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Finding and Evaluating the Partners (Case: Procurement logistics in Russian Supply Chain Management)

Bachelor's Thesis 2015

ABSTRACT

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Sokolenko Svetlana	Finding and Evaluating the Partners (Case: Procurement logistics in Russian Supply Chain Management)
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This thesis study can be interesting for international companies and industries in order to be aware of the problems that can occur when selecting suppliers and develop possible solutions. The importance of the choice of provider is due not only a large number of suppliers in the market but also it must be a reliable partner for the company. There is also a plenty of solutions that can lead to the correct choice of new partner and it can lead to the effective supply chain management. New partners are needed for virtually any business.

The objectives of the study were the following: to identify ways to improve the selection of suppliers for the company, to make recommendations for the further work of the logistic companies.

The practical parts of the result are based on the interviews which were made by General Director of the company "D and A logistics". While making the thesis some difficulties were met with finding explanations of concepts and terms. S.W.O.T. analysis was used for the different types of partner selection, and different methods were used for the evaluation providers.

While making the thesis there have been met some difficulties:

- not many of the previous studies were made on this topic
- it was difficult to find theoretical part of supply chain management in Russia, also about finding suppliers
- enormous difficulty finding explanations of concepts and terms have been satisfied.

Despite the problems that were met in the process of study all objectives were achieved. I have found plenty of interesting and useful information about finding and evaluating suppliers. I have also given some recommendations to the company. First of all, the firm can use three ways to select suppliers: on paper, interviews and visiting the supplier. Also can use different methods for evaluating new partners.

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1. Introduction

1.1 Significance of finding and evaluating suppliers

Experience in supply chain management in Russia is still very insignificant.. Even in the United States and Japan, where it was about 10-15 years, not everyone, even large companies managed to realize optimization of supply chain management, some of them have only made local optimization of complex processes, such as transportation and storage.

In the context of globalization of the economy, increasing competitive pressure on Russian companies, as well as the rising cost of basic resources and tariffs of natural monopolies increasingly supply chain optimization is discussed as one of the main levers of competitiveness of companies. (rostransport.com, 2015.)

Finding and evaluating new partners is one of the most important tasks for any company which cares about procurement logistics and SCM. Effective management of the procurement of an enterprise can be an important source of competitive advantage. Conditions of competition prevailing in today's global market are forcing organizations to actively seek new ways of creating new methods of finding and evaluating suppliers.

1.2 The relevance of this research

The SCM includes business processes such as procurement, manufacturing and distribution. The major tasks are improving service quality and reducing costs throughout the supply chain.

The role of logistics in Russia has been underestimated for a long time. Today, in the face of harsh economic sanctions of the West, among the priorities of many companies, logistics is the key.

Many companies today have abandoned their usual suppliers and they are using new methods for finding new service providers (partners). (rostransport.com, 2015).

International companies need awareness about possible problems that could occur when partnering with suppliers. Above all, a reliable partner is the most important factor for an effective relationship to be built out of supply chain management.

In after-crisis times it is important to care about business. In any business there are a plenty of risks and suppliers (new partners) are needed for virtually any business. To ensure the effectiveness of supply chain management, it is to make the right choice of suppliers is very important.

1.3 Focus theme: common tasks

The procurement logistics as one of the approaches of supply chain management is extremely important.

The choice of supplier is one of the most important tasks of procurement logistics. Some managers underestimate the importance of the right choice of provider for the efficient functioning of the entire company. Some studies show that in many companies of the world, up to 50% of quality control problems occur because problems with the goods and services provided by suppliers.

Typically, such a decision of choice supplier depends on an assessment of the ability of the supplier to meet the criteria of the quality, quantity, delivery terms, price and service. Considering new partnerships could mean potential logistics partnerships with new companies. The task of this thesis is to identify ways to improve the selection of suppliers for the company. The achievement of this objective is contributed to the following task:

How do we identify ways to improve supplier selection for companies? We could make further work recommendations to transport companies.

According the plan these objectives will be reviewed, analyzed and described. In conclusion, this goal Will be discussed whether it is achieved or not.

1.4 Research method

There are two methods of research: quantitative and qualitative. This study used qualitative method.

This method looks for the answers to the questions, organizes different approaches to answer these questions, collects evidence, and makes certain conclusions which can be applied outside of this study. (Qualitative Research Methods: A Data Collector's Field Guide, 2015).

A number of different tools of qualitative research exist. In this particular study, interview was used as an effective tool for data collection. Interview questions were created based on the data that were gathered from different articles, books and Internet sites. CEO of logistic company was interviewed. The interview was done with Alexander Shergin, CEO of "D and A logistics". The goal of interview was to find out how this company performs in finding and evaluation new partners.

