

METHODS OF SUPPLIERS EVALUATION IN ROMANIA

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Abstract

My topic is methods of suppliers evaluation and it contains several subtopics. The first one includes the most popular factors which are influencing choice of supplier. Second is for Finding Supplier Lists the other one is about submit all information and making a choose which supplier is the most appropriate for as. My report is also connected with the practical part of the problem. All this factors influencing choice of supplier are very important especially in our days, because there are a lot of different suppliers on the market and if we want our company to be the best we have to make right decision about our supplier.

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1. Introduction

A supplier is an very important element of every business. A supplier could be a provider of good and or services which the business in turn resells or adds value to. The qual ity of suppliers a business has directly impacts or affects the quality of service delivery. It is important to select your supplier for the right reasons. While you may have once-off suppliers from time to time, it is riskier as there is no definite service level guarantee and long term commitment. Such suppliers are to be avoided as much as possible. In some companies, procurement is only done from a list of vetted registered suppliers who would have met stringent criteria and scrutiny. It is easy to find any kind of supplier. When you put considerations and conditions you can easily sift and select those suppliers who meet the standards and status of your organization. There is a supplier for every size and class of business. Not

every supplier that exists is a genuine partner to rely on and build your business on. Below are considerations and tips that will help you get the best suppliers to partner with your business.

The evaluation and selection of suppliers, structuring the supplier base is an important task in any organization. It assumes utmost importance in the current scenario of global purchasing. Every Organization especially manufacturing organizations need to have a Supplier evaluation matrix or model in place. This paper tries to bring in a typical Supplier.

Evaluation Framework, which blends with company's basic values, and help in establishing a Strategic sourcing policy. It also outlines ways and means to reward a supplier and establish long-standing relationships with suppliers.

The most important factors influencing choice of supplier

A. Supplier Capacity and Reliability - In what way is the organization you are considering as a supplier capable of meeting your needs. How long have they been in operation? What is their production capacity and level of pressure they are already under from their existing customers? Consider the reliability and track record the company may have.

You may need to speak to other customers who have already started using the services of this particular supplier to get a second or third opinion. Without traceable references you are left to assume that the supplier is reliable. Also consider the levels of stock that the supplier keeps at any given time. This will indicate to you whether your order will be fulfilled instantly the next time you order. Some suppliers do not even keep stock, they only order from their own suppliers once they get an order in which case delays are experienced which could affect how you offer services to your own clients. It is important to note that the reliability on lack of it on the part of your suppliers has a direct impact on the business's reliability. You cannot support your customers fully with unreliable suppliers whom you are not sure to find in the same place the next time you visit them. Take time to cut out those who let you down constantly.

B. Corporate value system - The value system of a business tells you what they believe in and their general work ethic. Always study the value systems and choose suppliers who seem to live according to their

value in real life. Values become the habits and character definition of the people serving you. However, some suppliers simply hang values on the wall and that is where it all ends. A company would rather have 3 values which they advocate for and live by than have ten flowery values which remain imaginary not real. Are the values in any way telling you anything about the service delivery, the customer focus etc? Find a supplier who matches your values and beliefs. A supplier who does not cut corners in a bit to make a sale. A supplier who would rather lose the order than supply imitations purporting to be supplying originals.

C. Quality of products - Most organizations thrive because they offer quality products.

You may have sales people who are very jovial, with a positive attitude, smiling all the time but if the product range you are dealing with leaves a lot to be desired in terms of quality then your service mars the business growth totally. No one will ever want to resell products that are not tried and tested. One thing most customers avoid is having to deal with the comebacks or return as this impacts on profitability and reputation. I have noticed that each time I have provided good and services to a customer and there are some concerns and comebacks, I have had to work overtime to retain that customer than in cases where I have given a product or service of high quality. In such cases customers have gone out and spoken well of my business and in turn became my silent sales people.

D. Credit terms - The payment options that supplier provide help them to retain and serve their customers satisfactorily. Most customers are not keen on parting with cash on the very day they receive the goods or services. Customers require time to process payment and be able to strengthen their cash flows through these legal delays in payment. While credit terms are attractive, some customers tend to abuse such facilities by over extending their credit payments. If you are selecting a supplier, always agree on reasonable credit line such as 7 to 14 days which is not too short or too long. It gives a win-win scenario. Realize that you also may have customers who require the same credit facility. In cases where suppliers refuse to give you such terms, then you also need to tighten your cash-flow position by ensuring that your customers pay as you deliver the goods. I have seen companies collapse at the weight of having to finance other businesses all because they simply wanted orders and debtors. You rather not have the order if you are not getting terms and your customers

are putting pressure for terms. You can only give away what you have been given.

