



University of Petroleum and Energy Studies, Dehradun

January – May 2015

A DISSERTATION ON

The Impact of Vendor Selection

on

Procurement Efficiency

Submitted to

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Course Name: MBA – Logistics and Supply Chain Management

Subject Name: RESEARCH METHODOLOGY

Guide Certificate

TO WHOMSOEVER IT MAY CONCERN

This is to certify that the dissertation report on “**The Impact of Vendor Selection on Procurement Efficiency**” completed and submitted to University of Petroleum and Energy Studies, Dehradun by **Mohit Sharan** in partial fulfilment of the provisions and requirements for the award of degree of **MASTER OF BUSINESS ADMINISTRATION LOGISTICS AND SUPPLY CHAIN MANAGEMENT, 2013-2015** is a bonafide work carried by the scholar under my supervision and guidance.

To the best of my knowledge and belief the work has been based on investigation made, data collected and analysed by the scholar, and this work has not been submitted anywhere else for any other university or institution for the award of any degree/diploma.

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Student Declaration

I hereby declare that this project titled

“The Impact of Vendor Selection on Procurement Efficiency”

Submitted in fulfilment of requirement for Dissertation

Is original work and has not been submitted for the award of any other Degree/Diploma/fellowship or other similar titles to any publication whatsoever

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Acknowledgement

I feel highly indebted to not just acknowledge but to be grateful towards my guide **Dr. Neeraj Anand, HoD - Logistics and Supply Chain Department**, who helped me and guided me throughout this project report.

The mere words of 'thankfulness' is just too little to express my gratitude towards my guide. Their readiness to provide help and support at every step of the way kept me motivated and inspired to make this project as effective and conclusive as possible.

I also take this opportunity to express my heartfelt gratitude towards my colleagues and friends, who provided me with the help, support and guidance that I required from time to time through this project.

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Abbreviations

<i>ERP</i>	<i>Enterprise Resource Planning</i>
<i>GERP</i>	<i>Global Enterprise Resource Planning</i>
<i>GDMi</i>	<i>Global Demand Management & Information systems</i>
<i>EIC</i>	<i>Engineer-In-Charge</i>
<i>PR</i>	<i>Purchase Requisition</i>
<i>PO</i>	<i>Purchase Order</i>
<i>AMC</i>	<i>Annual Maintenance Contracts</i>
<i>ITB</i>	<i>Information to Bidders</i>

Executive Summary

The Success and failure of a Contract highly depends on the performance of the selected vendor. Sourcing process and mainly the procurement department or the sourcing department plays a very important role in the whole process.

However, it has been very difficult to determine the result of the contract simply based on the selection process mainly because even though a lot of time and planning gets involved in the selection process, the performance aspect still remain with the vendor which cannot determined at the selection process.

Various companies use methods like, making Performance Certificates mandatory at the time of bid submission, in order to find out the previous performance records of the vendor.

The objective of this report is not only to identify a method that would help in strengthening the sourcing process but at the same time help in evaluating the vendor during the bidding stage in order to help in a better decision making process during the selection stage.

Introduction

Procurement is a small but one of the most important function in the whole Supply Chain process. It is very important to obtain a good source in order to ensure the smooth operations within the supply chain.

Sourcing means, *obtaining resources required for the purpose of fulfilling the needs of the end customer*. Without a proper source, no supply chain function can fulfil its basic principles i.e. delivering the product to the end customer at the *right time, right cost, right place & right quantity*.

Procurement, in general term, is used everywhere to define the process of sourcing. The process begins with

- ✓ Identifying the need of the customer
- ✓ Identifying the materials required
- ✓ Identifying a supplier through a Tender process
- ✓ Evaluation of Bids submitted
- ✓ Final selection of the supplier
- ✓ Contractual/Legal formalities

The above is a general process carried out by every big or small business corporation throughout the world.

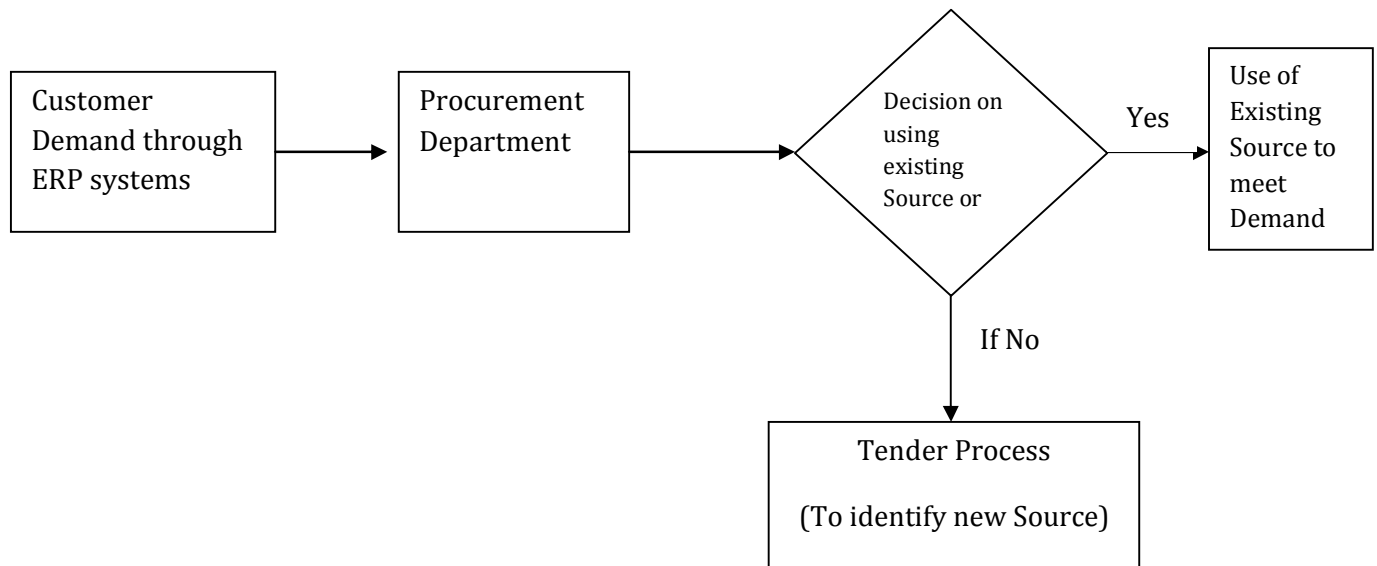
As the time has progressed, some companies have started using ERP '*Enterprise Resource Planning*' systems like SAP '*Systems and Applications Processes*', GERP '*Global Enterprise Resource Planning*', GDMi '*Global Demand Management & Information systems*' etc. In order to make the process more smoother and faster.