In practical part was chosen one of the most common methods of evaluating the complex internal and external factors impacting the development of the company - SWOT analysis.

SWOT analysis is the analysis of strengths, weaknesses, opportunities and risks. SWOT analysis helps answer the question: whether the company uses internal strengths or distinctive advantages in its strategy. (Tim Berry, 2014, What Is a SWOT Analysis.)

1.5 Concepts and terms

Many concepts, documents and terms are used when such a topic as finding and evaluating new partners is taken into consideration.

Finding new partners and suppliers is a complex process. For many companies, this is a new experience. Companies want to find suppliers that could fit all the relevant criteria the company is looking for, but it is very difficult. The main criterion is reliability. It is not always easy to find a good

supplier. In order to find a good supplier companies need to apply a little more patience and perseverance, and success will be achieved. (shopify.com, 2015.)

Supplier evolution is the assessment of existing or new suppliers on the basis of their delivery, prices, production capacity, quality of management, technical capabilities, and service. (businessdictionary.com, 2015.)

Procurement logistics is the accumulation of all aspects of the procurement processes. This includes the procurement, price negotiations, the provision of adequate quantity, quality and delivery. The purpose of procurement logistics is finding the service which is cheaper, but these services can satisfy for their customers' quality and quantity. (businessdictionary.com, 2015.)

Supply chain management is the process of planning, execution and control of the flow of raw materials, work-in-progress and finished products. Also, it provides an efficient and quick service by obtaining operative information on the movements of goods. SCM, taking into account the service requirements of the clients, ensures that you have the right product in the right place at the right time with minimum costs. (logscm.ru, 2015.)

The supplier is a man or a company which provides goods or services. The partner is a company that makes with other companies a contract (partnership) where profits, losses, risks or rewards are distributed among the partners. (businessdictionary.com, 2015.)

Partnership means the business relationship between the two companies. The main criteria: credibility, openness and shared risks and rewards that can help improve performance more than it could be if the companies worked independently. (Zsidisin, G., 2007, 6-7.)

The purchase (order) includes all necessary services to select the correct provider, requirements for its quality, logistics specifications, service specifications, legal and environmental requirements and price criteria. (Van Weele, A., J., 2010, 10.)

Purchasing information shall characterize the service, including information on the conditions of service, the system of quality management and requirements to staff. Also, the list of requirements should be sent to the service provider in advance. (iso.org, 2015.)

2 Features of Supply Chain Management

The concept of supply chain management is one of the most dynamically developing directions of scientific and practical activities in recent decades. The term was proposed by SCM-systems integrator company, i2 Technologies, and consulting firm Arthur Andersen in the early 1980 's. The emergence of the concept of SCM has also been associated with article K. Oliver and M. Weber "Supply chain management: Logistics Catches up with Strategy", published in London in 1982. (Anikin, B., A., 2007, 18.)

Definition of SCM in USA: Supply chain management is the set of all business activities the goal is to bring the maximum value to customers and gain an edge on the market, in conditions of a rigid competition. (investopedia.com, 2015.)

The definition in Europe : SCM is the management of all activities, information, knowledge and financial resources associated with the flow and transformation of goods and services up from the raw materials suppliers, component suppliers and other suppliers in such a way that the expectations of the end users of the company are met or surpassed. (Van Weele, A., J., 2010, 18.)

2.1 Procurement logistics

The procurement process is fulfilling the order made on the basis of the provider-specific applications. It is therefore necessary that requisition for purchase has been timely made, properly selected and contracts with suppliers are correctly designed and decorated. (Anikin, B., A., 2007, 170.)

The main purpose of procurement logistics

The main purpose of procurement logistics management is the planning, organization and monitoring of the main production of the necessary logistical resources in time mode with minimum cumulative costs, i.e. the optimal acquisition, delivery and distribution of material resources in the production process. At this stage, the materials management is necessary to make decisions, to coordinate the interests of suppliers and consumers. To do this, a flexible system of centralized operational management and control over the process of production of the necessary material resources must be created. A regulation process of promotion material flows is based on:

- the control of procurement plans and taking the necessary measures in case of their violation;
- control of the direct promotion of material flows and loading and unloading. (Anikin, B., A., 2007, 172-173.)

The procurement function

The procurement function is to determine the types of material resources, goods and services to be purchased from third parties, as well as finding the best suppliers, prices and methods of transportation. Procurement process can be characterized by the following steps:

- 1) Collection and processing of information about market conditions and operating conditions of sale, delivery, storage, etc.
- 2) The choice of forms and sources of supply.
- 3) Placing of orders and their implementation.
- 4) Organization of office work on resource accounting and payments for purchased goods.
- 5) Maintaining relations with the suppliers. (Nerush, M., 2008, 304.)

