

Vendor Rating

The Vendor rating is automatically generated on the Finsys ERP. Now what is the logic behind it ? What grading does it do ? What are the weights behind the decisions ?

These are based on the rules used popularly in the Auto component industry. Example those used by Hero Honda Motors Limited, HMSI and Honda Siel Cars. Our Finsys Consultants, in active guidance of the QCFI consultants and the top consultants in the Auto industry, have laid out a good vendor rating logic standard. These have met the test of time. And have been successfully adopted by the Industry. The details are as under:

Vendor Rating Logic for FINSYS ERP

Purpose: Establish a rating system to monitor measure and evaluate performance of suppliers.

Scope: Approved suppliers and contractors, customer designated suppliers. Any other application or use as appropriate.

Process

This rating system provides for the measurement of a supplier’s performance, taking into consideration the combined total of gain points of the two main criteria Product Quality & Service and Customer Support & communication.

| Rating | Product Quantity Service | Customer Support Communication | Total Rating |
|---------------------|--------------------------|--------------------------------|---------------|
| ---- | | | |
| Excellent | 81-85 | 15 | 96-100 |
| Good | 66-80 | 10 | 76-95 |
| Satisfactory | 51-65 | 5 | 56-75 |
| Poor | 0-50 | 0 | 0-55 |

A) Product Quality and Service

Product Quality and Service is subdivided into three groups. Each group has a maximum acceptable percentage of recurrences or deficiencies and an assigned weight which is used in the formula to determine the performance rating of a supplier, which is expressed in “**Debit Points**”. The debit point of each group should not exceed 50 which corresponds to the maximum acceptable percentage of recurrences (The total debit points of all applicable groups are later deducted from the maximum achievable points of 85).

Group 1: 10% max. acceptable recurrences - **Weight:** 400

- Product/Material does not meet requirement, NCMRs issued.

Group 2: 20% max. acceptable recurrences - **Weight:** 200

- Late Deliveries
- Wrong Product Shipped
- Documentation missing

Group 3: 30% max. acceptable recurrences - **Weight:** 133

- Packing Problems

- Improper/incomplete/wrong/missing labeling or making requirements.

B) Customer Support and communications

Customer support and communication provides for bonus points which are added to the point for Product Quality and Service in order to establish the overall performance of the Supplier.

Calculation of Scores and Ratings:

To determine the performance rating of a Supplier during a defined period, follow these steps using the following formulas:

- ✓ For each category: Number of bad shipments divided by total number of shipments multiplied by the weight = Score.
- ✓ Total scores of categories, divided by the number of application categories (max.3) = total scores
- ✓ Eighty five (85) points less total scores = rating for product quality and service.
- ✓ Add bonus points for customer support/communication = Total rating

Note: negative result = 0

Formula for the above steps:

Steps 1: (No of bad shipments) / (Total No of shipments) x Weight = Score (for product quality/Service)

Steps 2: (Sum of Scores of all applicable groups) / (No of applicable categories) = Total Scores

Steps 3: 85 – Total Scores = Rating (for product quality/Service).

Steps 4: Rating + (bonus points for customer support/communications) = Total Rating

Example:

During the period of January 01 to March 31 a supplier made a total of 14 deliveries. Out of these 14 deliveries:

- ✓ One delivery had material out of spec and a NCMR was issued by QA.
- ✓ Three shipments were late.
- ✓ Two shipments had a packing problem.

The supplier's "Customer support and communication" is defined as a good.

Summary: Total of 14 shipments
 Problem with one shipment of group 1
 Problems with three shipments of group 2
 Problems with two shipments of group 3
 Customer support/communication was rating good (10 bonus points).

Calculation of performance rating:

1 (No of bad shipments of group 1) / 14 (Total Shipments) X 400 (weight group 1) = 28.57

3 (No of bad shipments of group 2) / 14 (Total Shipments) X 200 (weight group 2) = 42.85

2 (No of bad shipments of group 3) / 14 (Total Shipments) X 133 (weight group 3) = 19.00

Total Scores for Quality and Service 90.42: 3 = 30.14

Rating for product Quality and Service (85 – 30) = 55 points

Plus bonus points for
Good customer support and communication = 10 points
Total Rating (55 + 10) = 65 points = Satisfactory

Example 2:

During the period of April 01 to June 30 a supplier made a total of 15 deliveries. Out of these 15 deliveries:

- ✓ One shipment had material out of spec and a NCMR was issued by QA
- ✓ One shipment had packing problem
- ✓ Customer support/communication is considered as good (10 bonus points)

Summary: Total of 15 shipments;
 Problem with one shipment of group 1
 Problem with one shipment of group 3

Calculation of performance rating:

1 (No of bad shipments of group 1) / 15 (Total Shipments) X 400 (weight group 1) = 26.66
 1 (No of bad shipments of group 3) / 15(Total Shipments) X 133 (weight group 3) = 8.86

Total Scores for Quality and Service 35.52: 2 = 17.76

Rating for Quality and Service (85 – 18) = 67 points

Plus bonus points for
Good customer support and communication = 10 points

Total Rating (67 + 10) = 77 points = good

Guidelines for Evaluating of Ratings

As a guideline, the Score of Product Quality and Service should not exceed the maximum of 40 debit points, which corresponds to the acceptable percentage of recurrences per group. Authorized personnel should decide if the supplier should be advised to improve the respective deficiencies or if the supplier should (temporarily) be taken off the approved suppliers list until the deficiency is corrected. These criteria can be restricted to be a certain product supplied.

As a guideline, the rating for Product Quality and Service should be at least 50 or higher in order to consider a supplier as satisfactory. Authorized personnel should decide if the supplier should be advised to improve the overall performance or if the supplier should be (temporarily) removed from the approved supplier list.