These systems and applications help the company in identifying and evaluating their day to day business activities and process in order to make more robust supply chain operations.

However, even though after the implementation of various ERP systems, the general Supplier evaluation and selection process is still continued by various organisations

resulting in loss of time, loss of finances, faulty selection of supplier resulting in termination of contracts, which ultimately hampers the operations of a company.

Procurement Decision Process

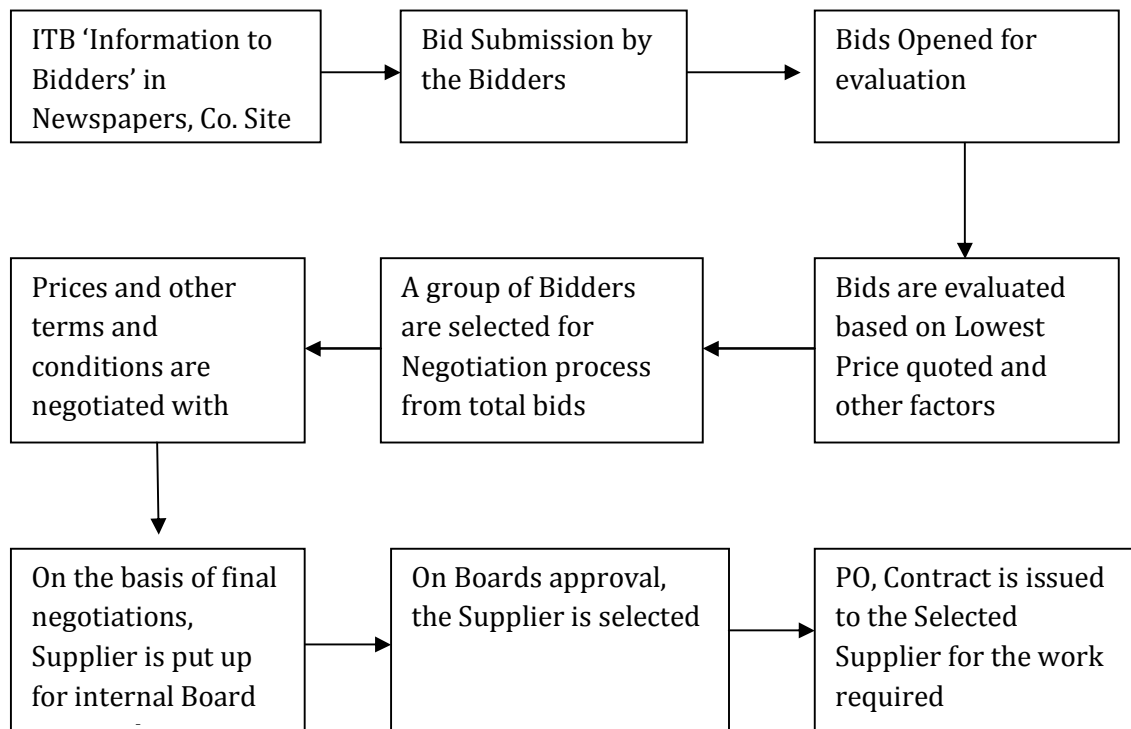


- ✓ The decision process starts with the customer needs. As procurement is done for meeting the internal requirement e.g. raw material, labor, equipment etc, these resources are used in order to make the final product for the end customer. Here the customer is the EIC '*Engineer-In-Charge*' who requires the resources for production/service purposes.
- ✓ The EIC provides its requirement through a PR '*Purchase Requisition*' which carries all the details and the specifications required by the EIC for functional purposes.
- ✓ On the basis of the PR, the Procurement department decides on whether to go for an existing supplier or select a new supplier. This decision is based on various factors, such as materials requirement, capability of existing supplier both for resource and financially, reputation of existing supplier, time constraints etc.
- ✓ if there is an existing supplier who can cater to all the needs of the EIC, the supplier would be informed about the requirements in the form of a PO '*Purchase Order*' for

Supply Contracts or Works Contracts for Construction or AMC 'Annual Maintenance Contracts' depending upon the nature of the work, and the PR is closed.

