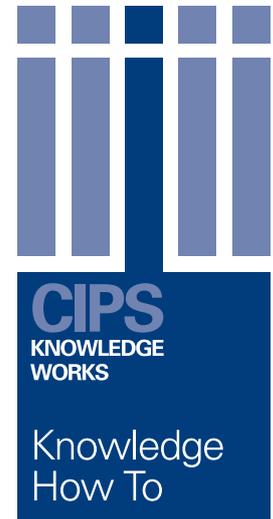
- Does your organisation have a website?
- What information does the website provide?
- What business activities does your organisation process electronically?
- In what ways does your organisation:
 - reduce or eliminate paper transactions
 - shorten order cycles
 - reduce inventory
 - provide real-time information on product availability and inventory
 - provide collaborative planning
 - integrate its supply chain?

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As shown by Figure 4 appraisal methods can be roughly classified under three categories.

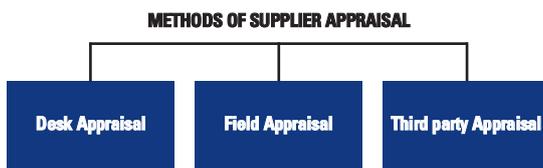


Figure 4

In practice, one or more methods may be used.

Desk Appraisal or research uses published or unpublished information already in existence and is particularly applicable to product and financial appraisals. Secondary data applicable to the former include catalogues, product data sheets, test reports furnished by suppliers, supplier websites and articles in trade or technical journals. Desk research should always precede field research since it will indicate what matters need to be investigated. Sound preliminary desk research will also help those engaged in field research to appraise the accuracy and veracity of the answers provided by potential supplier.

Field research should supplement desk research especially when appraising suppliers of high risk/high value products and when long-term, collaborative relationships are under consideration.

Third party appraisals may be undertaken by a variety of agencies including

- BSI Register of Firms of Assessed Capability
- certification by major companies
- approval by supplier consortia
- approval by independent management consultants acting on behalf of the purchaser.

The United Kingdom Accreditation Service⁸ (UKAS) is recognised by the Government as the sole national body responsible for assessing and accrediting the competence of organisation in the fields of measurement, testing, inspection and certification of systems and personnel. UKAS accreditation of third party independent certification bodies and testing and calibration laboratories is recognition that they meet internationally agreed criteria covering integrity, technical competence and capability to assess companies to BS/EN ISO 9000 in specific areas to a consistent level of quality.

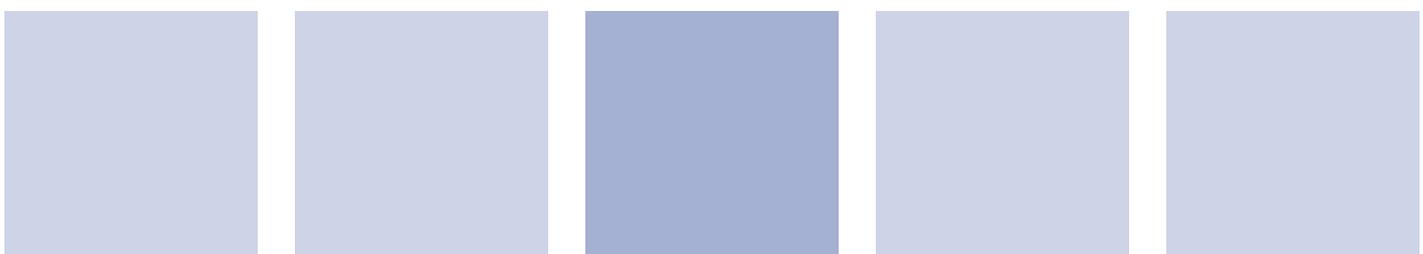
Evaluation and appraisal questionnaires

Questionnaires are the most economical method of obtaining information as a basis for supplier appraisals. Such questionnaires can be used either prior to visits to suppliers or as a basis for supplier certification. The following general guidelines apply to the preparation of appraisal questionnaires.