Procurement management concepts

Currently, two procurement management concepts are the most advanced in the world practice: just-in-time (JIT) and manufacturing resource planning (MRP). (Bowersox, D., 2008, 360.)

The objective of JIT and MRP, in essence, is the improvement of customer service, reduced inventory and increased productivity. However, approaches to the solution of these problems vary. (Bowersox, D., 2008, 360.)

The MRP aims to guarantee the required raw materials and components at any time within the period of planning, along with a possible decrease in permanent stock. The MRP- system works "from the back": first, it defines the shelf life of the finished product, and then begins the planning lower-level operations. (Bowersox, D., 2008, 360.)

The concept just-in-time (JIT) offers another way of planning. All the activities are organized in such a way that they can be committed at a time when needed. The essence of the system is reduction of the production in large lots. Instead, it creates a continuous-flow focused production. (Bowersox, D., 2008, 361.)

Thus, two the concepts of management of the procurement process are aimed at optimizing the production and procurement process. The main benefit of the JIT is its simplicity, and the main benefit of MRP is the possibility to produce quickly and efficiently complex schedules and it is also possible to control the actual state of the production. Planning and conducting the procurement starts with the finding and evaluating suppliers. (Bowersox, D., 2008, 361).

2.2 Purchasing

Procurement management includes all activities required to manage relationships with suppliers, and their activities should be consistent with the company's strategy and interest. (Van Weele, A., J., 2010, 46.)

Purchasing process

The company shall find partners based on their ability to supply different services in conformity with the company's requirements. (iso.org, 2015.)

Verification of purchased product

The company must realize and develop verification of the quality of purchased services, which shall meet the requirements that have been agreed in advance.

The company may implement checks at the territory of the supplier and if they do not meet the requirements, the company may bring a complaint. (iso.org, 2015).

2.3 Finding suppliers

The sourcing process depends on the type of service which is needed. Special materials are maybe only available in a single country or area. On the other hand, local supplier may feel greater obligation to maintain higher levels of service because it shares the same community as the buyer. Another important point is the compatibility if the buyer is looking for machines or software. (Jones,D., 2008, 250.)

Cooperation with business partners

Doing business is impossible without the cooperation with business partners. Building effective business relationships is not only the consumption of services but it should be strengthened by agreement or contract, as well as healthy human relationship to each other. (Zsidisin, G., 2007, 6-7.)

Types of partners' relationships

The company may participate in the supply chain, ranging from transactions to full vertical integration. (Zsidisin, G., 2007, 6-7.)

The partnership is a kind of relationship that unites the advantages of vertical integration with the advantages of an independent ownership. (Zsidisin, G., 2007, 6-7.)

Relationships with suppliers can provide many benefits to the company's vertical integration, such as:

- 1) More effective use of the assets
- 2) Quicker response to market changes.

Partnerships can also help to increase the exchange of information and allow participants to benefit from each other's experiences. (Zsidisin, G., 6-7, 2007.)

Partnership with suppliers could lead to lower costs, increase the quantity of customers and the ability to quickly adapt to new technologies. These advantages can produce long-term competitive advantage to two companies. (Zsidisin, G., 6-7, 2007.)

The degree of relational closeness between a firm and its transportation partners can be illustrated by thinking of a continuum between a purely "arms'-length", an alliance or "partnership"- based philosophy. Many labels have been coined to describe different levels of relational closeness between a firm and its service suppliers. (Zsidisin, G., 2007, 6-7.)

An arms-length philosophy shows such behavior, in which little confidence and minimal integration processes. Such relationships can lead to better quality of service, improvements to sharing of information, and decreases in technology costs and risks. (Zsidisin, G., 2007, 6-7).

Supplier profile

Information concerning the activities of suppliers of services (resources) gathered from various sources is collected and systematized in the profile. Usually the dossier includes two main sections:

1. General characteristics of the resource provider (activity profile; the range of services; production and sales of services);
2. Special aspects directly related to a contract for the supply of resources (the credit worthiness of supplier resources; his financial situation; loading resource provider with orders for their supply; interest in getting additional orders for the supply of resources; the provider's participation in various associations, associations). (Bowersox, D., 2008, 530.)

Profile of service provider includes a number of documents:

- The card issuer;
- Information about negotiations with the service provider;
- Information on the business relationship with the service provider.

