



SUPPLIER SELECTION METHODS IN PURCHASING MANAGEMENT

Nato Samnidze

PhD Student of GTU

Nana Nadareishvili

Associate Professor of GTU

RESUME

A company's relationships with its suppliers have become increasingly important in the total context of the organization in the early 21st century. Strategic supplier relationship management is a critical step in improving performance across the supply chain, generating greater cost efficiency and enabling the business to grow and develop. Long term supplier relationships lead companies to reduced costs, increased efficiency and continual improvements.

Suppliers touch on every part of a business and to ensure a company can run as it should, it needs to ensure the seamless flow of goods and products. Suppliers can be found everywhere: thought exhibitions, recommendations, business advisors, trade press and etc.

Suppliers are important sources to gain competitive advantage to operate in global markets in terms of their expertise, knowledge and ability of sharing risks. Supplier selection process is hard and time consuming process and it's much more than reviewing a series of price list. Selection process is mainly based on four criteria's: quality, price, service and delivery. Although factors as: reliability, financial security and partnership approach has to be considered as well.

Keywords: Supplier, Buyer, Purchasing Structure, Selection of Suppliers, Organized processes, purchasing strategies.

Choosing the proper supplier involves much more than reviewing a series of price lists. Choice has to be made based on variety of factors, such as: value for the money, quality, reliability, and service. How the weight up of each category is preceded depends on the company's business priorities and strategy.

Properly selected suppliers are invaluable resource for the company, they make direct contribution to company's success, in most of the cases good suppliers help companies to develop product, do value analysis and guarantee timely delivery of desired level of quality (Dobler and Burt, 1996).

Different authors present different approaches for evaluating suppliers. The evaluation of suppliers is prerequisite step for selection of suppliers. The data for selection of suppliers includes both qualitative and quantitative data (Ho, Xu and Dey, 2010). The simple evaluation according to Bloomberg, Lemay and Hanna (2002) is normally based on quality, price, delivery and service. Although on more advanced level more factors are considered as evaluation criteria's for supplier selection process.

Overviewing the simple approach on supplier selection would gave us the idea of what are the basic factors that need to be considered when going through supplier selection process:

Quality: Quality from the purchasing point of view is discussed as an agreement upon requirements of certain product or service between buyer and seller (Weele, 2000). The quality needs to be defined for every product to be purchased, depending on the type of product the company produces. The quality defining factors might vary and they can be from marketing, purchasing or production department. Heinritz, Farrell, and Smith (1986) state that quality should be expressed in the way that supplier knows buyers quality requirements based on the purchasing contract. Quality requirements also can be set by government regulations, some country regulations require that all imported products must be ISO certified.

Price: Lysons and Farrington, (2006, p.434) defined price as "the value of a commodity or service measured in terms of the standard

monetary unit”, other definition of price would be A value that will purchase a finite quantity, weight, or other measure of a good or service. (Business dictionary, 2018) importance of price varies depending on the purchasing strategies each organization has. It has been discussed during decades that quality and price are interrelated and quality is measured by cost. Price for the certain purchased product is arguable; there are negotiations about the price paid for supplier. The price of product or service should be fair; Heinritz, Farrell, and Smith (1986) discuss three general criteria for fair price:

1. Price should have objective relation with cost;
2. Price is result of economic conditions and demand;
3. Price is determined by competition.

Lysons and Farrington (2006) state that variations in prices are due to several aspects, such as quantity discounts, cash discounts, time, quality or transportation considerations. In today’s business, price is determined by three factors. (Business Dictionary, 2018)

1. What is buyer willing to pay? The amount business offers in exchange for a certain type of product or service.

2. What is seller willing to accept? The amount seller accepts as compensation for a certain service or product.

3. The competition is allowing to be charged. Due to the fact that marketing strategies are involved in every purchasing process and promotions are essential component of today’s seller-buyer market. The competition is one of the variables where organizations experience some degree of control over each process.

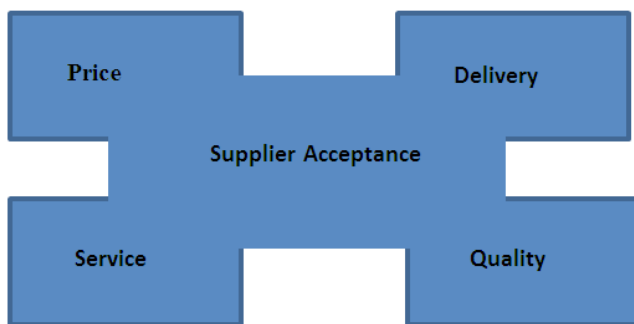
Delivery: Transfer of a cash commodity from the seller of a futures contract to its buyer, in accordance with the rules of a particular futures exchange. (Business Dictionary, 2018). Ability of supplier to deliver the products on time is one of the important aspects to consider when evaluating or choosing supplier.

Lysons and Farrington (2006) discuss Just-in-Time (JIT) philosophy for purchasing and emphasizes that in JIT purchasing all products must be delivered where they are needed, when they are needed and exact quantity, also the purchased products must be us-

able. Just-in-time (JIT) in supply chain management is considered as inventory strategy organizations employ to increase efficiency and decrease waste by receiving goods only as they are needed in the production process, which gives ability for reducing inventory costs. Although JIT purchasing strategy is hard to plan and requires procedures to forecast demand of products accurately. The need for using JIT purchasing strategy depends on the company's way of working.