- Determine the purpose of the questionnaire
- Give clear directions to the respondents i.e.
 - a brief explanation of the purpose of the questionnaire
 - an explanation of how to complete the questionnaire
 - an assurance of confidentiality in respect of the answers given
- Keep the questionnaire as short as is reasonably possible.
- Divide the various sections of the questionnaire into 'fields', each relating to a particular topic such as those listed above.
- In framing questions:
 - ask only what you need to know and obtain information that you will use
 - consider whether it is likely that the respondent will know the answer and the trouble they are likely to have in providing information
 - consider how the respondents will react to the question e.g. will they consider it as an intrusion into privacy, silly, or superfluous?

⁸The United Kingdom Accreditation Service 21-47 High Street, Feltham, Middlesex TQ13 4UN (020 5917 8400)

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How to appraise suppliers

How to appraise

- will respondents understand the wording of questions; are you using technical, cultural specific words or abbreviations?
- ask only one question at a time – avoid the use of 'and' in the question
- avoid using 'not' in questions especially in respect of 'yes' or 'no' answers. Use of 'not' can lead to double negatives and confusion.
- Consider the order of questions
 - Start with factual and then go on to opinion-based questions. This gets respondents engaged in the questionnaire and 'hooked' before having to answer more searching and reflective questions.
 - Where applicable, ask respondents to comment on or explain their answers
- It is useful to end the questionnaire by asking respondents to indicate whether they have found it easy or difficult to compete and how the questionnaire might be improved
- Ensure that the questionnaire is signed, dated and the title of the respondent is provided.

It is always useful to pilot a questionnaire by trying it out internally and making modifications in the light of the feedback received. The information given by potential suppliers on the completed questionnaire is evidence, should it be required, of resources and competences claimed against those actually provided.

Visits to suppliers

Such visits are essential when appraising potential new suppliers of high value/high risk items or tenders for major projects. The usefulness of such visits depends on the amount of desk research and preparatory work prior to the visit. It is for this reason that, as previously stated, "desk research should precede field research". Visits enable information provided on a questionnaire to be verified and answers given by the supplier's staff in the course of the visit to be evaluated. Prior to the visit, a checklist of matters to be investigated should be carefully prepared. This ensures that no important questions are overlooked and provides a permanent

record of the visit and the reasons for decision reached. The following checklist indicates areas which warrant particular attention by staff involved in the appraisal visit.

Personal attitudes. An observant visitor can sense the attitudes of the supplier's employees towards their work and this gives some indication of the likely service quality and dependability.

1. Adequacy and care of production equipment. Close observation of the equipment in a plant will indicate whether it is:
 - i. modern or antiquated
 - ii. accurately maintained or obviously worn
 - iii. well cared for by operators or dirty and neglected
 - iv. of proper size or type to produce the buyer's requirements
 - v. of sufficient capacity to produce the quantities desired.

The presence or absence of ingenious self-developed mechanical devices for performing unusual operations will be indicative of the plant's manufacturing and engineering expertise.

2. Technological know-how of supervisory personnel. Conversations with supervisors, shop superintendents and others will indicate their technical knowledge and their ability to control and improve the operations or processes under their supervision.

3. Means of controlling quality. Observation of the inspection methods will indicate their adequacy to ensure the specified quality of the product.

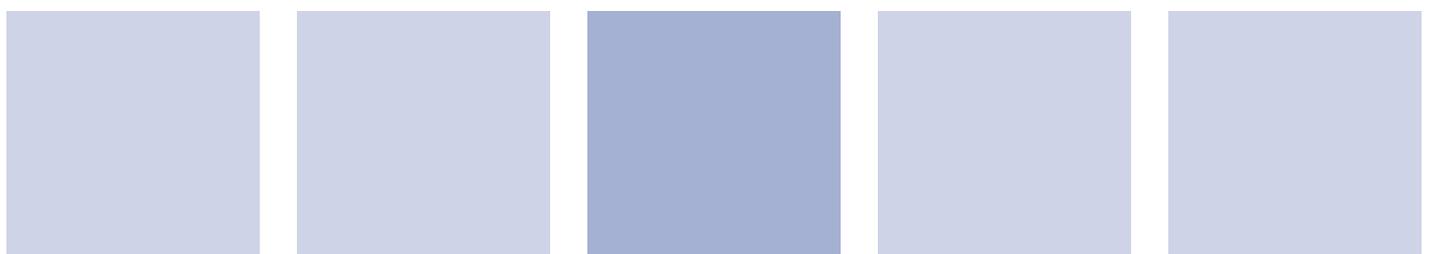
Attention should be given to:

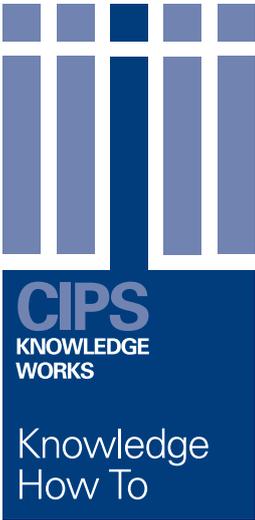
- i. whether the materials received are chemically analysed and physically checked
- ii. frequency of inspection during the production cycle
- iii. employment of such techniques as statistical quality control
- iv. availability of statistical quality control.

How to appraise suppliers

How to appraise

4. Housekeeping. A plant which is orderly and clean in its general appearance indicates careful planning and control by management. Such plants inspire confidence that its products will be produced with the same care and pride in their quality. The dangers of breakdown, fire or other disasters will also be minimised, with a consequent assurance of continuity of supply.
5. Competence of technical staff. Conversations with design, research or laboratory staff indicates their knowledge of the latest materials, tools and processes relating to their products and on anticipated developments in their industry.
6. Competence of management. All the above areas are, in essence, a reflection of management and therefore indicate its quality. Particularly in the case of a new supplier, an accurate appraisal of executive personnel is of paramount importance.





How to appraise suppliers

Who should appraise?

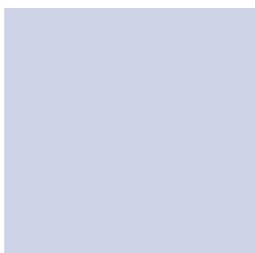
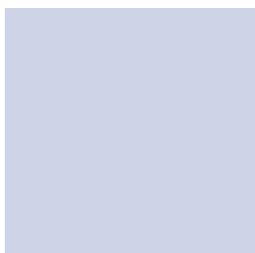
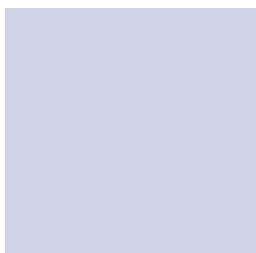
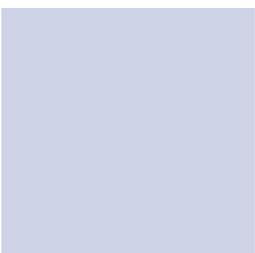
Increasingly, supplier appraisal, apart from standard MRO items, is undertaken on a team basis due to:

- the increased involvement of purchasing in strategic as well as tactical and operational decision-making
- the integration of purchasing into supply chain management
- the movement towards single and partnership sourcing
- the increased complexity of purchasing including global sourcing, where many factors, including political currency, legal and similar considerations enter into the purchasing decision
- the desirability of spreading responsibilities for high risk purchasing decisions
- the need to evaluate the risks and potential contributions to profitability of new materials, products, technology and suppliers.

In general, the team responsible for approving suppliers should comprise all members of the buying centre (normally between three and four) who play any of the following five roles in the purchasing process namely:

- **Users** – who will use the product or service and often initiate the purchase and specify what is bought
- **Influencers** – such as technical staff who may directly or indirectly influence the buying decision in such ways as defining specifications or providing information on which alternatives may be evaluated
- **Buyers** – who have formal authority to select suppliers and arrange terms of purchase. Buyers may help to determine specifications but their main role is to select vendors and negotiate within purchase constraints
- **Deciders** – who have either formal or informal authority to select the ultimate suppliers. In routine purchasing of standard items the deciders are often buyers. In more complex purchasing the deciders are often other officers of the organisation
- **Gatekeepers** – who control the flow of information to others, e.g. buyers may prevent sales persons from seeing user or deciders.