Map of the service provider is a form whose content is grouped by the main aspects characterizing the various sides of this provider:

1. the mail, address of the supplier, the number of his phone and e-mail;
2. year when the company of the supplier was founded;
3. range of resources and services;
4. the information about the productive capacity, trade turnover, number of employees;
5. the information on the financial situation;
6. the information about branches, subsidiaries, provider participations in associations, associations;
7. the competitors service provider;
8. information about the owners and the management of the enterprise of the supplier;
9. the activity of the enterprise-provider (failure to comply with the commitments made responsibilities, the existence of complaints, arbitration and judicial proceedings). (Bowersox, D., 2008, 530-531).

2.4 Supplier selection criteria

There are two possible directions of supplier selection:

1. The choice of the provider from the number of companies that have already been suppliers and which already have a business relationship. This makes it easy to choose new supplier because the company's procurement division has precise data on the activities of these companies.
2. Choose a new provider from the search and analysis of market: the market in which the firm is already working, or a completely new market. (Anikina, 2007.)

In order to test the potential partner, a large investment of time and resources is often required, so the testing should be carried out only in respect of those suppliers from a short list that actually have a serious chance to receive a big order. From a potential supplier competing with the existing, one greater efficiency is expected:

- 1) In modern terms a main selection criteria should make quality. Quality means the ability of a supplier to provide goods and services in accordance with the specifications.
- 2) Reliability is enough capacious criterion that includes the following: honesty, compassion, responsibility, interest in doing business with your firm, financial stability, the reputation in its field, the previously established delivery volumes of material resources/finished products.
- 3) Price. The price must take into account all the costs of buying a particular resource or finished products, which include transportation, administrative costs, the risk of changes in currency exchange rates, customs duties.
- 4) Quality of service. Based on this criterion requires the collection of information from a wide range of people from different departments and

third party sources. You need to collect views on the quality of the technical assistance provider to the rate of reaction on changing requirements and conditions of supply, the requests for technical assistance on the qualifications of the maintenance staff.

5) Terms of payment and the possibility of unscheduled deliveries. As mentioned above, a lack of circulating funds severely limits the choice of suppliers. In business there are external situations requiring unscheduled deliveries or deferral of payment. Therefore, suppliers offering advantageous payment conditions (for example, with the possibility of deferment, loan) and guaranteeing the possibility of unscheduled deliveries, can help avoiding many of the problems of supply. (Bowersox, D., 2008, 532-535).

The main criteria

In any case, the choice of supplier or group of suppliers is determined by criteria. List of potential suppliers is based on the following principal criteria:

- price
- experience of the company in the market
- quality of customer service
- security of supply, including compliance with delivery schedules
- the geographical location of the supplier
- financial stability and financial conditions
- competitive advantage and market leadership
- compliance of the delivery logistics of the company's strategy
- level of expenses for the delivery and storage of goods
- the possibility of long-term partnership in business
- readiness for delivery
- flexibility of delivery
- information availability

- image of the supplier
- product packaging
- additional services, etc. (Nerush M., 2008, 304-306.)

Establishing criteria for the initial selection of suppliers depends on marketing (production) and sourcing a particular firm. It must also be borne in mind that the system of criteria for the selection of suppliers is dynamic (especially under unstable economic situation). When selecting suppliers in most cases important is their rating criteria/factors. (Nerush M., 2008, 310).

Risks with choosing a supplier

Entering into a business relationship with a supplier, the company is exposed to a particular risk. In the case of insolvency, the purchaser may experience disruptions in the production or direct financial loss.

Reimbursement of damages may be difficult. Therefore, enterprises are looking for various ways to identify fraudulent providers and some western firms often employ the services of specialized agencies which are preparing information on suppliers, including through informal channels. These references can include the following information on the financial status of the provider:

- a. ratio of liquidity provider to the amount of the debt;
- b. the ratio of sales to receivables;
- c. the ratio of net profit to sales;
- d. cash flow;
- e. inventory turnover etc. (Anikin, B., A., 2007, 253).

2.5 Evaluating suppliers

After finding a supplier (new partner) the evaluation of this supplier before and during the contract is very important. The evaluation process starts with

defining the criteria, because they are not all equally valuable in any given situation. The most commonly used are price, quality and delivery time. Other criteria can be production capacity and flexibility, technical capabilities and support, quality systems, performance history, information and communication systems, financial status, innovation.

Nowadays, also environmental and social responsibility and safety awareness have become increasingly important. (Bowersox, D., 2008, 364.)

Quality is an important criteria and certified quality system or quality agreements are one way to ensure that the potential partner or supplier is taking care of the quality and quality management; there are different quality systems for example ISO standards or EFQM.