- ✓ In case, the company does not have an existing supplier, then the procurement department initiates a tendering process based on which a supplier is selected and issued a PO or a Works/AMC contract.

Tender Process



- ✓ The tendering process is initiated from in the form of ITB 'Information to Bidders'. An ITB are generally an advertisement on local and national newspapers informing prospective bidders about the details of the work. The information are generally

- ✓ Brief description of Scope of Work
- ✓ Time schedule/Period of Work
- ✓ Area/Location of Work

- ✓ Eligibility Criteria (if any)
- ✓ Other information e.g. date of submission of bid, bid document purchase amount etc.

- ✓ On the basis of this information, the bidders submit their proposals or bids to the company for bid opening and evaluation.
- ✓ On the day of bid opening, the proposals submitted by various vendors are opened and evaluated one by one for short listing for the 2nd round i.e. the Negotiations.
- ✓ The shortlisted companies are called individually for negotiations and Negotiations takes place w.r.t Scope of Work, Time Schedule, Payment Terms, Security Deposit/Bank Guarantee etc.
- ✓ On the basis of the final prices quoted by the vendors, the vendor with the Lowest quoted price denoted as 'L1' is presented for internal board approval and finally on approval the vendor is selected by issuing a LOI/LOA '*Letter of Intent/Award*' stating that the vendor has been selected for the work with the final negotiated terms and conditions.

This is the general process being followed by almost every company in India. With IT playing an important factor in the whole process, a new concept of e-tendering is followed by Multinational or Conglomerate companies in order to reduce time, however, the process in relation to the Tendering still remains the same with a difference that with e-tendering every step excluding negotiations is done online.

Quality, Design, Cost 'QDC'

QDC stands for Quality, Design and Cost, the basic principles on the basis of which a sourcing operation functions.

'Q' for Quality: The Quality principle is perceived in the manner, that the product or the service expected to be received from the selected source would be of the desired quality and nothing less. Quality here can be in terms of blueprint of structure or a unit, design of a process etc.

Desired Quality is the basic requirement which is expected by any company from the supplier.

'D' for Design: Design are the specifications on the basis of which a supplier has to function and operate. Here design does not only include the specifications of a desired unit but also the process that would be followed during the execution of the contract.

E.g. In case of an importing a *Completely Built Unit 'CBU'*, the process would be clearly and well defined in advance in the contract in order to ensure the timely execution and delivery by the supplier at the desired location at the same time ensuring that the product is not damaged during transit.

'C' for Cost: Cost is the most essential and vital principle that has to be considered mainly because everything desire comes at a price. If the company decides to import a unit, various costs and overheads have to be considered e.g. excise duty, VAT, customs duty etc.

Any and all requirements have to be calculated in terms of cost and then evaluated keeping in mind the budget set for the desired product or service. Cost creates an important perspective because many decision faze out during the costing stage and alternatives are identified during the same process stage.

However, there are various companies which concentrate more on Cost and less on other principles without realising the implications of the same.

Research Objectives

- ✓ To understand and Identify alternate Vendor Selection Methods

Selection of right vendor is the most crucial part in the whole outsourcing process. A right vendor would ensure timely delivery of goods and services at the same time ensuring the three principles i.e. Quality Design and Cost are as per the requirements of the company.

Our objective is to identify new selection methods in order to avoid failure and termination of contracts which ultimately leads to more time and cost to the company.

- ✓ Informing the effects of using only one kind of selection method i.e. Lowest Bid Selection

Our objective is not only to indentify new evaluation and selection processes but at the same time educate professionals regarding the impact of using only one kind of selection technique for all kinds of contract.

- ✓ Evaluate efficiency of selected method for vendor selection

To identify a process wherein the vendors are evaluated on various parameters by the individual responsible for that particular stage in the process. This would help the top management in obtaining correct information about the vendor and help in deciding the selection or rejection of the vendor based on the report.

Problems

Business Problem

- ✓ Increasing Operating cost and time which occurs due to Contract failures

The most concerning problem for a company is the high costs and time that is incurred simply due to termination process and then selection process of a new vendor.

This problem not only delays the time schedule of the project but in operational cases, result in huge loses due to capacity, time and operational costs. Using one selection method for all types of contracts is a serious threat for the company as the chances of failure and termination of contract increases.

- ✓ Threat to Safety and Security

One of the major problems observed in a Refinery is a case of serious threat to the Refinery operations and personnel due the negligence of the selected vendor ultimately resulting in higher cost to the company.

Research Problem

- Identification of alternate methods of Vendor Selection and procurement evaluation methods

The identification and the development part is most crucial, as various aspects have to be considered while developing a process. A process cannot be simply based on one type or category of contract but has to ensure that the same may be applicable for almost all categories, at the same time keeping a check on the selection process of a vendor for a contract.

Methods Used for Research

Type of Research	:	Descriptive
Data Collection method	:	Secondary (Observation)
Sampling Technique	:	Non-Random Sampling (Convenience Sampling)
Sample Size	:	1 Department (5 employees – Middle Level)
Method of Data Collection	:	Observation Technique, Articles and research Papers
Tools of Data Collection	:	Checklist Form

Case Study

Case 1 – Medical Agency Contract

Medical facilities are very important for companies having operations at various remote locations. These locations are strategically chosen keeping in mind parameters best suitable for the company.

