

# Supplier Appraisal



Conducting supplier appraisals is a key role of the purchasing professional and without a solid, cohesive supply chain, organisational competitiveness is seriously compromised



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### Introduction

Without a solid, cohesive supply chain, organisational competitiveness is seriously compromised. The quality of the supplier base is critical to that supply chain effectiveness.

Conducting supplier appraisals is a key role of the purchasing professional. Compton and Jessop in 'The Official Dictionary of Purchasing & Supply'<sup>1</sup> define supplier appraisal as 'an assessment of a potential supplier's capability of controlling quality (delivery, quantity, price, and all other factors to be embedded in a contract). They suggest that appraisals are carried out at the pre-contract phase of supplier sourcing. The process of appraising suppliers may also be referred to as 'supplier evaluation'.

### Benefits of appraising suppliers

Let us take a particular scenario. As a purchasing manager, you are charged with sourcing three different products, from different suppliers, for your organisation. Supplier analysis has determined that one of the products (Product A) is of low value and available from multiple sources. Product B is of high value and available from a single source. The final product, Product C, is a critically important, strategic item but available from multiple sources.

If the supply of Product B to the company fails there would be serious consequences for the buying organisation. A failure to receive Product C would be important, but as multiple sources are available, not catastrophic to the company.

Pre-contract, supplier appraisals for strategic suppliers are part of good procurement practice. They would help to mitigate against a catastrophic failure due to supplier failure within the supply chain.

The benefits of supplier appraisals include:

- Determining that the supplying organisation has the same culture and ambitions as the buying organisation.
- That the management teams at both organisations are on the same wavelength.
- That the supplying organisation has the capacity for operational expansion in line with business requirements.
- An evaluation of the supplier will also form part of a strategic analysis process, and identify the gap between current performance and future performance that is required.

It has been stated that supplier appraisals are a pre-contract activity. They can also form part of post-contract supplier development.

### Post contract supplier development

From the scenario above, let us assume that the three different suppliers are in place. Post-contract activities will involve different, but complementary areas of the business.

At an operational level, information gained from supplier appraisals will demonstrate the supplier's level of operational efficiency. Performance gaps identified can be managed by the

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<sup>1</sup> HK COMPTON and DA JESSOP, *The Official Dictionary of Purchasing & Supply*, Liverpool Business Publishing, 2001.

buying and supplying teams. Appraisals may also involve analysis of supplier scorecards. At the strategic level, supplier appraisals may identify which of the three potential suppliers to develop further; perhaps develop a more strategic relationship with.

### Ensuring the success of supplier appraisals

The CIPS Knowledge Works document on the 'Appraisal and Performance Monitoring of Suppliers'<sup>2</sup> state nine reasons to promote success in using supplier appraisals:

- The time and resources put into measurement will be commensurate with any benefits realised.
- Simple measuring systems gain greater support from within the organisation than more complex ones.
- Performance measurement must be view as a tool to aiding decision making.
- The measurement criteria should be weighted according to the priorities of the customer.
- Measurement criteria should be discussed with the supplier prior to its use. Supplier 'buy-in' is critical to successful development of the relationship.
- Both organisations should be encouraged to use existing information, rather than create more work for team members.
- Depict suppliers' performance in graphic form, in a prominent with the organisation. This fosters ownership and a sense of pride.
- Work towards a win-win situation for both parties.
- The buying organisation should set up recognition and reward systems to acknowledge outstanding supplier progress.

### Conclusion

Supplier appraisal, sometimes referred to as supplier evaluation is a key task of the procurement professional. It may be viewed as being both pre- and post-contract activities, and lead to more efficient and effective management of the supplier base. This in turn can foster greater organisational competitiveness.

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<sup>2</sup> CIPS Knowledge Works guidance documents are available under the Knowledge section of the CIPS website ([www.cips.org](http://www.cips.org))

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