ISO 9000

There are a variety of standards ISO 9000 which addresses various aspects of quality management. These standards are the best guide for a company that wants their services to meet the requirements of the customer. Also, these standards are constantly being updated and improved. Presently there are such rules, which include not only the requirements for quality management system, but also the basic concepts and language. All these rules exist to make quality management system more efficient. (iso.org, 2015.)

EFQM

There are other rules, such as the EFQM Excellence. They provide a complete idea about the company. Companies strive to match or be better than their competitors. These rules allow people to understand why their company is not growing and why such the companies that do not strive for success eventually disappear. Only few companies can succeed and receive well-deserved respect. EFQM Fund was created to recognize and promote sustainable success and helps to provide guidance for those who want to achieve the objective of being better than competitors. (efqm.org, 2015).

Methods of evaluating suppliers

There are different methods of evaluating suppliers:

a) Method of dominant characteristics.

The essence of this method is that the enterprise chooses the criterion which is the most important and have it analyzed from suppliers. This greatly saves time, but ignore the other important indicators reduce effectiveness analysis.

b) The categories of preferences.

This is approach to the choice of the provider and it consists of the fact that freight for the analysis summarizes the data received from the "core" units. The advantage of this method is expert information that is based on the experience of cooperation with a supplier. This method is perfect only if the company has not worked with this supplier formerly.

c) Method for weighted estimations (The ratings).

The method is that the enterprise determines the list of criteria by which to evaluate suppliers. Each criterion has its specific gravity which depends on its importance. Then the providers for this indicator are assigned a score on a 10-point scale and this score is multiplied by the specific weight of the criteria.

d) Method of assessing costs.

This method involves comparing expected income and expenses, to find the most lucrative option. The method has a significant flaw, which is the fact that a large amount of data is needed to be analyzed, which takes a long time. (Bowersox, D., 2008, 360).

3 Finding and evaluating suppliers in a working environment with empirical results

In the third part of this thesis, the focus is on finding and evaluating suppliers in working environment. All the data were collected in the interview with CEO's of logistic company. Firstly, CEO's explained what the firm is, what is important for company when they are selecting suppliers and how they are rating them.

3.1 "D and A logistics" company

The company "D and A logistics ", an all-freight forwarder, has existed since the year 2003, the head office is located in Saint-Petersburg, with 3 branches in the region and one branch office in Novorossiysk (Russia). They have more than 120 employees, more than 250 clients, 20 power of tractor (container) Volvo, already together with the company "NBA" forwarded and transported more than 32595 containers, 636645 tons of cargo.

Services offered by this company:

- Delivery of specific goods
- Customs clearance
- Port forwarding
- Customs payments
- Small parties of cargoes
- Certificating documentation
- Organization security screening
- Insurance

The company specializes in a particular product, besides there are a number of products which they are not forwarding (meat, particularly

hazardous chemicals), and there are a number of products that they are forwarding with enviable regularity. (dalogistics.ru, 2015.)

They have a comprehensive understanding of how movement and declaration of such goods, allow them to reduce overhead costs and not use additional bets on possible risks, leading to lower final bids to the client. Uncounted number of products, and each day the company forwards new types of products that customers can receive on-line on the company's website.

For successful business, the company constantly needs new partners, suppliers of services and products.

In order to succeed and achieve the objective, company - "to be the best logistics company in Russia" (dalogistics.ru, 2015), the company "D and A logistics" should pay attention to finding and evaluating of suppliers. Next, I will deal with these issues.

3.2 Finding new service providers in "D and A logistics" company

In this part of the thesis, is on the example of sourcing suppliers in company «D and A logistics» described.

In this company the Logistics Division Office is responsible for procurement logistics, which is an independent structural unit of the branch office and reports directly to the Deputy Director on commercial questions.

In practice, the Logistics Division is guided by the current Russian legislation, the charter of the company, the company's quality policy, existing at the enterprise.

The main criteria for finding suppliers in «D and A logistics»:

- 1) price (45% component)
- 2) type of provider: direct provider or intermediary (35% component)
- 3) loyalty and flexibility managers of contractor (10% component)
- 4) terms of payment and credit lines (5% component)
- 5) there are such nuances as:
 - can a contractor do some unique things

- technological base contractor (5% component). (Shergin, A., 24 March 2015.)

The following figure shows different principles of finding and evaluating in this company.