E. Proximity and Distance - This is an important consideration. You could have suppliers on other continents outside of your own. Realize that there is a delay in shipment that occurs between the time of placing an order and getting the order into your own stock room. You may need to keep contact with suppliers that also close in case you run out and receive urgent orders. In you manage your imports properly you may be able to get all your material from other continents. In that scenario distance ceases to be an issue. The advantage however of dealing with smaller local suppliers is that you have a backup plan and in the event of returns, it is an easier process to get product back to the supplier without huge transportation costs.

F. Competitive Pricing - Businesses desire to be profitable. After all, the reason why businesses exist is to make a solid consistent profit for the benefit of the investor and all stakeholders. One way to increase on profits is to ensure that you do not unnecessarily purchase your inputs from expensive suppliers. Having registered suppliers and also a consistent relationship with existing suppliers allows the customer to leverage on pricing.

They can negotiate for bulk purchase discounts. In most companies, even after selecting a pool of suppliers to deal with both locally and abroad, there is a policy for procurement staff to get 3 quotations for the same product from different suppliers. The \$5 difference in price does make a difference in your pricing of the same product. The goal is to ensure they get the best pricing possible so as to forward the same benefit to the end user.

G. Warranty Issues - It is one thing to supply a product and it is a totally different ball game to ensure that there is valid warranty on it. Make it clear as you purchase the product that you want warranty card or certificate. You can only give warranty to your clients based on the warranty given to you by the supplier. This is where paying attention to detail is of paramount importance. You must be able to return the product if it fails to deliver what the manufacturer claims to be the proper life and performance capacity. The warranty must not be assumed but be in writing. If you have bought from the local channel, it is easier to process your warranty than in situations where you go to alternative channels or markets. I had a rude awakening once when I established a supplier in

United States of America while running a business in Zimbabwe. It took 2 weeks for the huge machine to get to my office. The machine was delivered to the client immediately. After two weeks the huge machine failed and had to come back to my office. Because I had not bought the machine through the established channels, I had to ship the machine back to America. The cost of shipping alone equated to the profit I had received a few weeks earlier. It is not worth it; rather focus on a channel that honors international warranty.

H. After Sales Support - Depending on the nature of product you intend to be procuring from a supplier, you need to establish what happens in the event that they have sold you the items and you now need support and technical assistance. Always assess the capacity to support you after the sale has been done. Likewise you also need to develop or hire skills to ensure they offer the first level of support and maintenance of the equipment you are selling.

I. Up to date Product Range - How up to date is the product range that your supplier is giving you. There are always new products being developed daily if your supplier sticks to the old range, soon enough your company will be left behind. Technology advancements have ensured that new releases of better, faster, more efficient and cost effective products come on the market. The goal is to make more modern products available to the market at competitive pricing. This is made possible as companies invest in research to ensure they make the same products if not better at a lower cost all the time. Sometimes it is good to partner with a supplier who has a broader range of choices than where one range is being marketed. The broader the range the more the choice you have available to yourself to choose from.

3. How to found the best supplier for our company?

1st

Join trade associations. These organizations match wholesale suppliers with retailers, or distributors, in the same industry. Because some of the best associations charge membership fees, you should account for these costs in your business plan. If you are not sure where to start, ask other owners for references to the most-reliable trade organizations.

2nd

Search for suppliers in your association through membership access to online tools. If you sell a variety of products, you will require several vendors to supply your business. Make a contact list of those who seem to be a good fit for your needs.

3rd

Read your mail. Once you join a trade group, you will be contacted through email and postal mail by many of the suppliers. Carefully review solicitations and catalogs because you might find a new vendor or one you did not initially consider. You also will be sent notifications of specials on certain items, which can give you a larger profit margin or help you sell a higher volume at a lower price.

4th

Perform a general search on the Internet for suppliers in your industry, if you cannot afford membership to an association. Some vendors in your industry will not be tied to organizations, and you can find them online.

5th

Ask business owners who sell products like yours for references to suppliers.

However, if the company is a direct local competitor, the owner might not cooperate. If you know of a business in another region, that owner might be more willing to share information.

