



# Supplier Selection & Management

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**A Business Counselor Institute Program**

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# Supplier Selection & Management Agenda

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- As a result of this program, you will understand:
  - Scope of purchasing activities
  - Role of the purchasing manager
  - Role of counsel in providing advice on purchasing transactions
  - The order and fulfillment process
  - Key terms of supply and purchase contracts
  - Supply chain management
  - Evaluation and selection of suppliers
  - Supplier management techniques
  - Practice tools for establishing and maintaining supplier selection and management practice

# Role of the Purchasing Manager

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- To assist the purchasing function, counsel must understand the role of the purchasing manager:
  - Production planning
  - Inventory management
  - Sourcing
  - Capital equipment purchases
  - Procurement of technical and professional services
  - Development and management of effective supplier relationships
  - Making “buy or build” decisions
  - Contract management
  - Monitoring internal customer satisfaction

# Role of Counsel

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- Counsel can assist the purchasing function in a number of different ways:
  - Negotiating and documenting supplier contracts
  - Preparation of requests for bids, purchase orders and standard terms and conditions
  - Customized procurement contracts
  - Guidance on the law of sales, antitrust laws, product-testing requirements, etc.
  - Negotiation and documentation of contracts related to transportation, storage, and inventory management
  - Due diligence on potential supply chain partners

# Order and Fulfillment Process

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- Companies should establish a standardized order and fulfillment process that includes the following steps:
  - Requisition
  - Determination of whether goods are covered by an existing purchase order or contract
  - Determination of whether a competitive bid process is required
  - If competitive bids are required, RFQ prepared and sent to qualified suppliers
  - Supplier selected and purchase order placed for required goods
  - Goods are received, inspected and either accepted or rejected
  - Once goods are accepted the purchase order is closed yet available for audit and warranty claims

# Key Terms of Supply and Purchase Contracts

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- Scope and specification of goods
- Ordering procedures and forecasts
- Shipping and delivery
- Pricing and payment terms
- Warranties and repairs
- Indemnities
- Term
- Termination
- Notices and communications
- Dispute resolution

# Supply Chain Management

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- Supply chain management (“SCM”) relates to the management of the entire chain of raw material supply, manufacture, assembly and distribution to the end customer.
- SCM is important for satisfying customer demand and companies must devote attention and resources to SCM to:
  - Gain efficiencies from procurement, distribution and logistics
  - Make outsourcing more efficient
  - Reduce transportation costs
  - Address competitive pressures caused by globalization and the need for shorter development times and more customized products
- SCM is challenging because it involves many parties—manufacturers, suppliers, logistic providers and distributors—and each one has its own goals that are often at odds with others. For example, manufacturers prefer larger orders and longer production runs to reduce production costs and enhance product quality while distributors want lower inventory levels and rapid restocking.

# Supply Chain Management Activities

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- Strategy and Planning
- Manufacturing
- Product Development and Design
- Sourcing and Procurement
- Import/Export Compliance
- Distribution, Logistics and Marketing
- Post-Sale Support and Returns
- Compliance and Risk Management



# Evaluation of Prospective Suppliers

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- Technological competence of the supplier and relevant supplier managers and engineers
- Pricing, quality and service
- Business and financial condition of the supplier
- Due diligence
  - Verification of information provided in RFQ
  - Facility visits and inspections
  - Interviews

# Selection of Suppliers

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- Adequate *financial resources*
- Ability to comply with the *performance schedule*
- Satisfactory *performance history*
- Satisfactory *record of integrity and business ethics*
- Necessary *organization and skills*
- Necessary technical *equipment and facilities*
- *Qualified and eligible* to receive a contract under applicable laws and regulations

# Supplier Management

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- Prepare a formal policy that describes the procedures for managing supplier relationships
- Establish procedures for continuous assessment of suppliers' product or service quality
- Require suppliers to acknowledge and comply with other company policies
- Require suppliers to establish their own procedures for activities related to their performance of their obligations under their contract with the company
- Establish supplier certification and credentialing programs
- Assess extension of company compliance programs to suppliers

# Additional Resources and Practice Tools

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- Sources for Additional Information
  - Business Transactions Solutions Chs 82 & 357
- Practice Tools
  - Policy for selection of vendors and purchase of goods and services (BTS § 82:132)
  - Vendor due diligence checklist for procurement of it services (BTS § 82:135)
  - Supplier pre-assessment questionnaire (BTS § 82:136)
  - Supplier survey quality system questionnaire (BTS § 82:137)
  - Procedures for initiation and management of vendor relationships (BTS § 82:139)
  - Sample ethics guidelines for purchase-related activities (BTS § 82:156)
  - Supply chain social and environmental responsibility policy (BTS § 82:157)
  - Supplier social and environmental responsibility agreement (BTS § 82:158)
  - Supplier audit process (BTS § 82:159)
  - Standards for suppliers (BTS § 82:160)
  - Contract provision: Ethical standard and human rights (BTS§ 82:161)