

SUPPLY CHAIN MANAGEMENT

LESSON 8: SUPPLIER EVALUATION METHODS FOR STRATEGIC SOURCING

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Chapter Description

- Aims

- To provide knowledge on the characteristics that a suppliers should possess, the suppliers evaluation factors and the methods used in evaluating suppliers

- Expected Outcomes

- Students should be able to:
 - Identify the characteristics of a good supplier
 - Determine the factors involved in supplier evaluation process
 - explain the suppliers evaluation method

- References

- <http://140.119.115.26/bitstream/140.119/35064/5/55068106.pdf>
- <https://scm.ncsu.edu/scm-articles/article/performance-measurements-and-metrics-an-analysis-of-supplier-evaluation>



Chapter Outline

8.1 Characteristics of A Quality Supplier

8.2 Suppliers Evaluation Factors

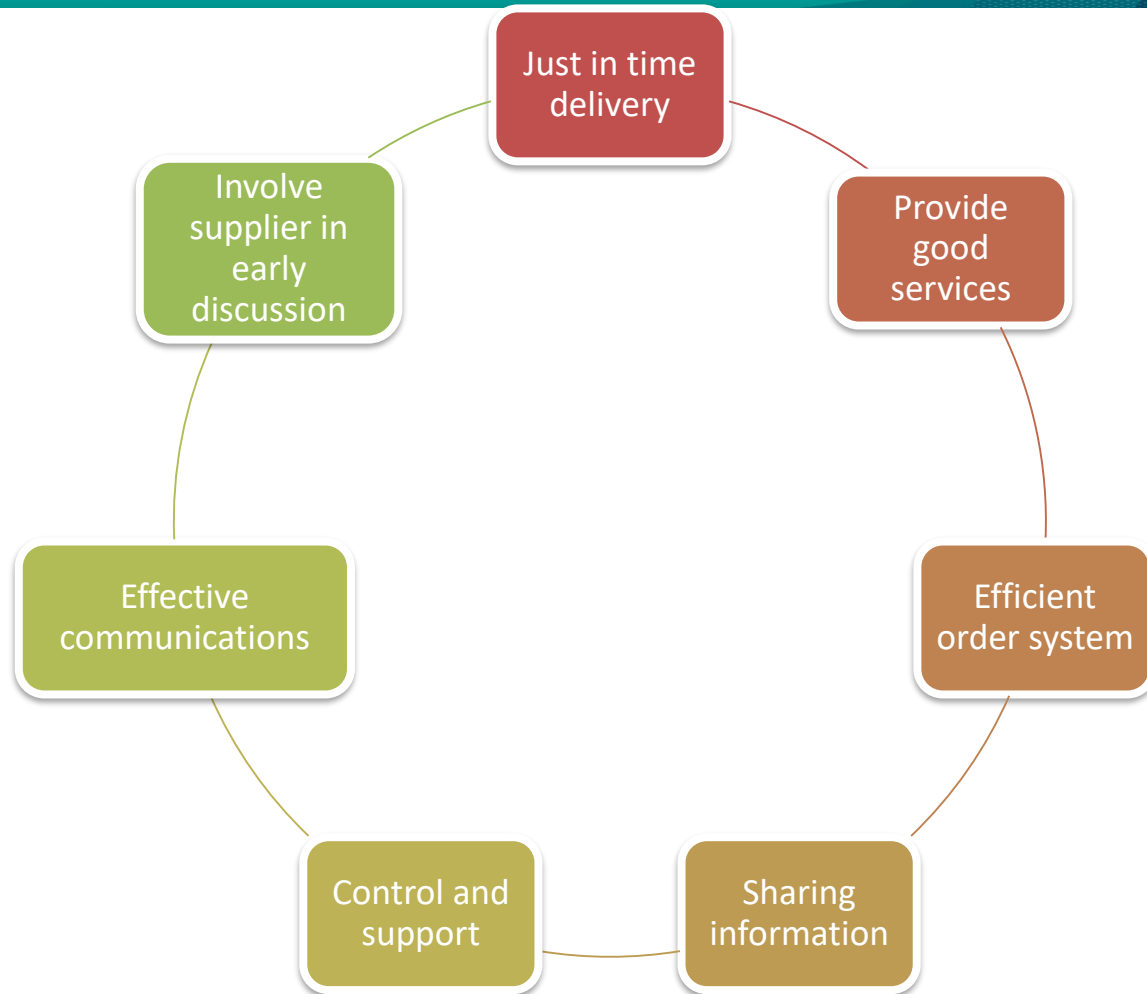
8.3 Suppliers Evaluation Methods



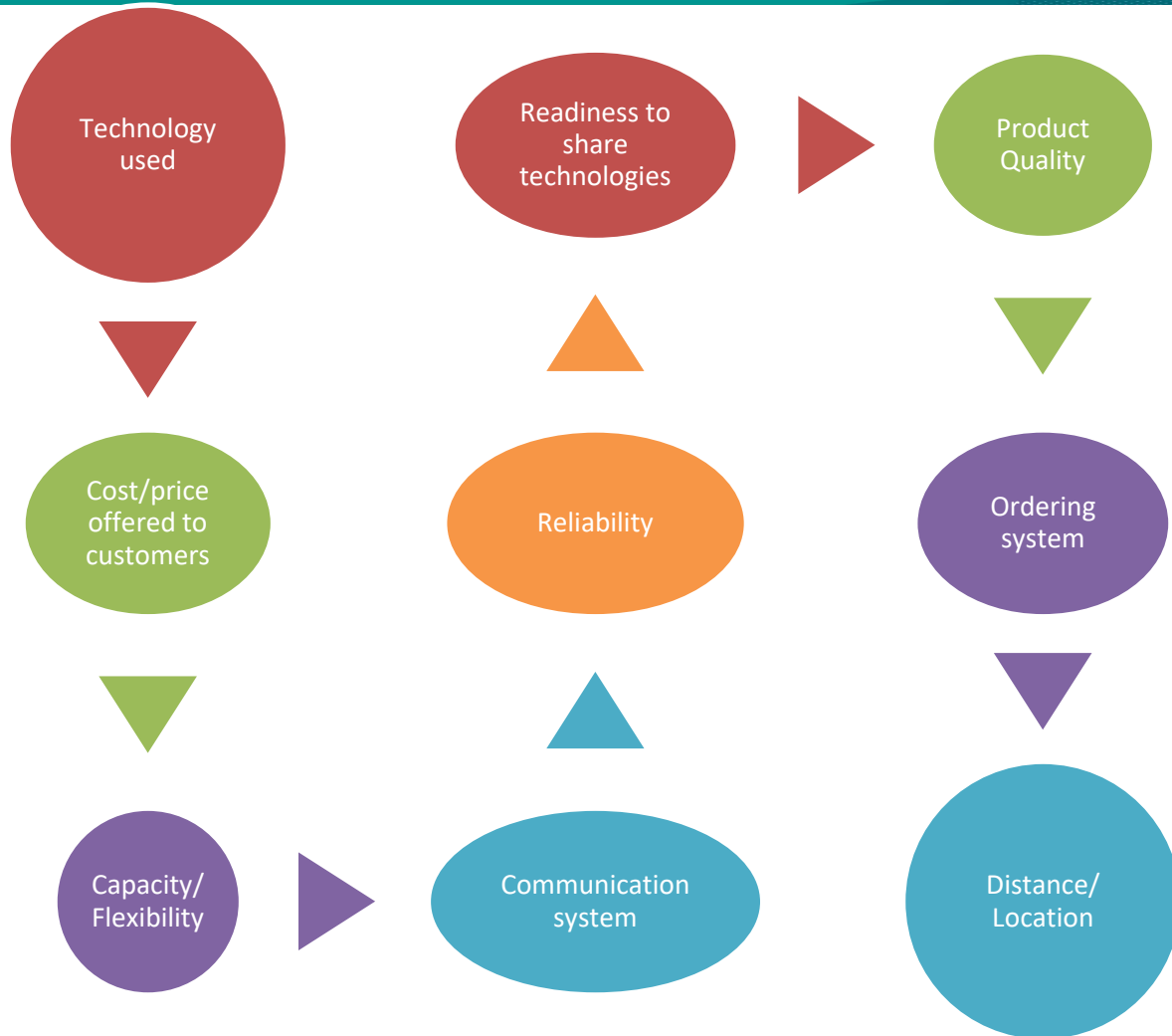
LEARNING OUTCOMES



Characteristics of a good supplier



Suppliers Evaluation Factors



Supplier evaluation methods

Why do companies evaluate suppliers?

- To find the most competent supplier
- To manage suppliers risk
- To avoid any difficulties related to suppliers flexibility and capability
- To increase efficiency in terms of business operations



Source:
Wikimedia

Categorical
method

Weighted-
point
method

Cost-ratio
method



Supplier evaluation methods

Method	Categorical	Weighted-point	Cost-ratio
Characteristics	Relies on historical record performance	<ul style="list-style-type: none">Based on weighted-pointComposite index used to make comparison	Relates all identifiable purchasing costs to rate the supplier