These locations however, lack the basic facilities and needs that are mandatory for a company to obtain, due to the involvement of manpower at these locations. One such important facility that is mandatory for any company to have at such locations is the Health and Medical facilities. These are mandatory mainly because, even though there are various safety measures followed by the company but the risk of accident is always a cause of concern.

Medical facilities are crucial for a Refinery as these are always built outside any living habitat at remote locations in order to ensure safety to the people and the refinery itself. The required facilities are built in and around the Refinery area in order to cater the regular needs of the employees working at these locations.

Overview:

This case revolves around an Oil Refinery being commissioned in Northern part of India. The refinery has a capacity of 12MMTPA including a Sulphur Recovery Unit and a Polypropylene production plan at the same location.

This refinery has more than 1200 regular employees and more than 2500 day wage labors working day and night in order to ensure smooth commissioning and operations of the Refinery.

During its 3rd year in the erection stage, the Refinery more than 4000 people working at one location in order to get the project completed in time. The project was in full swing, however the project lacked one major facility. A proper medical centre was not yet established although a regular doctor was sourced at the site for regular treatments, but in

case of an emergency it would take approx 2 hours just to get the patient delivered to a proper medical facility.

In light of this, there was an urgent need of a Medical contract that would take care of all the medical needs of the people working at that location.

Scope of Work

The Scope of Work included but not limited to

- ✓ Establishment of a proper Medical facility at the Refinery Location
- ✓ Providing Round the Clock medical services to the people within the Refinery and outside in surrounding areas, if required.
- ✓ Establishment of a 24 hour infirmary
- ✓ Round the clock Doctor availability

Other Facilities

- ✓ Ambulances for transportation of patient in case of emergency
- ✓ Stretchers and medical equipments inside the facility as well as in the ambulance

Contract Duration

The duration of the contract would be for 3 years from the date of commencement of the contract and would be extended for a further period of 1 year based on performance. There would also be a lockin period of 3 years wherein, the contract cannot be terminated by a decision of either party. Both parties would have to consent in order for the termination of the contract within the contract duration.

Contract Price

Estimated contract price for the contract was 15 Cr. per year + actual based on bills provided for medicines and other medical instruments as required on actual.

Based on the above information, (Excluding the contract price), the information was floated for inviting bids for the contract. 3 Major Medical Agencies applied for the contract quoting as low as Rs.20 Cr. for the contract. The lowest initial quote was Rs.19.46 Cr.

Seeing the response, the procurement department decided to go for another round of tendering lowering their basic requirement in order to get a better response.

During their 2nd Tendering process, they received, 7 bids as compared to earlier 3. This time the lowest bid was at Rs.18 Cr. by a local medical facility agency who was located near the same location where the refinery was established.

Keeping the contract estimation in mind and the urgency of the getting the medical facility in place, the team decided to negotiate the terms and conditions with the Local agency.

During the negotiation stage, the medical agency agreed to provide all medical personnel, equipment and other requirement that was required as per the contract with a final Cost of contract to Rs.17.4 Cr. Although, the final price quoted was more than the budget decided for the contract, the team still decided to give the contract to the local agency as it would require less time for the agency to mobilize and would save other costs that was incurred by the company to ensure medical facility to the employees.

Contract Execution

The contract was finally signed with less than a month from the tendering date. A initial time of 15 days was given to the agency for mobilizing all related equipment and facility to the refinery location.

The building would be provided by the refinery for medical facility, however all other requirement would have to be fulfilled by the agency.

During the initial stages, the agency was able to mobilize only 30% to 35% of the requirement as per the contract. The company decided to help the agency and helped in mobilizing all the requirement within a month.

During the execution stage, various surprise visits were conducted by senior officials of the company in order to check the operations of the facility.

The following was observed during their surprise audit;

- ✓ Lack of personnel at respective stations
- ✓ Driver missing from the ambulance and the driver area
- ✓ Ward boys sleeping at empty beds placed for patients
- ✓ Proper hygiene care not maintained
- ✓ Alarm systems not functioning properly
- ✓ Waste material was not properly disposed

After the audit report was submitted, a time of one month was provided to the agency in order to get the things corrected as this could lead to a major casualty in case of an emergency.

Various surprise visits were conducted in the following months, however there were still major problems that was being observed. After constant reminders, and paying the agency almost half of the contract price + the actual billed, the company decided to terminate the contract as the agency was not fulfilling the requirements.

Due to the lock in period in place, it was difficult to terminate the contract by a single party. In order to mutually terminate the contract a meeting was held with the agency wherein the agency was asked to provide a show cause notice to the company due to non compliance of the contract.

After several rounds of meetings with the agency the contract was finally terminated after 9 months of contract in place and almost 13 Cr. spent

Conclusion

After the contract was terminated, a new ITB was floated, keeping the original terms and conditions and requirement in place which was there in the first tendering process. The whole process was followed and a contract was finally signed by a reputed national medical agency which quoted Rs. 20 Cr. for the contract.

Case 2 – Security Contract

Outsourcing is becoming more common these days, with companies concentrating more on enhancing the skills that they have and simply outsourcing others at a reasonable cost to the company.

For some companies, outsourcing is the only option as they do not have the skills nor the resources to complete the job. With the help of outsourcing, these companies are able to achieve a satisfaction level that want to attain from the job outsourced.

There are various examples of outsourcing, e.g. Labors are outsourced for construction jobs, Local Consultancy agencies for hiring employees for a company situated abroad, security agencies for a refinery etc.