4. How to choose the most appropriate supplier?

1st

Review distributor ratings of suppliers before you consider doing business with them.

Most trade associations allow customers to rate vendors on details such as customer service, delivery, product quality and problem resolution. Work with reliable suppliers who receive high ratings from their customers.

2nd

Search the Internet for your competitors' retail pricing. Once you know what customers are paying for items, look at a supplier's wholesale pricing and calculate your markup. If your profit is enough to cover your operating expenses and provide you with adequate income, you might be able to work with that vendor. Sometimes a supplier's retail pricing

reflects a smaller percentage of profit than you need, so make sure to access your wholesale price before committing to an order.

3rd

Review quantity requirements of suppliers before calculating your profit. Some vendors highlight unusually low pricing. However, upon closer inspection, you might find that it reflects a commitment to purchase a very large quantity at one time. For example, a supplier's minimum quantity requirement might be 5,000, but you might need only 100 of the item. You might have to find another vendor who charges more but allows you to buy lower quantities for bulk pricing.

4th

Use vendors that give trade credit terms. Cash flow is key to running and expanding your business. If a supplier allows you to pay for the products you purchase after you sell them to your customer, your company can maintain optimal financial health. Some suppliers will automatically grant you a 30-day grace period to pay invoices, known as "net 30" vendors, before your first order. Others might require you to complete a comprehensive credit application with trade references and a personal guarantee. You might find a vendor that will extend credit after a certain number of prepaid orders.

5th

Request samples of products you intend to purchase. Suppliers might send you a sample pack of items or just the one you order. Most will charge only freight for samples under a certain amount. Obtain the same type of item from different suppliers to compare quality and customer service related to your request. It might delay your order, but being able to handle the product helps you decide whether you should work with the supplier.

6th

Consider the timeliness of order delivery. Emphasizing delivery dates can be an overlooked detail by a new business owner. Many suppliers require purchase orders from you before fulfillment. Clearly state a reasonable date that your order is due and write "in hand date firm" on the PO. Then follow up frequently to ensure your order will reach you when expected. If your new supplier is lax in this regard, you might have to switch to another company.

7th

Work with the same supplier representative as often as possible. Look for vendors who have customer service staff dedicated to your business. Building relationships with customers is important for increased sales, but the same holds true with vendors. Having one person to contact for orders, questions and problems helps you resolve issues quickly and satisfactorily.

8th

Ask suppliers whether they are a competitor of yours by selling directly to the public.

Working only with trade suppliers, who are not retailers also, ensures that your customers will not be stolen from you by your vendors, especially if they drop-ship your items and know who your clients are. Understanding a supplier's position on this issue upfront helps you decide whether you should risk working with them.

5. Supplier evaluation or how to make our suppliers more effective.

A supplier evaluation shall comprise all aspects that are important for a well-set and cordial working co-operation between the Customer firm and the supplier. A typical Supplier Evaluation Framework shall be used in all cases where the standard of a supplier for production material is to be defined. It can be used both for existing and potential suppliers.

Existing suppliers can also be "coached" with the framework to bring them up to mark and also used to monitor an existing supplier and help in its corrective action. It also helps companies in rewarding suppliers for their excellent performance and punishing them or delisting them if found otherwise. If a firm or customer organization has various divisions and organizations then the division or SBU that is having the maximum business with a supplier will undertake to do the evaluation. This helps in a strategic focus of the supplier towards the highest buying organization.

Why Supplier Evaluation?

Supplier Evaluation is one of the fundamental steps to evaluate a supplier on the adaptability towards one's organization. The Supplier Evaluation Framework (SEF) is a generic framework to achieve the objective of a customer organization in establishing a supplier's credentials and capabilities in supplying specific goods/services to the customer organization.

Description of Supplier Evaluation Framework (SEF)

The purpose of the framework is to:

- a.** Make available a basis for evaluation of potential and existing suppliers;
- b.** Provide a unified procedure for all companies to allow full exploitation of the results within the parent Organization;
- c.** Provide a supplier data set within various components, functional and technological;
- d.** Areas;
- e.** Deepen the knowledge about each supplier;
- f.** Act as an improvement tool for developing suppliers and the supplier structure;
- g.** Assist in fact-based decision making;
- h.** Give basic data for running supplier reward programme;
- i.** Share information about suppliers to various other disciplines.