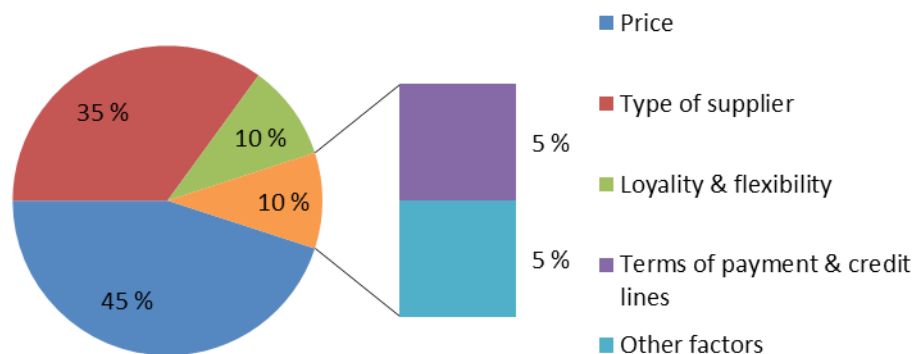


Figure 1 Principles of finding suppliers in «D and A logistics» company

Figure 1 shows that price is the main criteria for company.

On the basis of articles from various sites and books, I suggest company to consider a broader list of demands for the supplier:

1. Reliability, reputation
2. The remoteness
3. Stable quality
4. Price and discounts
5. The period of validity of contracts
6. The service is good
7. Compliance with generally accepted standards of ISO 9000
8. The degree of cooperation
9. The provider type

10. Terms of payment
11. Frequency of delivery
12. Sustainability
13. Time (delivery period)
14. Technical requirements
15. Reports on progress
16. Supports the feedback

In order to search and find the right logistics service provider who provides the listed attributes is very important. Nowadays, the main source of information is the internet, but there are also other sources similar trade exhibitions, trading houses, embassies and commercial associations. Another way to find suppliers is talking with colleagues, current suppliers and professional contacts.

(Shergin, A., 24 March 2015.)

3.3 Improvement of the procedure of selecting suppliers

The company should pay attention to the fact that there are different ways to selecting suppliers. The most common ones are:

- On paper
- Interviews
- Visiting the supplier

If the evaluation is only done on paper there are always risks because the buyer does not see the circumstances in the production process of the supplier. This is the reason why the safest way to evaluate is visiting the supplier, especially if the supplier is outside of the European Union. Of

course, the method of evaluation also depends on the type of product the buyer is purchasing.

If the supplier is certified according to some international standard it reduces the need for inspection because it typically means that the supplier's internal system for measurement and control of quality is sufficient to ensure the minimum quality level required without performing further inspections. The most common standard in Europe is ISO 9000 for quality management and quality assurance. There are also standards for environmental management, occupational health and safety, food safety management. These are just general requirements that apply to almost every supplier. I want to use a S.W.O.T. analysis to evaluate the «D and A logistics» company.

S.W.O.T. analysis (see p. 7) is a structured plan showing the strengths, weaknesses, opportunities and threats in order to make it easier to choose new suppliers for a company. The following three figures show different ways to evaluate suppliers.



Figure 2 S.W.O.T. analyses on paper

Figure 2 shows that this way is reduces money and simply to complete, but it has many risks and false information.

STRENGTHS: COMMUNICATION WITH SUPPLIER EFFICIENCY	WEAKNESSES: "DIFFICULT CLIENTS" BUSINESS TRIPS
OPPORTUNITIES: SEE DIGNITY SEE SHORTCOMINGS	THREATS: WASTE OF TIME

Figure 3 S.W.O.T. analyses interview

Figure 3 shows that this way is more efficient but waste of time.

Figure 4 S.W.O.T. analyses visiting the suppliers

WIDE AUDIENCE REDUCYON OF COSTS LOW ADVERSTING COSTS	FALSE INFORMATION FAILURE TO UPDATE INFORMATION
OPPORTUNITIES: FAST QUERY PROCESSING MOBILITY	THREATS: DELAY TIME

Figure 4 shows that this way is reduces costs, allows for more mobility and lowers adverting costs.

On the basis of these three tables, the following conclusions can be drawn: all kinds of assessment of suppliers have their advantages and disadvantages, so it is recommended to use all three ways to select new suppliers. First, correspondence with people who offer conditions (e-mail)

on paper begins, after that one can move on to the communication by telephone; after a telephone conversation, the next step of evaluation will come in the form of a face to face meeting.

3.4 Methods for evaluating suppliers

There are different methods for evaluating suppliers:

- The method of dominant characteristics
- The categories of preferences
- The method of weighted ratings (rating)
- The method of estimating costs

3.4.1 The method of dominant characteristics

The method consists on focusing on one option (the criteria) (see page 19). This parameter can be the most competitive price, best quality, delivery schedules, and preserve the greatest trust. I chose the main criteria as the quality.

