

bdp Mechanical Components Deutschland GmbH

German quality standard and global sourcing



Newsletter March 2022: Seven-step supplier selection process



We are ISO 9001:2015 certified, many of our producers are also IATF 16949 certified.

Evaluation, selection and continuous measurement of suppliers belong to the most essential processes performed in organizations today. Traditionally, competitive bidding was the primary method for awarding purchase contracts. In the past, it was sufficient to obtain three bids and award the contract to the supplier offering the lowest price. This approach has changed over the years. Nowadays companies commit major resources to evaluate a supplier's performance and capability across many different areas. The supplier selection process has become so important that teams of cross-functional personnel are often responsible for visiting and evaluating suppliers.

There is no single best way to evaluate and select suppliers. Thus, companies use a variety of different approaches. However, the overall objective should be to reduce purchase risk and maximize overall value to a purchaser. Buyers usually evaluate potential suppliers across multiple categories using their own selection criteria with assigned weights. For example, companies that need consistent delivery performance with a short lead time to support a just-in-time production system might focus on suppliers' scheduling and production systems. A high technology producer will concentrate more on the supplier's process and technological capabilities or commitment to research & development. Distributors or service providers will emphasize a different set of criteria for a selection process. Despite these differences, the seven-step supplier selection process provides a basis for world-class supplier selection.

1. Recognize the need for supplier selection

A need to evaluate suppliers could come from different directions. The most common reasons for supplier evaluation are:

- New product development
- Poor performance of current suppliers
- At the end of the contract
- Insufficient capacity of the current supplier
- Buying new equipment
- Expanding into new markets or product lines
- When consolidating volumes or reducing the size of the supply base

The ideal situation is when instead of reacting to supplier selection needs, we anticipate future purchase requirements and have already begun an initial evaluation of potential sources of supply.

2. Identify key sourcing requirements

Understanding the requirements important to the purchase is a key matter throughout the supplier evaluation and selection process. These requirements are determined by internal or external customers and can differ widely. Different requirements may exist for each evaluation, but there are common categories, such as quality, cost, and delivery performance.

3. Determine the sourcing strategy

There is no single sourcing strategy that can guarantee success for all purchases. The purchasing strategy should be adopted for a particular item, which will impact the approach taken during the supplier

evaluation and selection process. There are many aspects that have to be considered when developing a sourcing strategy, such as market conditions, user preferences and corporate objectives. Strategy directions will significantly influence the supplier selection process, as critical decisions have to be made in the following matters:

- Single vs. multiple sourcing
- Large or small supplier
- Manufacturer vs. distributor
- Short-term vs. long-term purchase contract
- Selecting suppliers that provide design support vs. those that lack design capability
- Domestic vs. foreign suppliers

4. Identify potential supply sources

There are many sources of information that we can use to identify potential suppliers. First, we can start by reviewing the existing supply base and checking the possibilities of allocating a new business to our current supplier. The advantage of this approach is that we can do business with familiar suppliers. This would need less time and resources than proceeding with evaluating of completely new sources of supply. In addition, it is an attractive option if there is a supplier with „preferred” status in the current supplier database, which means they consistently achieve or exceed required performance and service. On the other hand, although probably more accessible and faster, using existing suppliers may not always be the best solution. With this approach, we can also lose a lot of opportunities. For this reason, most organizations are continuously seeking new sources of supply and are expanding this search to include suppliers from all over the world.

Other vital sources which can be used when we look for new suppliers include:

- Sales representatives – information received from sales and marketing representatives of potential suppliers shall be filed regularly, as it might be helpful for future reference;
- Information databases – there are companies that maintain databases of suppliers capable of serving specific industries or product lines. One example is the EMIS database (<https://www.emis.com/>).
- Experience – Sourcing and purchasing experts usually have strong knowledge about potential suppliers built up over the years.
- Trade journals and magazines – most industries have a group or council that publishes on regular basis information about market trends and also provides an overview of different companies.
- Trade shows and exhibitions – an effective way to gain exposure to a large number of suppliers at one time and an excellent opportunity to initiate contact between buyers and sellers
- Internet search – beneficial to locate potential sources that might qualify for further evaluation. Using social media such as LinkedIn becomes more and more popular to initiate contact with potential business partners.