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How to appraise suppliers

Supplier Approval

This was defined earlier as:

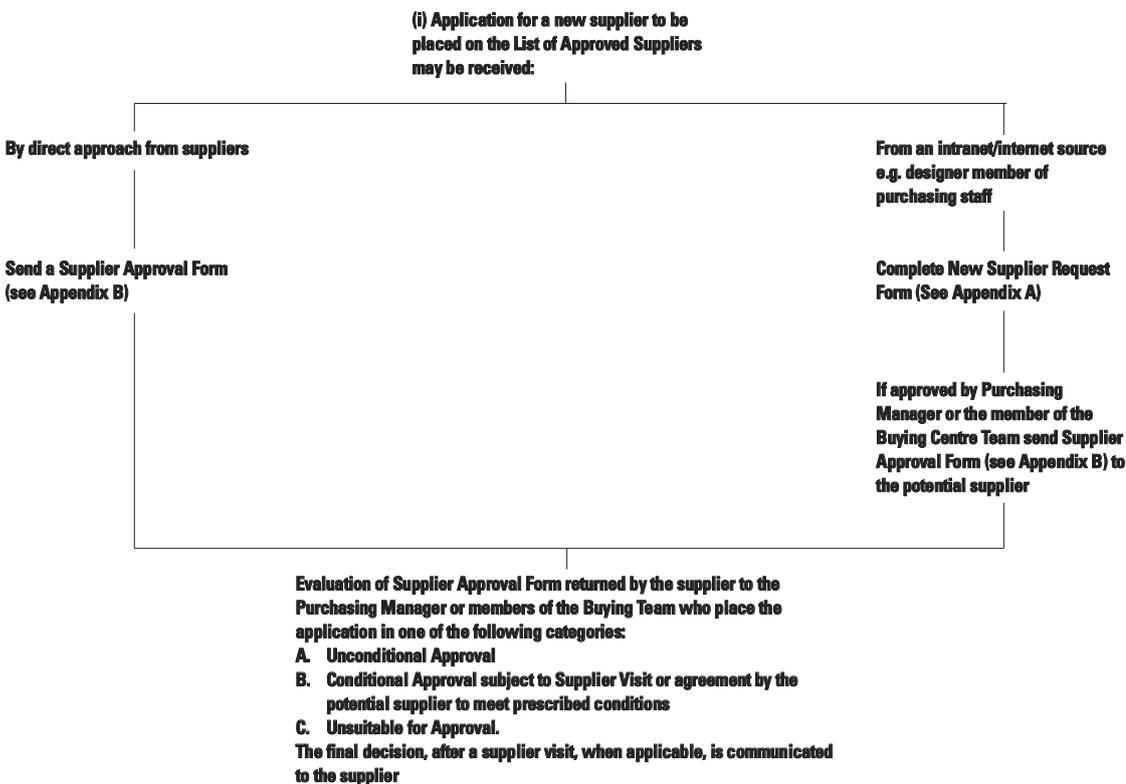
The placing of an enterprise on the List of Approved Suppliers following a process of supplier appraisal

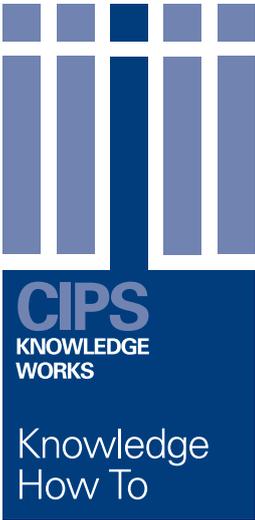
In compiling a List of Approved Suppliers two points must be kept constantly in mind:

- The current emphasis is on a small supplier base and additions to the approved list must be carefully controlled
- The aim should be to consider applications for inclusion on the approved list fairly, so far as possible, of bureaucracy.