However, in order to achieve the satisfaction level, a good and efficient procurement or sourcing system is required to be in place because ultimately everything comes down to cost and time.

Overview:

This case is about a new Oil Refinery being commission in India. The refinery has a capacity of 12MMTPA including a Sulphur Recovery Unit and a Polypropylene production plan at the same location.

The refinery had recently invested more than Rs.100 Cr. on 1084Km pipeline, currently the longest for India, which is expected to give a great deal of leverage to the refinery in terms of cost and time as the pipelines would make the transportation of crude faster from the West Ports directly into the tanks of the refinery.

In order to keep their investments safe, the refinery had decided to hire a security agency that would take care of all the related activities within the Refinery as well as across the pipeline.

As the refinery was almost in its commissioning phase, it was crucial that the security contract was in place and all personnel ready in order to ensure the safety of the refinery. In order to do this, tendering process was followed wherein, the advertisement was placed

in the newspapers inviting the bids for a Security Contract of a Refinery. More than 10 players participated in the bidding process out of which 4 bidders were shortlisted for the negotiation round.

Details of Contract:

Scope of Contract:

The Scope of the Contract is to ensure the safety of the refinery and its resources at various locations.

The estimated contract value for a 1 year contract was Rs.7.5 Cr with a price escalation of 15% on the base price for 2nd year.

Time Period:

The contract shall be of 1 year from the date of commencement as defined in the detailed contract and shall be extended for another 1 year on the basis of previous years performance.

Other Terms and Conditions:

Resources Required

Manpower	25 During Commencement 15 During 1 st Month 30 by End of 1 st Month Total Manpower = 70
Specially Equipped Vehicles	10 during Commencement 15 within 15 days from Commencement Date
Safety Equipment/Resources	Every Personnel should be equipped with Flash Light, Boots, Head Gear, Batons. Vehicles should have stretchers, High Beam Fog Lights , CCTV Cameras etc
Drivers	3 per Shift (24 hour Shift)
Control Room	3 People per shift

Contract Finalization and Execution

Due to the nature of the contract, it was very important to ensure that each and every aspect was measure carefully.

During the negotiation stage, the financial status and previous records of all 4 bidders were analyzed in which one bidder i.e. Tiger security Agencies India Pvt. Ltd. had the utmost advantage mainly because of their experience in the field as well as financial capability even though this bidder had was not able to fulfill its obligations to another contract on time.

Due to the Lowest price quoted by the bidder and considering its financial background, the contract was finalized with Tiger Securities, and the contract was finally signed after 3 months of rigorous negotiations and amendments to the original scope.

The contract was expected to commence on 1st of Jan, 2013. Out of the 25 numbers of manpower the agency was able to gather only 15 during the commencement stage, but had promised to deliver the remaining manpower within the next deadline.

The agency fell short in almost all requirement which was required to be gathered by the agency as per the scope of work. 2 months into the contract the agency was only able to gather 60% of the resources that was required as per the contract.

Considering the urgency and the nature of the contract, the Refinery decided to help the agency for obtaining the resources required, however by the end of 4th month, the agency was able to gather 75% of the total resources.

On 10th June, almost 6 months into the contract, the Contractor finally gave up and requested for termination of the contract.

Cause and Effects

The cause of the contract termination was identified and was found that the contractor's estimation towards the price quoted was wrong and that the contractor was suffering huge losses during the execution of the contract.

Finally after a month's time of discussions and negotiations, the contract was terminated with a penalty of 10% on the total contract value levied on the contractor.

At the same time, it was also decided that the refinery would take all the employees and other resources hired by the agency under their direct payroll in order to reduce the threat that would be there in case of no security in the refinery or other areas.

Conclusion:

As the company had already done a tendering process for the contract, the next lowest bidder was contacted and after negotiations a new contract was finally in placed at 12 Cr. and the contract finally became effective in the month of November.

During the process, the refinery lost almost 2 Cr. in the process, other than a Rs.5 Cr. increase in the overall contract value and the time and the resources that was spent in order to get the contract functional in the first place.. The security of the refinery itself became a major concern as there was no contract in place for almost 5 months till the new contract was in place.

Ultimately the question that arose here was, even though all the important aspects and the risks were considered from the tendering stage, the contract was still terminated resulting in the loss of time and cost to the company and a major threat to the refinery. Was the Procurement process followed adequate to ensure the proper execution and closure of the contract?

