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7 Tips to Rate and Evaluate Your Suppliers and Vendors

Apply industry proven metrics for measuring and improving vendor performance to drive your business' operations and profits.

By Carolyn M. Brown | Dec 30, 2010

It makes no difference what business you are in, suppliers and vendors play a key role in your company's success. Having a formalized system in place to track and evaluate supplier and vendor performance is essential to the smooth operation and profitability of your company.

Successful companies embrace their suppliers and vendors, viewing them as partners in helping to grow the business. Making sure that this is a mutually beneficial partnership will impact the price you are negotiating today and the quality of service you get in future, says Dennis Wright, a management consultant from the SCORE Orange County office. If a supplier/vendor is a key part or service to your operation invite that supplier or vendor to strategic meetings that involve the product they work with.

A common mistake companies make is to have a combative relationship with their suppliers and vendors. "That is the opposite of what you want to do," says Drew Greenblatt, president of Baltimore-based Marlin Steel Wire Products, which makes custom stainless steel metal baskets, brackets and other parts. "A lot of companies will actually have an adversarial relationship where they hire purchasing people who have on brass knuckles and try to beat up on vendors to get better prices or better terms." That is a very shortsighted way to do business, according to Wright and Greenblatt.

Instead of getting stuck on price, [focus on quality of service]. A vendor can have the lowest price and the lowest quality of work, too. Your goal is understand what value-add is a given vendor bringing to your company. Your business should have a system in place for evaluating, selecting and then reevaluating the suppliers and vendors it works with.

Here are seven tips and tools you'll need to effectively rate your suppliers and vendors, track their performance, and ultimately increase your company's overall productivity.

1. Establish Performance Indicators

At the onset of the vendor relationship you have to determine what characteristics a vendor needs to have, demonstrate, or maintain to continue doing business with your company. Create specific performance criteria for tracking and evaluating your suppliers and vendors on a regular basis—monthly, quarterly, and/or annually. Considerations include size of the company, number of certifications, quality management systems, complaint history, and financial stability. For instance, you might consider if they have a documented procedure for the product or service they provide? "We look at a couple of driving metrics to evaluate how good our vendors are," says Greenblatt, "including percentages of on-time performance, number of times we received a quality part or product, and how quickly the vendor responded to requests for quotes."

Your own processes and needs will dictate what criteria you apply. For a business owner who is looking for a shipping company, the biggest concerns might revolve around what is that supplier's on time delivery track record, how many trucks they own, how many accidents have their drivers reported, and what certifications do they hold.

A basic consideration for every business owner should be whether the supplier has a quality management system in place. "This doesn't just apply to manufacturing but any business including service providers," explains Miriam Boudreaux, president of Mireaux Management Solutions, a Houston-based consulting that specializes in the implementation of quality management systems. "It's really about if the supplier has a certain set of procedures in place that its people are expected to follow. Is there a system for handling complaints or problems? Are there corrective or preventive actions?" Such standards will be addressed if the vendor is ISO certified.

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2. Classify Multiple Suppliers and Vendors

If you have a huge number of suppliers and vendors and you intend to craft a survey to evaluate them, it will be cumbersome to apply the same survey to each and every one, says Boudreaux. It is better to separate suppliers into levels (1, 2, and 3) based on how critical they are, she advises. Decide the classification that is best for you and evaluate suppliers according to the effect they have on your product or service in order of importance, Boudreaux adds.

Marlin Steel exports wire baskets and forms all around the world including Japan, Columbia and China. Greenblatt points to the fact that "about 80 percent of my vendors do 20 percent of my dollar amount of work and about 20 percent of my vendors do 80 percent of my activity."

By divvying up suppliers into two categories such as critical and non-critical or primary and secondary, you can devote more time to measuring the performance of your critical suppliers.

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3. Devise an Evaluation Method

There are common techniques for rating a supplier's performance including evaluation forms, surveys, system metrics, and software applications. Marlin Steel tracks vendor performance using a customized program he created in QuickBooks Enterprise Solutions accounting software, the Manufacturing & Wholesale edition.

You can craft a survey where you ask your own employees to answer questions and to rate suppliers and vendors. You can review how many corrective actions you had to issue a supplier or vendor, how many products you had to scrap or return because the supplier or vendor failed to meet specifications, or how many customer complaints you received due to a bad part or service from a vendor. You also can monitor suppliers and vendors by doing an audit periodically. The bottom line is that you need to generate measurements or reports at the onset of the purchase and throughout the course of the supplier and vendor relationship.

“We did vendor reviews where we would bring them together offsite at a hotel with our IT and procurement people,” says Wright, who in his last business life for eight years was vice president and director of procurement for a large global engineering company. At the point he retired, the company had 100 plus suppliers and vendors ranging from Microsoft to United Airlines to a small staffing agency. “We would line them up. So, at 9 in the morning AT&T would be making a presentation to our group. When AT&T finished and left the room they would find the Verizon salespeople standing in the lobby waiting for their turn,” Wright explains. “We created a little competition amongst vendors.”

Wright says periodic vendor reviews would also entail a discussion about what the company had been buying, how much it had been buying, what did that vendor have on the shelf or working on for push out six months or a year down the road and did it represent a significant improvement over what had been previously purchased, and what were competitors buying from a particular vendor.

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