Approval should only be given for one year in the first instance. The performance of approved suppliers should be carefully monitored. Suppliers who fail to meet prescribed standards should be removed from the approved list. Conversely those who consistently meet or exceed the prescribed standards over a period of say three years, may be upgraded from 'Approved' to 'Preferred' supplier. Supplier performance measurement is the subject of a further booklet in the CIPS 'How To' series.

The process of approval is shown in Figure 5.





How to appraise suppliers

Appendices

APPENDIX A - XYZ plc

NEW SUPPLIER REQUEST FORM

This form should be completed in respect of a potential supplier not already included in the XYZ plc List of Approved Suppliers. The form should be sent to the Purchasing Manager who, when appropriate, may refer it to the Supplier Selection Team.

Name of person initiating the request _____

Position _____

Telephone extension _____ email _____

Date of request _____

1. Name of recommended supplier _____

2. Address of recommended supplier _____

3. Postcode _____ 4. Telephone _____ Extension _____

5. Email _____

6. www address _____

7. Product or service in respect of which the recommendation is made _____

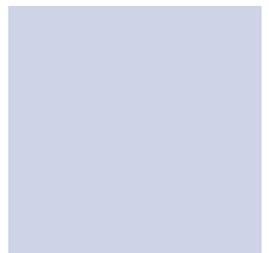
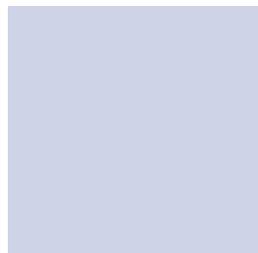
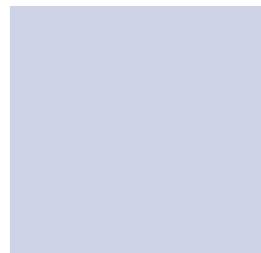
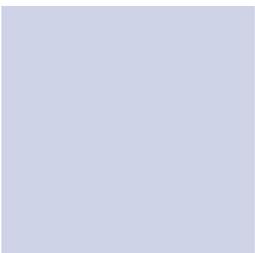
8. Source of information regarding the recommended supplier _____

9. Reason(s) for recommending the supplier _____

10. Other supporting information (please attach appropriate documentation) _____

Signature _____

Counter-signature if required _____



How to appraise suppliers

Appendices

For completion by the Purchasing Manager (after consultation with the Supplier Selection Team where appropriate)

Approved

Rejected

Reason(s) for approval or rejection

Action (i) If approved, forward Supplier Approval form to supplier for completion

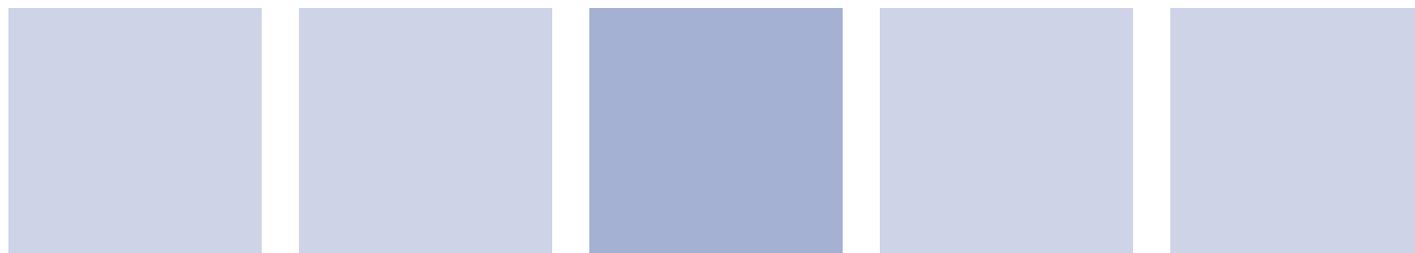
(ii) If rejected state reasons, what further action(s) if any are required and retain on file