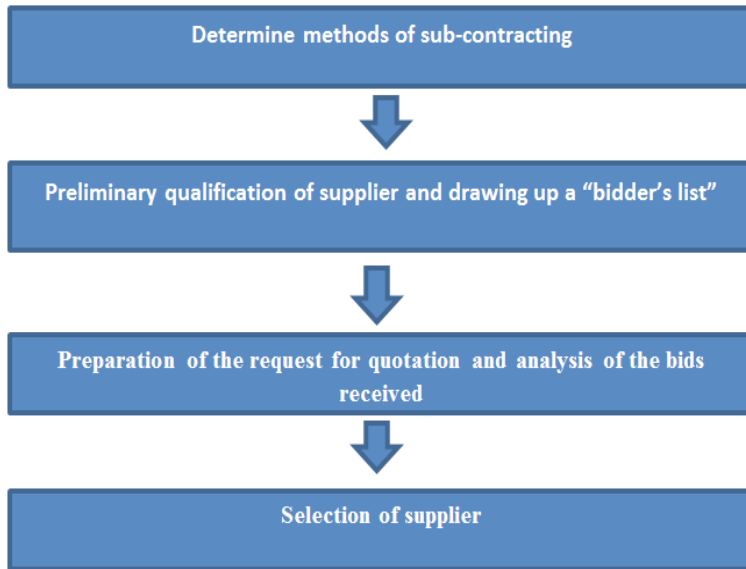
Service: Service is performance-based encounter, intangible activities that is offered from one to another (Bloomberg, Lemay and Hanna, 2002). Companies often require some sort of service from their suppliers, the importance of the service on purchased product varies according to the type of industry.

Figure 1 illustrates variables above and area of supplier acceptance. Area of supplier acceptance demonstrates the degree to which company's requirements are met (Bloomberg, Lemay and Hanna, 2002).



1. Supplier Evaluation Variables

The selection of supplier is a hard decision and it requires time, the selection itself is last step of the process. Weele (2000) states that in practice the step "selection", contains number of separate stages, as shown in Figure 2. The author identifies four stages in order to select suppliers.



2. Seperate steps in supplier selection

The steps in the supplier selection require careful evaluation of suppliers. In order to get all necessary information and have first-hand data about performance of supplier, different sources can be used; Dobler and Burt (1996) discuss number of them: social media, internet, trade journals, the yellow pages, trade exhibits, company personnel etc.

Purchasing literature discusses that previously companies tend to have many suppliers for the same product, but the tendency has changed and nowadays a single supplier strategy is used in order to achieve particular advantages. Dobler and Burt (1996) discuss the advantages associated with a single supplier:

- Economies of scale due to the higher volume purchase;
- Quality considerations;
- The buyer has more influence on supplier;
- Lower costs are incurred to source, process, expedite and inspect;

- The quality, control and coordination required with just-in-time manufacturing require a single source.

Obviously, according to statement above, having limited number of suppliers is an advantage. However, Bloomberg, Lemay and Hanna (2002) argue that having a single supplier might be risky. The risk might be from:

- Exposure in time of shortage, fire or strike;
- Supplier price increase;
- Supplier complacency about quality and quality service.

The company has to choose between what strategy to have, considered all risks and advantages with single strategy (Bloomberg, Lemay and Hanna, 2002).

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ნატო სამნიძე,
სტუ დოქტორანტი
ნანა ნადარეიშვილი,
სტუ ასოცირებული პროფესორი

რეზიუმე

21-ე საუკუნეში კომპანიის ოპერირების კონტექსტში მნიშვნელოვანი გახდა კომპანიების მომწოდებლებთან სწორი ურთიერთობა. სტრატეგიულ მომწოდებლებთან ურთიერთობის მართვა კრიტიკული ნაბიჯია მიწოდებათა ჯაჭვში პროცესების გასაუმჯობესებლად. მომწოდებლების შერჩევისას სწორი გადანყვეტილების მიღება პირდაპირ პროპოციულია ბიზნესის სწორ განვითარებასა და ზრდაზე. მომწოდებლებთან გრძელვადიან ურთიერთობას მიყვავართ შემცირებულ დანახარჯებთან, მზარდ ეფექტურობასთან და პროცესების მუდმივ გაუმჯობესებასთან.

მომწოდებელი ბიზნესის ყველა ნაწილს ეხება, ვინაიდან უზრუნველყოფს ორგანიზაციისთვის საქონლის და მომსახურების უწყვეტი ნაკადის მიწოდებას. ორგანიზაციებისთვის მომწოდებლების შერჩევა შესაძლებელია სხვადასვა საშუალებით, როგორიცაა: გამოფენები, რეკომენდაციები სხვა ორგანიზაციებიდან, ბიზნეს მრჩეველები, სავაჭრო პრესა და ა.შ.

მომწოდებლები მნიშვნელოვანი წყაროები არიან კონკურენტუნარიანი უპირატესობის მოსაპოვებლად გლობალურ ბაზრებზე მუშაობისთვის, მათი გამოცდილების, ცოდნისა და რისკის გაზიარების უნარით. მომწოდებელთა შერჩევა პრომატევადია და ბევრად უფრო მეტ პროცესებს ითვალისწინებს, ვიდრე მოწოდებულ ფასთა მიმოხილვა. შერჩევის პროცესი ძირითადად ეფუძნება ოთხ კრიტერიუმს: ხარისხი, ფასი, მომსახურება და მიწოდება. აღსანიშნავია რომ ფაქტორები, როგორიცაა: საიმედოობა, ფინანსური უსაფრთხოება და პარტნიორობის მიდგომა ცუნდა ჩაითვალოს შერჩევის კრიტერიუმად.

საკვანძო სიტყვები: შესყიდვები, შესყიდვების სტრუქტურა, მომწოდებლები, მომწოდებლების შერჩევა, შესყიდვების სტრუქტურების კომპონენტები, მომწოდებლების შერჩევის პრინციპები.