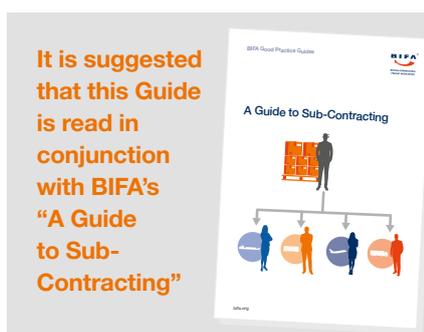


A Guide to Minimising Supplier Risk



BIFA has written three Good Practice Guides aiming to reduce the risk Members face relative to opening up credit accounts and undertaking new business, risk assessing individual consignments and cargo release against documents. However, from reviewing Member comments it has become clear that one of the biggest risks posed to them actually stems from their own suppliers. The two main inter-relating complaints concerned provider service failures and regulatory non-compliance.

Due to the nature of their role forwarders rely heavily on sub-contractors, and consideration should be given to assessing and evaluating them, where applicable. When considering which supplier to assess and to what extent, a process should be established reflecting the importance of the supplier, the service offered and the risk involved. There are some providers such as airlines and shipping lines that may not require evaluation due to their size, services offered and external accreditation. This document will focus on minimising supplier risk by suggesting a pragmatic approach to evaluating and managing suppliers.



The starting point

All evaluations start with some form of product/service specification, purchasers can use the criteria to assess the suitability of potential suppliers and as a tool to alert potential suppliers of what is expected of them.

There are various factors to be considered when devising a specification:-

- The exact service to be provided, with special consideration being given to
 - its complexity and
 - any special requirements
- The importance of supplied service/product to the purchaser's business
- Likely total spend by the Member
- The percentage cost element of the purchased service/product in any one contract/individual consignment
- The number of alternative suppliers
- Total market capacity
- Market competitiveness and ease of changing suppliers
- Impact on forwarder – customer relationship if the supplier fails in their responsibility

The Process

It is important to highlight that it may not be appropriate to evaluate all suppliers, and in certain cases with airlines or shipping lines or low volume usage suppliers a simplified process may be required. It is for Members to decide what is correct for them.

The main stages in the process are:-

- Supplier Appraisal – where the potential supplier's ability to provide the service and maintain consistent quality control will be evaluated
- Supplier Approval – where it is agreed that the potential supplier meets the contract specification and is approved to provide the service
- Supplier Monitoring - an ongoing process whereby the supplier's performance levels are monitored at regular intervals.

It is recommended that all companies have their own internal procedures detailing the initial evaluation process, how the supplier will be approved and by whom and the ongoing monitoring procedure.

The purpose of the process is to ensure that the supplier can meet their customers' requirements and where applicable their national and international regulatory obligations in a consistent manner. When correctly applied it will reduce the likelihood of mistakes and errors but not eliminate them. Importantly it will deter the rogue trader by demonstrating that as a customer, you have procedures in place and intend to exercise a reasonable level of control.



Points to evaluate

The following suggested items to be included in a due diligence checklist are intended as a guide for Members who wish to write their own supplier evaluation document. It is important that the checklist is appropriate to the activity under consideration and may be varied according to specific requirements.

The evaluation of potential suppliers is not a precise science, and whilst much can be accomplished by evaluating the information provided consideration should be given to other procedures including speaking to any referees provided and, where applicable, site visits.

Establishing the trader's identity

- Full Name and registered address of the provider
 - Details of appropriate branches
 - Telephone numbers
- Main activity of the supplier
- Establish ownership, e.g. part of a group etc
- Legal form of business entity, sole trader, partnership, limited company, PLC etc
- Company registration number at Companies House (where applicable)
- VAT registration number (and in some cases an EORI number)
- Key personnel and responsibilities
- Website address

Commercial checks

- Financial records:- have the accounts been filed in accordance with corporate law?
- Ask for copies of the latest annual accounts
- Use a credit rating agency or similar to establish the credit worthiness of the provider
- Decide whether to ask for trade references
- Ask for details of insurance and liability policies, requesting copies as applicable
- What trading conditions are to be incorporated into the contract?

Services Provided

- Establish precisely what services/products the supplier is able to provide and that this matches your requirements
- Establish as far as practical the supplier's capability to deliver the service
 - Sufficient physical resources
 - Suitably trained staff
 - Ability to check regulations via on-line tools or manual documentation
 - Are there procedures to cover key processes including complaints?
- Establish if the supplier will agree to a formal contract including:-
 - A Service Level Agreement
 - Limitations such as types of goods that will be outside the terms of the agreement
 - Information regarding jurisdiction

Approvals and accreditations

- Check that the provider meets their regulatory obligations, e.g. UK truck operators are required to hold an Operators Licence issued by the Driver and Vehicle Standards Agency.
- Establish if the supplier holds any voluntary approvals such as:-
 - Authorised Economic Operator (AEO)
 - Regulated Agent for Aviation Security
 - Voluntary Trusted Trader scheme for truck operators run by UK Border Force
 - Relevant ISO accreditation
- Membership of professional bodies and trade associations

Consideration should be given to requesting copies of all the relevant documents.



The Member will have to determine their own checking policies, and who has the authority to appoint a new supplier.

Procedural control

- Can the supplier demonstrate control of their own business activities either via documented procedures or other means covering:-
 - The business activity being provided
 - Training
 - Security
 - Suppliers
 - Financials
 - Health and Safety

What to check and why?

Once the completed documentation has been received it should be checked by a competent person, with sufficient knowledge, experience and authority to make a judgment. All omissions etc. must be clarified with the provider. It is important that, whatever information is obtained from the customer, it is thoroughly checked and cross referenced.

The Member will have to determine their own checking policies, and who has the authority to appoint a new supplier. It is important to strike the correct balance between speed in order to be able to conduct business with legitimate traders and conducting sufficiently thorough checks to identify those who you would not wish to conduct business with.

The internet can be a good friend and much of the information is available online, but it is important to download and retain any information. If you have asked for referee details, take up the references and check the responses.

Checking the infrequent supplier

As we said earlier in this document, checking certain suppliers due to their market position or service dominance may not be appropriate. Similarly, reduced checks may be appropriate where a service failure will have a small impact on the Members business, or there are several alternative suppliers.

However comprehensive a Member's supplier list is there will be occasions when in an emergency a supplier will have to be used on a one-off basis. It is strongly recommended that some checks are made on the potential supplier. Having spoken to insurers, as a minimum this should include all those that can be made online, confirming what terms and conditions are applicable and verifying that suitable insurance/liability cover is in place.

Conclusion

This brief document aims to provide a guide as to how to check on suppliers, with the aim of maximising their contribution to your business. We have come across some horror stories when preparing this guide, the following gives an indicator of what can go wrong, from both the buyers and service providers standpoints.

An importer put their business out to tender, one of the criteria was that sub-contracting of cartage was not allowed. Various forwarders bid for the business and it was awarded to one of them. The only problem was that it was awarded to one who did not operate their own trucks and therefore, could not comply with the contractual requirements. On investigation it was clear that the importer had not sufficiently checked or verified the information provided as part of the tender process.

This short story indicates why it is important to know precisely what a purchaser requires, and the supplier is expected to deliver, under any contract. It also illustrates the importance of the purchaser carefully checking any information provided to ensure compliance with their original specification which is the key starting point to minimising supplier risk.



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