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Basic Methods for Selecting Potential Suppliers

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Entering into an economic relationship with an unknown supplier, the company is exposed to a certain risk. In case of insolvency or dishonesty of the supplier, the consumer may experience disruptions in the implementation of production programs or direct financial losses.

When searching for suppliers, it is necessary to compile a list of potential suppliers; to determine the criteria for selecting suppliers and their significance; to make a preliminary analysis of suppliers according to the criteria in order to narrow their circle to four or five; to prepare and send requests to suppliers for missing information; to carry out a commercial evaluation of suppliers; to conduct preliminary negotiations or meetings with the most preferred suppliers; to select suppliers and conclude contracts with them for the supply of products.

When choosing a foreign supplier, it is necessary to determine the country of the foreign counterparty for long-term cooperation.

When choosing a country, along with economic considerations, one should take into account the nature of trade and political relations with this state. Preference is given to those partners with whom normal business relations have been established, supported by a contractual and legal basis and who do not allow any discrimination to the partner's country.

Of great importance is the political and socio-economic situation in the potential area of foreign economic cooperation. A stable environment is an additional plus, *ceteris paribus*. It is

necessary to pay attention to the presence and scope of the system of non-tariff restrictions applied in foreign markets. Data on the system of customs, foreign exchange regulation of foreign economic activity, the level of competition in the market, the level of prices for goods should be studied.

Competitive bidding (tenders) is a common form of searching for potential suppliers. Tenders are also held if it is planned to make purchases for a significant amount of money or establish long-term relationships. Competitive bidding is beneficial for both the supplier and the consumer. The supplier receives an accurate idea of the conditions of work with the consumer, who has the opportunity, based on the proposals received, to choose the best supplier. Conducting a tender includes the following stages: advertising; development of tender documentation; publication of tender documentation; acceptance of bids; comparative evaluation of competitive bids according to common criteria; confirmation of the qualifications of bidders; offer and award of a contract.

If the initiative to enter into negotiations comes from the seller of the goods, he sends out offers to potential buyers of his products in order to obtain acceptance. Offers have a different form, but usually include the following details: name of the product; quantity and quality of goods; price; terms and conditions of delivery; conditions of payment; characteristics of containers and packaging; the order of acceptance and delivery.

If the initiative to enter into negotiations comes from the buyer, he sends out letters or orders to potential suppliers in order to receive an offer. The request shall specify: the name of the product, its required quantity, terms and conditions of delivery, payment.

Comparative evaluation and ranking of potential suppliers is carried out using various methods, the most

effective of which are: the method of determining the rating of the supplier; cost estimation method.

Determining the rating of the supplier involves the implementation of the following algorithm.

Firstly, a list of criteria is determined, taking into account which the comparative evaluation of suppliers will be carried out. As practice shows, consumers use four main criteria: the price of products or services; product quality; delivery reliability; payment system for products.

Secondly, a weight value is set for each criterion. It should be noted that the weight of the criterion shows the significance of a particular indicator (factor) for the enterprise. Thus, the most significant criterion for the organization should be assigned the maximum weight value. The sum of the weight values for the selected list of criteria should be equal to one.

Thirdly, a comparative assessment of suppliers is made for each of the selected criteria. Based on the collected information about suppliers, they are evaluated relative to each other, usually on a ten-point scale. But a 100-point scale can also be chosen, for example, with a large number of compared suppliers. The assessment should be carried out by experienced specialists (experts).

Fourth, the supplier rating is calculated. The supplier's rating is determined by summing the products of the weight of the criterion by the supplier's assessment according to the corresponding criterion in the context of the entire list of criteria. The cost estimation method for identifying a supplier is quite simple, but has certain disadvantages. It is largely subjective, since it involves taking into account the opinions of several experts, and a comparative assessment according to most criteria is not quantitative, but qualitative.

When choosing a supplier, it is important to evaluate the costs along the way from the place of dispatch of the goods to its receipt by the consumer, thereby more objectively

evaluating suppliers. In terms of logistics, finances and loyalty, there are four categories of suppliers: excellent, reliable, unreliable and unsatisfactory. Unreliable suppliers are actively looking for replacements, and cooperation with unsatisfactory ones is simply terminated.

Based on the results of the evaluation, suppliers should be divided into classes A, AB, B, and C. The division into classes allows you to automate work with them based on performance, strategic value, and a plan for further action.

The above methods make it possible to obtain a quantitative expression of the integrated indicators of the rating of suppliers and, on their basis, to identify the best of them. Currently, CALS-technologies are becoming the main condition for business partnerships, supplier selection, negotiations and tenders, contracts, primarily in high-tech industries (automotive, shipbuilding, radio-electronic industry, etc.).