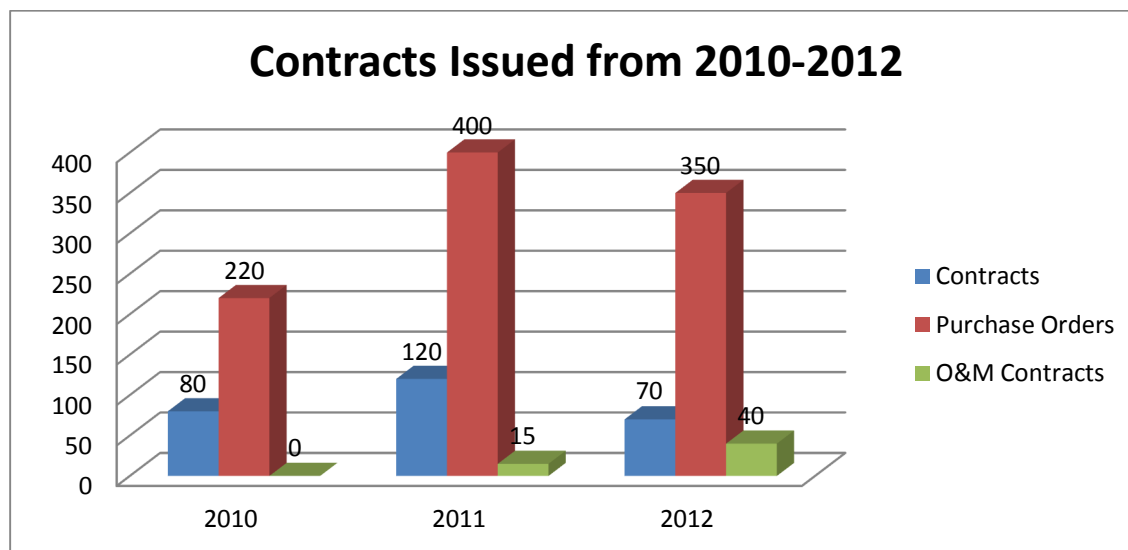
Findings & Analysis

Vendor selection methods are almost common in all fields across the industries. With the introduction of new technology i.e. the online servers and portals, sourcing process today has a new outlook but still follows the traditional process at the back end.

Findings:

During the research it was found that the Refinery, during a period of 2 years in its erection and commissioning stage, had issued more than 270 Works contracts, more than 900 Purchase orders and had issued at least 45 Operation and Maintenance Contracts.

All these vendors were selected using the only the cost concept in mind.

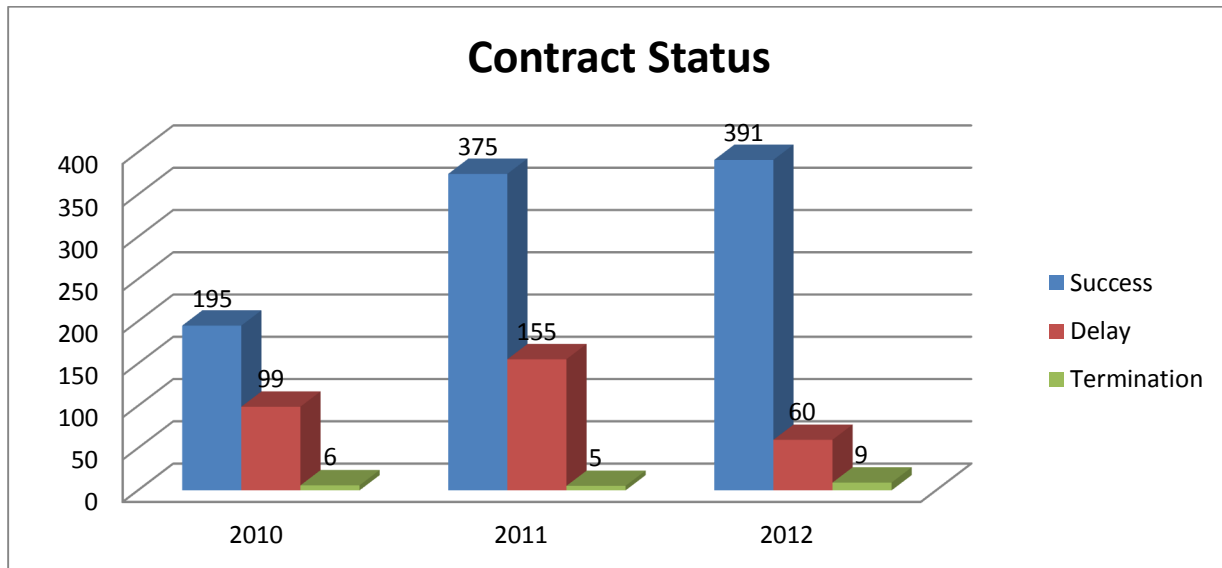


Out of these contracts issued, the time frame for these contracts ranged from approximately 6 months to 3 years, depending on the nature of the job.

For Purchase Orders, the time frame was mainly 6 months to 1 year, because purchase orders mainly cover the Supply Related Contracts.

For Works Contracts, the time frame ranged from 1 year to 3 years, mainly because works contracts constituted mainly of Construction contracts. As the Refinery was at that time in the Erection and Commissioning stage, the timely completion of these works contracts was the most crucial part for the refinery at that period.

The Contract duration for Operation and Maintenance contracts ranged from 1 to 2 years, and were subject to an increase based on the performance of the selected vendor in the previous year.



The data showed that out of the contracts that were issued the delay and termination of contracts was high as far as successful completion of the contract.

In the current tendering and selection process, L1 '*Lower1*' is chosen as the vendor for completing a particular job compromising on the Quality and the design. The following problems was observed from the whole selection process

- ✓ Using Low cost criteria 'L1' as the only criteria for the Selection process
- ✓ No Checkpoints in order to ensure a proper selection procedure
- ✓ Uncertainty of Completion of Job within the defined time period
- ✓ Accountability for the delay unknown
- ✓ Contractor is solely held responsible for the delay and in some cases termination

Analysis

From the data gathered, it was found that although the number of contracts that was completed successfully was high, still there was a major concern regarding the delay and termination of contract.

The failure and termination of contracts included some of the biggest and costliest contracts for the refinery which ranged from Rs.25 Cr. to Rs. 300Cr.