Specific company personnel earmarked for Evaluation need to carry out evaluations in cross functional teams (Supplier Quality Assurance, Design, Logistics, and our topic is methods of suppliers evaluation and it contains several subtopics. The first one includes the most popular factors which are influencing choice of supplier. Second is for Finding Supplier Lists the other one is about submit all information and making a choice which supplier is the most appropriate for us.

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Evaluations can be performed for existing as well as new suppliers.

Preparations and collection of facts:

In connection with the planning of an evaluation, the supplier company can be asked beforehand to present fact based data and presentation material in order to carry out the evaluation as effective as possible. Likewise internally in one's company, available data are collected to make the evaluation as objective as possible. These data collection tools will help in the auditor in getting prepared ahead of his evaluation exercise.

Short description of evaluation criteria:

The Various criteria and parameters that are used to evaluate and short comments concerning what characterizes a good evaluation result will be discussed here. This gives a clear guideline on the various parameters and actions, which need to be carried out in completing a wholesome evaluation.

a. *Company profile* - One of the basic parameters for evaluation is screening the profile of the supplier company and the various factors to consider are in screening a company profile are.

b. *Ownership* - Stability in ownership and willingness to invest in long-term view. A person needs to evaluate co-operations and joint ventures from a risk point of view. This indicates the long-term stability of the company.

c. *Global ability* - The supplier's possibility to support the Customer Organization within all the Geographical areas where it's operating. The supplier's activities can contain all areas of manufacturing e.g. product engineering, industrial engineering, and production or delivery and distribution in a global context. For e.g. If a customer organization / Firm has factories around the globe, the supplier's ability to supply components and assemblies to all its location is a major criteria to select a supplier for the customer organizations global sourcing commitments.

d. *Dependency* - The business volume given by the customer organization and the size and importance of the customer business will give an idea of how dependent the supplier is on the customer. Large dependency as well as small should be considered. The supplier's final customer's structure is also analyzed to see if the supplier perceives the customer organization as a serious one.

e. *Management* - the next parameter to consider is how the Supplier Company is managed and various factors to be evaluated in establishing the management credentials are.

f. *Operations Management* - The application of modern work procedures, e.g. cross-functional.

Teams, long-term business plans etc need to be seen. This indicates the robustness of the management of the operations.

g. *Customer satisfaction* - Do the supplier organization have effective procedures to monitor customer satisfaction?

This helps in establishing a system and method of how the supplier will satisfy the needs of the customer organizations.

h. Quality Work procedures - Does the Supplier Organization use any criteria for Quality awards in their own quality development and deployment? Examples are Malcolm Baldrige National Quality Award etc. In evaluating this customer organization will come to know the importance the supplier organization places on Quality.

i. Risk management - Does the Supplier organization have the Knowledge and procedures in the field of Risk management? Are they having any contingency plans, have fire protection and Plans for Environmental risks and administrative hazards; do they properly manage Data and what are their Data backup plans. These risk mitigation and Risk assessment plans help the customer organization in identifying the various Business continuing plans (BCP) of the supplier organization.

These parameters will help in establishing the wellness and readiness of a supplier organization to meet the various demands of the customers.

Formalized problem solving process with forecasting and evidence of process efficiency by a supplier ensures that he has problem solving system in place. The application of a system for logistic management of incoming material, production control and distribution, which indicates his Delivery precision/ Service level, is also the criteria for supplier evaluation.

The Evaluation of the supplier's proved ability to meet requirements for on-time deliveries and quantities establishes that he has robust logistics systems in place. After-market support If a supplier has design responsibility then the supplier's ability and willingness to support the customers with technical product documentation is one of the major criteria which comes in to focus for evaluation for Example take Service literature what we evaluate here is the supplier's ability to support concerning service and repair manuals etc. Co-operation and after market support: Co-operation and After market support is another major factor wherein the supplier's ability to give spare part provision over set time frames, keep good price stability and otherwise support the after-market work is evaluated. Competence is nothing but the level of usage of technology and skills in putting a new product, shop or workforce in to place. The major methods to effectively evaluate the competence and its areas are Product and industrial technology Evaluation of supplier's total product knowledge, functional systems, Research and

development and the industrial processes gives the customer organization inputs on the supplier's capability in technology.

The Supplier evaluation Framework is a means to get the current status of a current supplier or the new supplier. The customer companies can as per decision of the top management implement a system, which awards to suppliers to give prominence to supplier companies who have shown excellence in performance and / or improvements in their cooperation with the customer companies. Such awards to companies are morale boosters for the supplier companies and help the customer companies in creating a competitive environment within their supplier base and also ensure excellent supplier relations and loyalty.