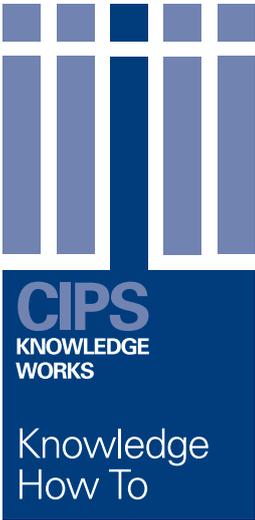
(iii) Notify action taken to initiator

Note: This documentation can be undertaken electronically

¹ References and foot notes

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How to appraise suppliers

Appendices

APPENDIX B - XYZ plc SUPPLIER APPROVAL FORM

The following section asks for general details about your organisation, its people, products and services, and procedures. Please complete each section as fully as possible and attach any additional material you consider relevant.

All information will be treated by XYZ plc staff as given in strict confidence.

Placement on the XYZ plc list of approved suppliers means that while your organisation will be considered as a possible supplier of the products or services you offer, it does not imply that you will be asked to quote or tender on every occasion.

A. GENERAL

A1 Name of Organisation _____

A2 Address _____

Postcode _____

A3 Telephone _____ A4 Fax _____

A5 email _____ A6 www address _____

A7 Nearest railway station _____

A8 Nearest airport _____

A9 Legal status _____

Plc

Private company

Partnership

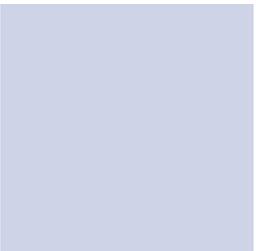
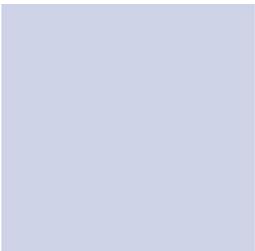
Single trader

Voluntary organisation

A10 Year organisation established _____

A11 Names of parent/sister/subsidiary organisations (if any) _____

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How to appraise suppliers

Appendices

A12 Please list the main products or services manufactured or provided by your organisation

- | | |
|----------|-----------|
| 1. _____ | 6. _____ |
| 2. _____ | 7. _____ |
| 3. _____ | 8. _____ |
| 4. _____ | 9. _____ |
| 5. _____ | 10. _____ |

Further information (if any) _____

A13 New products/services in preparation _____

B. FINANCE

Companies should attach copies of their last three annual reports and accounts.

B1 Annual total value of sales for the last three years

Year _____ Value of Sales _____

B2 Net profit/loss in each of the last three years

Year _____ Net Profit/loss _____

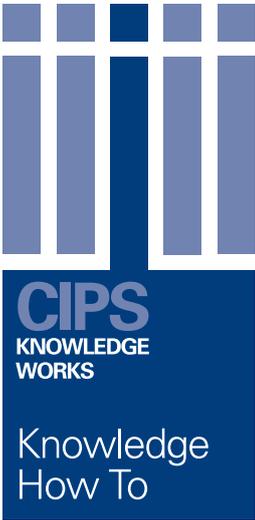
B3 Names of bank referees _____

C PRODUCTION CAPACITY

C1 What is the maximum current production capacity in respect of the products/services you wish to supply?

C2 What is the current utilisation of the above capacity? (Express as a percentage)





How to appraise suppliers

Appendices

C3 How might your production capacity/service provision be expanded? _____

C4 Is any overtime currently been worked? _____

D PRODUCTION FACILITIES

D1 Give details of any special production/service facilities available _____

D2 How are maintenance activities planned and controlled? _____

E HUMAN RESOURCES

E1 Number of full time employees

Production _____

Administrative/Marketing _____

Other _____

Total _____

E2 Names of principal directors/managers

Managing Directors or Chief Executive _____

Marketing/Sales _____

Production _____

Production/materials/logistics _____

E3 Normal working hours/number of shifts _____

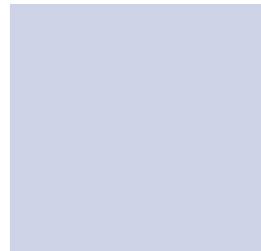
E4 Trade unions recognised by the organisation _____

