



TOPIC GUIDE: SUPPLIER APPRAISAL

Introduction and Definition

1. Supplier (also known as 'Vendor') Appraisal is undertaken mainly at a Supplier's premises to check if a new Supplier is suitable for use by the Company. Other checks are done from papers supplied and with a credit checking company.
2. The following lists do not have to be exhaustively used for all Suppliers. Instead, consider the real risk to the Company. What would happen if the Supplier failed to perform? Is there another Supplier ready to step in? If there is little real risk then the Vendor Appraisal can be simpler.
3. For existing Suppliers the best check is how they are performing with a current contract.

The 'Approval Criteria - Summary

4. Before approving the use of new suppliers, Procurement Staff must be satisfied, as a minimum, that they are:
 - technically sound;
 - managerially competent;
 - adequately resourced;
 - financially stable;
 - reliable.
5. To ensure that the supplier meets the above criteria the following information may need to be obtained by a Procurement Manager (assisted as necessary by in-house or contracted specialists). How much you need to do depends on the risk to the Company. An important IT system will need deep "due diligence". However, a call-off arrangement where another supplier can quickly step in may merely need a telephone call to check on some aspects or a brief visit to the supplier's premises.

Technical Competence

6. A technical expert should be taken on visits to assess the following areas:

- technical background, training and experience of key personnel;
- organisation and control of technical activities, e.g. estimating, design, installation;
- quality assurance and control standards applicable and methods of implementation;
- familiarity with industry standards;
- availability of testing equipment and procedures;
- adequacy of after sales service – availability and location of service engineers, spare parts, response time; and
- record on innovation and quality improvement.

Managerial Competence

7. The sort of areas which should be looked at are:

- organisation of Company – availability of detailed organisation charts and Staff numbers;
- overall corporate structure (where Company is a subsidiary);
- key management policies covering quality, training, career development etc;
- availability of job descriptions for key Staff;
- health, safety and welfare policy of Company and record over the last 3 years;
- maximum size and complexity of contract that can be efficiently managed.
- does your contract represent more than 20% of their business. If it does you need to be assured that they can cope;
- what is the largest contract they have delivered and what was the performance;
- is there a general air of efficiency around the Company;

Adequacy of Resources

8. Consider the following:

- dimensions of workshops and list of principal machine tools;
- availability of mobile equipment e.g. cranes, fork lifts;
- numbers and skill levels of manufacturing/installation personnel;
- adequacy of storage and distribution system e.g. warehouses, transport;
- proven production planning and control systems;
- packaging and shipping facilities available; and
- details of work generally sub-contracted or brought in, including names of suppliers;
- procurement standards;
- quality and quantity of staff. Do they appear competent.

Financial Stability

9. Consider the following, if necessary involving an Accountant:

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- independent reference – arrange a Dun and Bradstreet or other company credit check, but be aware that information can be 1 year and 8 months out of date – much can change in that time. You may need to ask for an interim unaudited financial statement.
- copies of the last two annual reports available for both the subsidiary and, where relevant, the holding company. Also interim reports since the last annual report which will be at least 9 months out of date;
- references available;
- parent Company prepared to guarantee formally the performance of subsidiary; and
- Company prepared to furnish performance bonds.
- Banker`s guarantee.

Reliability

10. Consider the following:

- record on meeting delivery/completion dates;
- availability of references from customers;
- record on late deliveries/ completion dates with reasons and names of customers affected
- service factor – equipment downtime.
- QMS – non-compliance records. Check speed of close out of non-compliances.

Enthusiasm

11. Sometimes overlooked in appraising potential suppliers is the need to assess their keenness to acquire business. This factor should ultimately translate into the efficient performance of the contract. Such an assessment, particularly for 'new' suppliers, can only be subjective and would reflect your judgement based on such factors as:

- expressed interest of the suppliers' key staff (from the Managing Director to the sales representative) in obtaining the business;
- be aware that project/production/technical Staff who will do the work may have a different view to sales Staff.
- also look behind a slick presentation - what is production like?
- speed of response to requests for information; and
- size of company; a small or medium size Company which is growing can produce very good quality and be very reactive to customer needs.

Discussion

12. The range of information needed will, of course, depend on the category and value of the goods or services and whether there is a real risk. The acid test is how much

impact will there be on our business if the contract goes wrong. The above lists are neither mandatory nor exhaustive. Some areas such as Building and Property, because of the complex nature of the procurements, need highly specialised technical and other information from potential suppliers and you or technical experts will need to supplement the above lists accordingly. For other areas requiring generally straightforward goods and services you may decide to reduce the information required, particularly in order not to discourage business from small firms.

13. In some cases the information obtained will uncover particular weaknesses in otherwise satisfactory potential suppliers. However such weaknesses can be rectified or compensated for by contractual action, negotiation prior to an award of contract or by arranging zealous contract administration and/or inspection. Such suppliers (particularly when the market is limited) can then be safely included.

For more information on how the **Buying Support Agency** can support your company to significantly reduce purchasing costs and improve supply efficiency, contact us today on **0845 5553344** or email info@buyingsupport.co.uk