Once we collect information about potential supply sources, we need to sift through them and consolidate to eliminate suppliers that do not fit buyer expectations. Depending on the number of suppliers in the loop and obtained information, it might be a monumental task.

5. Narrow selection of potential suppliers

After identifying all potential suppliers with widely different performance capabilities, it is time to perform a first cut or preliminary evaluation to narrow the list before conducting any in-depth formal evaluation. Here are some useful criteria:

- Financial risk analysis – poor financial conditions can indicate serious problems. Although a deeper analysis should be performed during final supplier evaluation, during this phase we should try to feel the overall financial health of the supplier. We can consult external sources of information, such as Dun & Bradstreet (D&B) reports supporting evaluation.
- Evaluation of information provided by the supplier – asking suppliers to fill in a preliminary survey is a common way to obtain more specific information. We can screen each supplier and determine if our requirement appears to match the supplier's capabilities. For example, we can ask the supplier for a detailed cost breakdown of their quoted price (including labor, materials, overhead, and profit), process technology, market share data, quality performance, or any other area critical to the purchase decision.

6. Determine methods of supplier evaluation and selection

After the initial cut, suppliers that do not have any capability to demand shall be eliminated. Now the focus is how to evaluate the remaining suppliers, which may appear to be equally qualified. The most important step in this phase is to conduct a supplier visit that provides the most complete way to ensure an accurate assessment of the supplier. It's good when we can involve in such a visit a cross-functional team, so each team member contributes unique insight into the overall supplier evaluation. Members may have expertise in quality, engineering capabilities or manufacturing techniques and they may be qualified to assess suppliers in these areas. However, such site visits are expensive and, commonly, it's under purchasing expert's responsibility to travel and collect all necessary information. Most evaluations rate suppliers on three primary criteria: cost, quality and delivery terms. Generally, they are the most obvious areas that affect the purchaser. However, for critical items more detailed evaluation study is required. Suppliers visits are a great opportunity to go in-depth and also assess: management capability, total quality management, technical capability, operations and scheduling capability, financial strength, personal relations, e-system capabilities, efficiency of the equipment, ISO certifications, quality control philosophy, environmental practices, names and contact information of key-decision makers (may be helpful in the later stages of the selection process). During gathering the information, the buyer needs to be sensitive to the supplier's limitations on restricted information.

7. Select a supplier and reach an agreement

The final step of the evaluation and selection process is selecting the supplier and reaching a contractual agreement. Depending on the product purchased, we can sign a basic purchase contract or more complex

agreement, which will require conducting detailed negotiations to agree upon the specific details of a purchase agreement.

Text



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Mrs. Cebo holds a master's degree in Management. She has been working in a multicultural environment in Poland and abroad and has seven years of sourcing and purchasing experience in various industries. At bdp MC she is responsible for sourcing and purchasing activities in Eastern Europe, such as cost analysis, business negotiations, producer management, and development, mainly in casting, forging, and machining.

About bdp Mechanical Components

Founded in 1982, today's bdp Mechanical Components is headquartered in Berlin and has 14 other offices in Germany, China, Poland, Spain, Bulgaria, and Switzerland. bdp Mechanical Components is a specialized provider in the field of international sourcing of castings and forgings for customers who do not have a detailed overview of the most suitable suppliers for their products, especially in Asia (China), Turkey and Eastern Europe. And of course, also for customers who cannot accompany corresponding project start-ups closely on site with the suppliers and monitor the ongoing production.

For more professional advice, please follow us on WeChat: public number bdp-Group-1992, or scan the QR code below to follow us.



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