Most of the failure was mainly due to faulty planning from the contractor's end from the mobilizing stage, thereby increasing the overall contract period.

From the two cases that was found to be most crucial were the Security Agency Case and the Medical Agency case, wherein it was clearly seen that due to urgency in place, these contracts were not taken seriously and was issued mainly keeping the price in mind, which ultimately resulted in termination of the contract and a major loss of cost and time to the company.

Recommendation:

It is very difficult to simply change the whole tendering process or have different processes for different types of contracts, however seeing the current scenario, an SOP '*Standard Operating Procedure*' is proposed containing an evaluation which would help eliminating the drawbacks in the existing selection procedure.

*The SOP is attached as **Annexure I** and form is attached as **Annexure II** to this document.*

Conclusion

Companies go for outsourcing in order to help them in gaining the expertise that they lack in, at the same time ensuring Quality and minimum Cost incurred by the company. However, sourcing has been misinterpreted as a method of gaining the desired product or services at the least cost possible, without realising the effects that would take place on the quality and time aspect.

The success and failure of any form of contract, whether it be a Works Contract, a Purchase Order or an Operations and Maintenance Contract, depends entirely on the performance of the vendor selected to complete the operations.

Any failure in planning from the vendor's part, may simply lead to delay in meeting the deadlines and even in some extreme cases termination of the contract resulting in huge loss of time and cost to the company.

Various steps have been taken by various companies to make the process faster and at the same time ensure the timely completion of the contract. However, the process still remains the same thought the industry and in every sector.

Annexure I – Checklist Form

This form is used created in order to identify your views in relation to the current vendor evaluation and selection process being used by the company for various Award of Contracts and Purchase Orders

The contents and results of this form is required to be kept strictly confidential and shall not be used by any agency or organisation for any publication purposes.

1. Are you Aware about the Steps of the Vendor Selection Process

a. Yes b. No

2. Are you satisfied with the current selection process carried out

a. Yes b. No.

3. What according to you are the reasons for a delay contract (multiple selections allowed)

a. Planning fault at Vendors end

b. Poor Coordination between EIC and Vendor

c. Drawback in Selection Procedure

d. In case of selection of point C, Please specify below

4. According to you, when should a vendor be evaluated

a. At the Beginning stage of the Contract

b. At the Middle Stage

c. At the Completion Stage of the Contract

d. Throughout the tenure of the Contract

Annexure II – Standard Operating Procedure

This Standard Operating Procedure “SOP” is in relation to the Evaluation format proposed for the vendor selection process done by the company.

This is required in order to eliminate the drawback that occurs during the operation stages of the contract and to ensure timely delivery or completion of the contract. The form is based on the Likert scale in order to quantify the stages and rate the overall performance of the vendor in the whole stage.

The form is divided into three stages.

1. Pre Award and Award Stage
2. Execution Stage
3. Closure Stage

Stage 1 - Pre-Award and Award Stage:

This is the initial stage of the process wherein the quotations are invited against the tenders floated. In this stage the tenders received shall be judged on parameters like Quality of Bids, Responsiveness, Deviation list and Agreements, Price Competitiveness and Flexibility in Negotiations.

- ✓ **Quality Bids:** Quality of Bids would determine the level of understanding which the vendor has shown towards the Scope of the work the inputs provided in order through their experience in the respective scope of work.
- ✓ **Responsiveness:** This field highlights the level of responsiveness the vendor had towards clarifications, when asked for, during and after the bids have been submitted. This would help in identifying the readiness the vendor has towards the contract.

- ✓ **Deviation List and Agreement:** In case, a bidder does agree completely with the Commercial or the Technical bid, the bidder has the right to submit its deviations in a proper prescribed format that would help both the parties in the negotiation stage. This point would help in identifying whether the Deviations were provided in the required manner or not at the same time the willingness of the vendor for negotiating on those points of deviation.

- ✓ **Competitiveness and Flexibility in Negotiations:** This part would help in determining whether the bidder was flexible and transparent in providing the quotation or not. At the same time, this would also help in finding out whether the bidder had understood the contract and was able to justify the rates proposed by the bidder for the contract.

In this stage the bidders would be evaluated by the concerned responsible for handling the activities of this stage.

Stage 2 – Execution Stage

In this stage the vendor will be evaluated on various aspects such Resource Deployment, SOPs, Reporting/MIS, Quality of Service and Deliverables, Fairness in billing, Inventory Management Overall Quality of Service etc.

During the operations stage of the contract the vendor would be evaluated regularly by the EIC in order to keep a regular check on the operations and schedule of the contract. The data recorded at this stage would be most crucial for the company as the same would help in identifying problems that might further arise from the contractors end.

Stage 3 – Closure Stage

Closure is the last stage wherein, the contractor is evaluated in providing all documents related to the contract executed. In this the contractor is evaluated based on Record Keeping and documents submissions, Accuracy of bills, Timely Extension of duration of related documents i.e, Bank Guarantees etc.

This would help the company in determining the fairness and completeness of the contract in all aspects.

At all stages of the contract, the vendor shall be evaluated by the concerned authority for carrying out the operations for that activity.