In various countries, regions and branches systems have been developed for the presentation of quality awards. Examples of such awards are Malcolm Baldrige (USA), European Quality Award, Deming Application Prize (Japan) etc. We can take a leaf out of this quality awards to come out with the best possible criteria for Supplier awards and Recognitions. The defined criteria as basis for evaluation within the award systems have become a driving factor for quality development in broad terms as well as the pronounced thinking about the correlation between the total management in an organization and the results. Some of the major criteria and core values in giving a supplier award are as follows (picked up from the Malcolm Baldrige awards and the European Quality awards).

- Customer Orientation

The long-term success of an organization depends on its ability to create value for the people it exists to serve - customers. The stated or implied needs, demands, requests and expectations of internal and external customers should guide the organization, its staff and its operations.

- Committed Leadership

Personal, active and visible commitment is required from every manager to create a culture, which puts the customer first. The leaders' most important tasks are to give the organization direction, take advantage of the potential in individuals' experience and differences and to define and follow up the goals in dialogue with them.

- Participation by Everyone

One requirement for a successful organization is that every employee feels that he/she is trusted by the organization to perform and develop his or her tasks.

Consequently, everyone must understand how they fit into the whole, must have clear goals, have the means to attain them and be aware of the results achieved.

- Competence Development

An organization's collective competence is decisive for its success and competitiveness. Competence development must therefore be viewed in both an organizational and an individual perspective, so that competence can be developed and added in such a way as to strengthen both the individual and the organization as a whole.

- Long-Range Perspective

The activities of the organization must be viewed from the perspective of long term development and competitiveness. Sustainable development leads to increased productivity and efficiency, better environment, more satisfied customers and enduring profitability.

- Public Responsibility

Every organization has a duty to society, which goes further than observance of laws and regulations. The organization and its employees must see their processes, goods and services in a wider perspective, and should actively promote improvements in both society and in the environment.

- Process Orientation

The activities of the organization should be seen as processes, which create value for customers. Process orientation stimulates analysis of, and improvement to work flows and work organization, and paves the way for customer-oriented organizational development.

- Prevention

It is profitable to prevent faults from occurring and to remove risks in processes, goods and services. Foresight, forethought and planning are keywords for improvement activities in which customers and suppliers will also be involved.

- Continuous Improvement

Competitiveness requires continuous improvement and renewal of all facets of operations. This requires methodical improvement work throughout the organization and a culture, which stimulates continuous learning, creativity and new ideas.

In order to develop further, the organization and its staff must acquire new knowledge about what can be achieved and how it should be achieved. This requires comparison with those who are best at doing a specific process, irrespective of the industry or sector to which they belong.

- Faster Response

In all business, shorter response times, shorter cycle times and faster response to customer requirements are of decisive importance. This applies to development, production and supply of goods and services, and to administrative processes.

- Management by Facts

Decisions must be based on documented and reliable facts. Each employee must be able to measure and analyze the relevant variables for customer satisfaction and productivity in the area concerned.

- Interaction

Interaction permeates every successful organization. It is essential that interaction should operate on several levels and in different respects involves the competencies and experience of employees, customers, suppliers, partners, owners and principals.

A Possible way of establishing co-operation between the supplier and customer in managing the core values and establishing a cordial relationship is by regular meetings.

Some of the activities that drive in establishing a professional cordial relationship are:

- a) Development and follow-up of common metrics for performance;
- b) Driving improvement process by benchmarking;
- c) Creation of pre-requisites for a common knowledge of customer needs expectations and experiences - Voice of the customer.

It is of utmost importance that the co-operation between customer and suppliers is based on common values and that the improvement work is focused at all times.

6. Conclusions

The Supplier Evaluation Framework is a way to point at the requirements and values, which are put on the supplier's development. By a close co-operation and common processes for target setting (quality, delivery, productivity etc.) and suited measuring systems the common competitive strength of the Customer – Supplier will be enhanced. This idea of the author is to give a fair idea of how to evaluate suppliers, the basis for rewarding them and retaining them. This Supplier evaluation framework will help a firm in establishing a process for supplier selection and continuous evaluation of the suppliers helping the firm in establishing a responsive and superior network of suppliers with respect to the firm's objectives.

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