E5 Time lost through industrial disputes in each of the last three years _____

Year _____ Time lost _____

E6 Date and duration of annual shutdown _____

E7 Investors in people or other recognition _____



How to appraise suppliers

Appendices

F QUALITY

F1 Has your organisation ISO 9000 or equivalent Quality Assurance Certification? (Please give details)

F2 Has your organisation met the quality approved criteria of other purchasers? e.g. Ford, British Gas, Government departments

F3 Is your organisation committed to the concept of Total Quality Management?

F4 What relevant test and inspection facilities does your organisation possess?

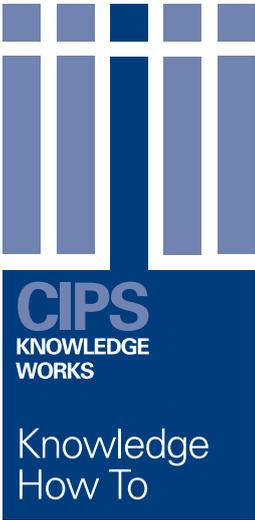
F5 Can you guarantee that products supplied by your organisation will require no inspection by the purchaser?

G PERFORMANCE

G1 Please state the names of your major customers

G2 To what countries, if any, has your organisation exported products/service over the last three years?

G3 Please give brief details of major projects undertaken during the last three years



How to appraise suppliers

Appendices

H ENVIRONMENTAL AND ETHICAL FACTORS

H1 Has your organisation an environmental policy incorporating the requirements of ISO 14001?

H2 Are materials used obtained, so far as possible, from sustainable sources?

H3 Is packaging and other material used capable of environmental safe disposal or recycling?

H4 Has your organisation an ethical policy relating to marketing and sales? (Please give details)

J INFORMATION TECHNOLOGY

J1 In what way(s) does your organisation use IT to:

J1.1 Reduce or eliminate paper transactions

J1.2 Shorten order cycles

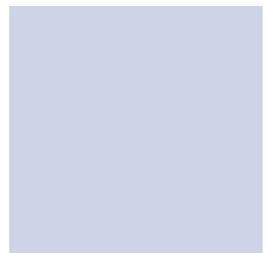
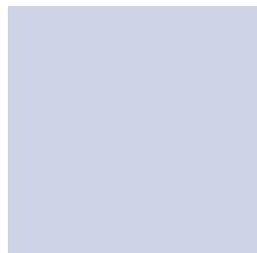
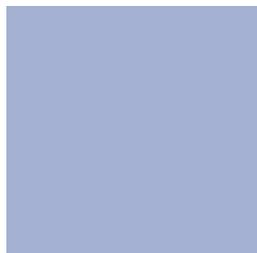
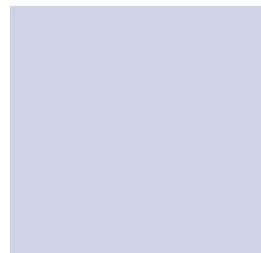
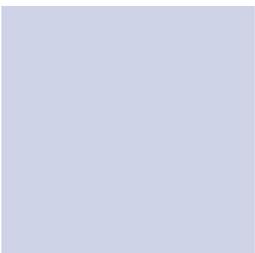
J1.3 Provide real-time information on product availability and inventory?

J1.4 Provide facilities for inter-organisation collaboration?

J2 Has your organisation an e-procurement strategy?

J3 If the answer to J2 is 'No' what steps is your organisation taking to adopt and implement an e-procurement strategy?

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How to appraise suppliers

Appendices

K OTHER INFORMATION

Please provide any additional relevant information

L DECLARATION

I/we declare that the replies given to the questions in this Supplier Form are to the best of my/our knowledge true and accurate as at the date of signature.

Signed as the authorised representative(s) of the _____ (name of organisations)

this _____ (day) of _____ (month) _____ (year)

1. Signature _____ Official position _____

2. Other signatories _____

