

# Carrying out supplier performance evaluation



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IN OUR LAST ARTICLE, “Evaluating supplier performance” (*Summit*, January/February 2005), we expressed some doubt as to whether a public sector organization could introduce a proper system of supplier evaluation without committing considerable resources to this process. In this article, we are assuming that those resources have been provided, and will focus on how the process of evaluation should be carried out.

By way of preface, we believe that most suppliers are sincerely interested in providing good quality service to their customers, and will make a genuine effort to correct any perceived deficiency in performance if the customer is able to explain what is required – it is simply in their best interest to do so. It is in the best interest of the buyer to communicate any perceived deficiencies in a productive manner.

The range of factors that may be taken into account in assessing supplier performance must be tailored to the specific requirements of the public sector customer. Nevertheless, there is likely to be considerable consistency between the public and private sector concerning those requirements. Private sector buyers who have implemented performance evaluation schemes generally focus on a narrower band of considerations, including the following:

- Reliability of delivery - i.e., advance notice given of likelihood of backorder; willingness to cancel order where goods backordered; portion of supply on back order; time required to complete back orders.
- Quality of delivery - i.e., percentage of non-conforming goods (whether within agreed tolerance levels); apparent attention to quality control; and use of an appropriate screening methodology to prevent shipment of substandard goods.
- Logistics – i.e., efficiency in the processing of orders, including turn-around time to first shipment and demonstrated ability to expedite orders on request; meeting time commitments for delivery; advising in advance of any anticipated delay; and where price includes time charges for installation or similar work, time required to get workers to the site and to carry out the work in question (note that low hourly rates can be misleading, where the time required to carry out the work is in excess of what would normally be expected).
- Warranty and related considerations – i.e., scope of coverage offered; frequency of dispute as to whether deficient performance is covered by warranty; and frequency of “blame shifting” (e.g., a hardware supplier stating “the problem is with your software”).
- After sales support – i.e., occurrence of any unexpected problems in getting the goods to work as required; demonstrated ability to deal effectively with goods damaged during ship-

ment; reliability of installation and repair work; demonstrated commitment to getting the product up and running on a timely basis; and availability of after-hours staff to carry out such work.

- Benchmarking – i.e., comparative performance in the above areas in comparison to other suppliers delivering broadly comparable goods or services.
- Research and development – i.e., are the goods supplied at the cutting edge of emerging technology or are they near obsolescence; to what extent is the general finish of products evident (e.g., do they work “out of the box” or is a substantial break-in required)?

Public purchasing authorities often broaden the scope of concerns to include:

- Quality and the environment – i.e., environmental awareness and commitment to sustainable development; incorporation of green technology and green sources of supply; willingness to provide environmental impact information; participation in environmental audit of operations; and the process for dealing with defective parts and rejects in an environmentally effective manner.
- Social conscience considerations – i.e., adherence to fair wage and fair terms of trade.

Once these considerations have been identified, information concerning them must be collected, compiled and applied in a systematic manner. Unless the organization is awash with cash, it is generally advisable to focus the effort only on long-term contractual relationships (where there is a realistic prospect of correction), particularly those that involve a substantial amount of money.

It may also be worthwhile to develop some method of rewarding top-level suppliers. For instance, an RFP or tender could provide that a supplier with a proven track record of quality supply will be allowed a price premium up to a given percentage. This incentive may encourage suppliers to devote resources to maintaining a good relationship with their public sector customers.

In our opinion, price is only one of many important concerns in a supply relationship. We believe it is perfectly possible to factor stable relationships into supply while respecting concerns relating to openness, transparency and fairness in the public procurement process. *mm*

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