

CHAPTER - IX

SOURCE SELECTION AND VENDOR DEVELOPMENT

INTRODUCTION :

Two of the important responsibilities for the purchasing Executive are :-

1. To select the right source of supply.
2. To develop new suppliers.

In other words, supplier selection and new source development are major contributions of the purchasing function and so should have properly planned approach. A good supplier actively participates and helps the purchase to meet his customer's requirements. Suppliers also contribute their specialized knowledge and help build quality into the purchasing company's products. For the selection, it is easy for purchaser to work out a preference pattern based on price, quality, delivery, service and his geographical location, his technical ability and knowledge. The suppliers may be large, medium or small, who supplies raw materials, component, equipment, etc.

The factors which were considered to evaluate the functional aspects of vendors selection are –

H High Impact Factors :

- Delivery Reliability, and Quality / price ratio

H Factors with middle values :

- General reputation
- Geographical location
- Technical ability and knowledge
- Technical inventiveness
- Supply of information and market surveys
- Extent of previous contact with the buyers

H **Low Rated factors :**

- Importance as a client (reciprocity)
- Extent of personal benefits to the buyer.

The vendor / suppliers may be large, medium or small companies and further they can broadly classified as suitable for –

1. Raw Material
2. Maintenance Repair and operating supplier
3. Components – Standard and Special
4. Capital equipment
5. Subcontracting
6. Services

SOURCES OF SUPPLY INFORMATION :

The sources of supply information are :

- H Catalogue
- H Trade Journals
- H Trade Directories
- H Newspaper Advertisements
- H Telephone directory
- H Government Publications
- H Publications of Institutions and Manufacturers Association
- H Industrial Advertising including Direct Mail
- H Salesman's visits
- H Trade Exhibits and Technical Exhibitions
- H Industrial Product Finder

Sources of supply covering equipment, materials, price information and other details may be extracted from the above. All these, if indexed, properly filed and periodically updated, serve as a good reference not only to the purchasers but to others in the organization. The indexing should be based on product information and according to the names of suppliers and geographical purchasers should be fully aware the information of new product, new processes contained in these.

THE SUPPLIER :

Type of procurement involved greatly influences the factors to be considered in making the evaluation. The inventory procured to perform a “function” is the result of the basic types of effort:

Structural or Engineering Manufacturing

Local purchase is a specific procurement involved for a locally available or “off the shelf” item, the buyer contacts a “commodity” vendor. When the requirement involves special design or performance features, such as tooling investment costs and start up time, the buyer assessing a vendor’s capability should focus here on specific information on the suppliers financial health, quality, facilities, efficiency, industrial peace, technical excellence and position in industry.

COMMODITY SUPPLIERS :

It is undoubtedly the most significant factor and it is a vendor’s willingness and ability to fill buyer requirements reliably. This is often the only advantage he can offer over his competitors.

PRICES are generally competitive for equivalent quality lines, but pricing structures may vary with respect to quantity discounts. This aspect offers opportunity for analysis and evaluation.

H “Capability” Suppliers :

When the procurement is for unique requirements calling for special design, performance or reliability features and entailing special tooling, preparatory time and even capital investment, the buyer is virtually procuring vendor capability. This supplier becomes, in effect, an extension of the buyer’s in-house resources, or, in other words, an external manufacturer. Qualifications should be in terms of technical, manufacturing, financial and management capabilities.

Some of the typical questions the buyers should be posing when undertaking a vendor capability survey are :

- H Will the vendor comply with the buyer’s engineering standards and procedures for items made to buyer’s design, and will produce drawings on buyer’s format when the requests it?
- H What are the vendor’s inspection procedures and controls?
- H How frequently does he calibrate tools, gauges, and test equipment for meeting primary engineering standards?
- H What are his procedures of in-process inspection and quality control?
- H What is his procedure for receiving inspection?
- H What is the nature of his planning, scheduling and inventory control system?
- H Will he furnish price breakdowns by cost elements on fixed price contracts?
- H Does he have any objection to contracting on other than a fixed price basis?
- H Does he employ learning curves in projecting labour costs?

- H Will he designate specific individuals in his engineering, production and financial organization from whom the buyer can obtain pertinent information and data as he requires it?
- H How has he performed for other customers?

NEGOTIATION :

The word negotiation means “Tradings a deliberation leading to an agreement”. Although price looms large in purchase negotiation there are other elements subject to discussion between buyer and seller, such as quality, quantity, delivery and other terms. Negotiation is a technique of arriving at a common understanding on the essentials of the contract between the buyer and seller, fair and reasonable to both.

DEVELOPING A SOURCE OF SUPPLY :

The source development is important for import substitution, cost reduction and quality improvement. Source development needs are dependent on factors such as ‘make or buy’ decisions, amount of sub-contracting, break even points at manufacturing and plant capacity. In some cases a buyer has to create a satisfactory supplier. Also if existing suppliers cannot satisfy a company’s needs, a logical alternative is to attempt to develop a new supplier.

H Small Supplier Development :

It may be advantageous to encourage small firms in the engineering field so as to utilize the services of the new entrepreneurs.

Small suppliers tend to need more assistance but purchasing personnel who have to watch for and develop new suppliers find that the small units are more responsive. Here, the purchase of raw materials and sometimes consumable tools by small ancillaries at comparable prices at which large consumers can obtain is a major problem.

BUYER SELLER RELATIONS :

It has long been considered an essentially sound sales policy to develop good will on the part of customers toward the seller.

Goodwill between a company and its suppliers need to be just as assiduously cultivated and just as jealously guarded.

Buying being a compliment to selling, it should be realized that any trading agreement, terms and conditions of sale should be satisfactory to both the buyer and seller. It should

also be recognized that short comings are not confined to suppliers only. Buyers too have fault, errors in specification, not strictly observing the terms of payment and dogmatically expecting the suppliers to be right the first time.

CHAPTER – X

VENDOR RATING

INTRODUCTION :

Industry has to depend upon outside suppliers or vendors due to –

- Cost consideration including economy of scale.
- Impossibility of total vertical integration.
- Specialization, some time leading to proprietary products and patents processes.
- As an alternative or stand by and for load leveling.
- Standardization
- Social considerations like government regulations, obligation to community, etc.,
- Decentralization
- Strategic reasons

The number of vendors who can satisfactorily meet all the requirements of the industry and be able to operate economically is few. This is because –

- H Lack of capital.
- H Unsteady marketing conditions.
- H Lack of entrepreneurship.
- H Non-availability of specialized listing facilities.
- H Availability of trained manpower.
- H Non-availability of know-how i.e. drawings, specifications, techniques, etc.

Hence industry has to develop vendors so that their production is not hampered and cost is kept at reasonable level. Of course vendor-vendee both should be stable and there should be live and let live approach. Industry can resolve the problem by -

- a) Promoting new Vendors.
- b) Locating suitable vendors from the existing.