Grading/Evaluation standard	Plus (+) Minus(-) Neutral grades	AA – best A – high B – moderate C - Low	Quality cost, delivery, services, etc.
User	Small company	Most company	Big company with large supply base



Supplier evaluation methods (cont.)

Method	Categorical	Weighted-point	Cost-ratio
Advantages	<ul style="list-style-type: none"> • Easy implementation • Minimum data required • Suitable for limited resources organization • Low-cost system 	<ul style="list-style-type: none"> • Flexible system • Allows supplier ranking • Moderate implementation costs • Combines quality and quantity factors 	<ul style="list-style-type: none"> • Provide total cost approach • Provide supplier ranking analysis • Great potential for long term improvement
Disadvantages	<ul style="list-style-type: none"> • Least reliable • Rarely used as it is difficult to measure • Most subjective assessment • Manual assessment 	<ul style="list-style-type: none"> • Tend to focus of unit price • Requires some computer skills 	<ul style="list-style-type: none"> • Cost-accounting skills required • Complex in implementation • High costs • Computer resources required



Conclusion of The Chapter



- **Conclusion #1**
 - A supplier with a good characteristics will ensure the effective and efficient sourcing process
- **Conclusion #2**
 - Nine factors to be considered in evaluating supplier i.e; technology, cost/price offered, flexibility, quality, etc.
- **Conclusion #3**
 - Suppliers evaluation are to be conducted to help the firm to identify the most reliable and competent suppliers to ease and enhance the quality of sourcing in an organization.
 - Three basic methods can be used such as categorical, weighted average and cost ratio.