We must find how many percentages provider has implemented from 100% I am taking 50 times = 100%, it means that this supplier has done their job well 50 times.

1 supplier

- In the last quarter of the provider (direct operator) delayed the delivery of 5 times

2 supplier

- In the last quarter of the provider (direct operator) delayed the delivery of 8 times

3 supplier

- In the last quarter of the provider (direct operator) delayed the delivery of 6 times

a) Calculations

1 supplier

5 losses=> $(45 \cdot 100) / 50 = 90\%$ performed work

2 supplier

8 losses=> $(42 \cdot 100) / 50 = 84\%$ performed work

3 supplier

6 losses=> $(44 \cdot 100) / 50 = 88\%$ performed work

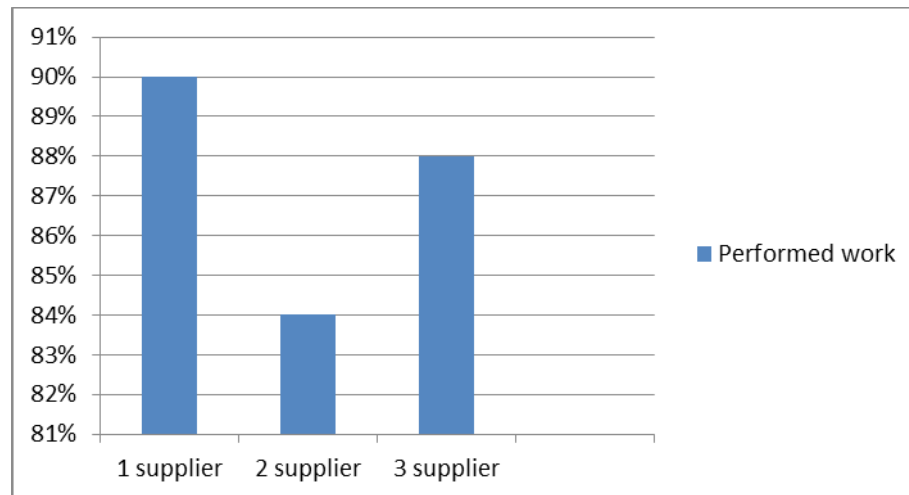


Figure 5 The volume of work performed

This figure 5 shows that the first supplier did more work than other suppliers. It is the best provider.

3.4.2 The method of weighted ratings

Rating is based on the main factors when choosing a supplier. After selecting factors, determine the specific value of each factor for the company and evaluate these factors. (See page 19).

Step 1. First you need to create a list of criteria to choose the supplier on:
See page 23.

I chose 3 important parameters: quality, price and service.

Step 2. Determine the value of each parameter, for example:

price	50%
quality	25%
service	25%

Next, I selected the points system.

Price – the lowest price index is calculated based on known data about the market as a percentage of paid prices (the minimum known price divided by the price actually paid and multiply by 100)

Quality-subtract the percentage of loss of the original 100

Service - for each delayed transportation (shipping) subtract 5 points out of 100

Step 3.

CEO gave me some information about 3 suppliers:

1 supplier

- In the last quarter of the provider (direct operator) delayed the delivery of 5 times
- The minimum price for that period stood at 95% of the amount paid
- The company suffered a loss of 12%

2 supplier

- In the last quarter of the provider (direct operator) delayed the delivery of 8 times
- The minimum price for that period stood at 67% of the amount paid
- The company suffered a loss of 23%

3 supplier

- In the last quarter of the provider (direct operator) delayed the delivery of 6 times
- The minimum price for that period stood at 88% of the amount paid
- The company suffered a loss of 16%

Step 4. Evaluating on the scheme (Calculations)

1 supplier

Price	$50\% * 95 = 47,5$
Quality	$25\% * (100 - 12) = 22$
Service	$25\% * (100 - 25) = 18,75$
Total 88,25	

2 supplier

Price	$50\% * 67 = 33,5$
Quality	$25\% * (100 - 23) = 19,25$
Service	$25\% * (100 - 40) = 15$
Total 67,75	

3 supplier

Price	$50\% * 88 = 44$
Quality	$25\% * (100 - 16) = 21$
Service	$25\% * (100 - 30) = 17,5$
Total 82,5	

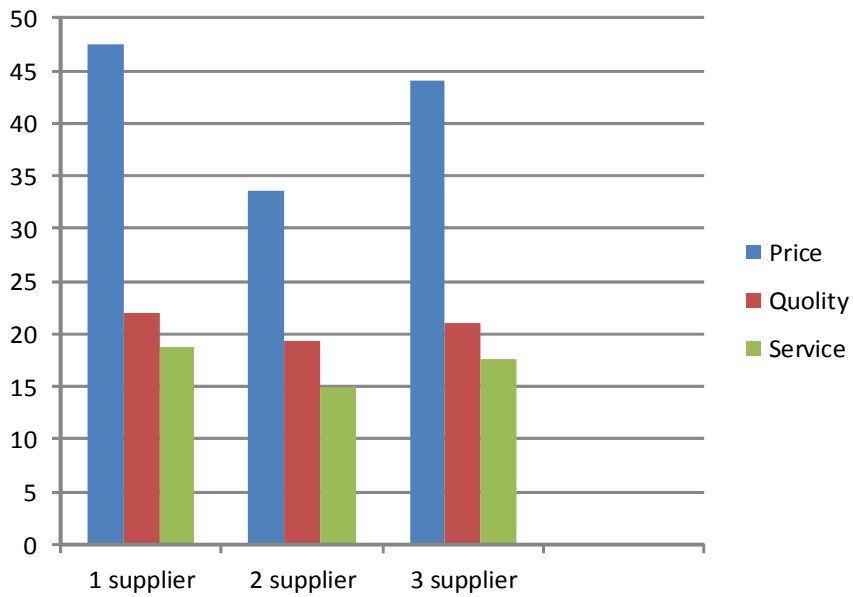


Figure 6 Evaluating of suppliers

Figure 6 shows how price, quality and service in the compare between suppliers based on percentile measurements.

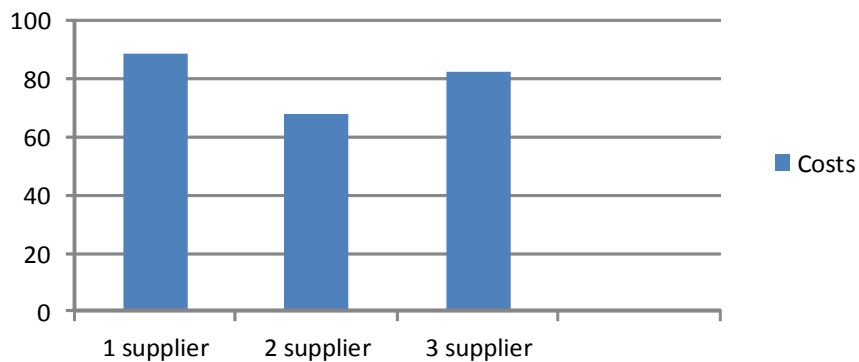


Figure 7 Costs with suppliers

Figure 7 shows that the second supplier is the most attractive because it will bring less cost for the company than the rest.

The first supplier took first place in this list of costs for the company, this is a list of the possible loss outcomes:

- 1) 2.5 hours of time purchasing manager spent on finding out the situation with 5 detained shipments
- 2) Extra time for warehousing, loading-unloading (it means that additional watches, company pays for these costs,)
- 3) Clients received their goods late
- 4) -1 regular customer
- 5) Increased storage costs

Could the company do after receiving such conclusions?

All of this could happen, but if the company will use one of the methods of evaluating suppliers, these problems can be prevented.

I recommend:

- 1) calculate damages and loss of profit
- 2) negotiate with supplier
- 3) identify your requirements
- 4) give time to fix errors
- 5) monitor the dynamics
- 6) decide to work or not with this supplier

Summary, I reviewed 2 methods.

The advantage of the former method (the method of weighted ratings) is simplicity and disadvantage the disregard of other factors-criteria for selection.

The advantage of the latter method (the method of dominant characteristics) is consideration the many criteria, not only one, which gives the company a more correct choice of provider and disadvantage requires more time.

4 Conclusion

The practical part comes from the fact that some of the information was taken from the interview with CEO of logistic company.

Despite the problems that slowed down the process of thesis study I objectives were achieved.

I found a large amount of useful information on supplier evaluation, and realized that these processes demand a large amount of time and attention.

The aim of this study as to identify ways to improve the selection of suppliers.

The following tasks were set and covered: the criteria for selecting suppliers, characterization methods of finding suppliers are describing the methods of selecting suppliers.

I gave some recommendations to the company. First of all, they can use three ways to evaluate suppliers: on paper, in interviews and by visiting the supplier. Also, when evaluating suppliers, the company can use different methods.

It is worth noting that the evaluation of suppliers is similar among transport and logistics companies, and much of it can be applied across multiple organizations, but solutions that were suggested are unique and could not be applied to every company because companies differ and the ways of carrying out the tasks are very different. Moreover, it is necessary to emphasize that only one company was observed and some information and solutions can be missing.

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