Annexure III

Contractor Evaluation Input Sheet

Rating Criteria

Please rate each parameter on a continuous scale of 1-5 and provide qualitative comments. Indicative inferences for each level is as below

Context	-	-	-	-	-	1	Poor
The objective of Contractor's Evaluation is to capture the data on performance of the various contractors. This shall serve as a reference for contractor selection, provide inputs for contractor development and improved contract execution in future						2	Below Average
						3	Average
Assumptions	-	-	-	-	-	4	Good
Feedback on performance of contractor shall be given by stakeholders as indicated. User is assumed to be the primary and most significant party as regards using the services of the contractor hence, User's feedback shall carry highest weight age. Overall responsibility for collection and analysis of feedback shall lie with the Contracts Department. The feedback taken from respective stakeholders shall be kept strictly confidential and only shared with relevant personnel who need to use the data for the purpose defined herein. This data will only be used for rating of contractors and identification of improvement areas						5	Excellent

I Contractor Details		II. Evaluated by (Name):				
1	Contractor Name		Procurement			
2	Vendor Code		User Department/EIC			
3	Location of Executed Work		HSE			
4	No. of Contracts Executed		Technical Services			
5	Total value of Contracts		Security			
			HR			
			Finance			
			Contracts			
III. Contracts Being Evaluated (Contract wise evaluation may be conducted in case of diverse contracts)						
S.No	PO/ LOA/ DLOA No.	Details of the works	Final Contract Value (Rs.)	Contract Duration		
1						
IV. Ratings						

S. No	Item	Value Statement	Stakeholder	Rating	Qualitative Comments
1	Pre Award and Award Stage				
i	Quality of Bids	a. Bidder had a clear understanding of the scope specified in the tender b. Bidder adhered to tender specifications while quoting. c. Bids had been submitted with completeness and along with all the relevant details, data, enclosures, etc. d. Bidder added further useful value to Scope and SLAs	Procurement		
ii	Responsiveness	Bidder Submitted the bids and was responsive in providing technical and commercial clarifications/details within stipulated time	Procurement		
iii	Deviation List & agreement to Terms & Conditions	a. Bidder provided a clear list of technical and commercial deviations b. Bidder agreed to majority of Company's terms and conditions during negotiation c. Bidder was forthcoming in providing required clarifications, documents, etc. during contract finalization/compilation	Contracts/ Procurement		
iv	Price Competitiveness & Flexibility in Negotiations	a. The bids were (overall) priced competitively b. Bidder was transparent and had healthy (win-win) negotiations, both in terms of price as well as terms & conditions	Procurement		
2	Execution Stage				
i	Execution Organization Structure	Contractor had a clearly defined organization structure for execution, which was in line with execution requirements/ EIC/User Instructions/ Contractual requirements. Top management of the contractor was reasonably involved during execution of the contract.	User		
ii	Resource deployment	The contractor had mobilized adequate resources (Manpower, tools, tackles, and equipments) to meet with their contractual/ agreed commitments/ timeline in order to carry-out the overall contractual obligations in time	User		

iii	SOPs	a. The contractor issued SOPs (duly approved by EIC/User) to his respective personnel/workers/engineers; b. implemented the SOPs and c. reviewed time to time	User		
iv	Reporting / MIS	The contractor had a proper reporting and MIS process with; a. complete and correct information b. at regular frequency (as stipulated/agreed); and c. effective follow-up processes	User		
v	Quality of Services and deliverables	The contractor performed services to achieve; i. Design Guaranteed Parameters or ii. agreed Parameters or iii. Parameters as per best industry practices and iv. took initiative to improve the parameters / performance	TS		
vi	Fairness in Billing (vis-à-vis PRS/Bonus)	a. the Contractor submitted the invoices with complete and correct details for PRS/bonus and other contract conditions; and b. the claims raised by Contractor were reasonable, logical and fair	Contracts		
vii	Subcontractor Management	The contractor managed its subcontractors competently, including timely payment to them	User		
viii	Working Capital Management	The contractor did not face financial issues and there was no delay on account of working capital management	User		
ix	Planning & Inventory Management	a. the Contractor ensured timely supplies and availability of spares, consumables, etc. (whether in Owner's or Contractor's scope) and b. Contractor did good inventory management	User		
x	Responsiveness in Issue Resolution	The contractor was proactive in resolving the issues impeding execution and had a collaborative approach	User		
xi	Change Orders	The Contractor was fair in asking for deviations and raising change order requests	User		

xii	Ethical Approach	The contractor organization operates/ runs in an ethical manner	User		
xiii	Experience and Expertise	The contractor; a. demonstrated good experience of providing services contracted to him b. mobilised experts and specialists (regularly / on requirement basis) from other locations/countries	User		
xiv	Overall Quality of services/ resources	the Contractor; a. ensured and maintained good asset availability and reliability; and b. ran the plant/unit at or above design Performance Guarantees	User (or User's Customer - if any)		
xv	Upkeep and housekeeping	the Contractor ensured good upkeep of; a. facilities b. work/plant area c. equipment (own and Company's) d. PPEs and other safety devices	HSE		
xvi	HSE Awareness & compliances	The Contractor: a. designed and implemented HSE plan as per Company's Policy and b. adhered to plan so implemented	HSE		
xvii	Adherence to Security Norms	Conduct of contractor with respect to various security norms	Security		
xviii	Adherence to Statutory Compliance (Labor laws, etc)	The contractor adhered to applicable statutory compliance (e.g. Labor License, PF, ESI, etc.)	HL		

3 CLOSURE / OTHERS

i	Quality and Comprehensiveness of Documentation	Contractor provided comprehensive performance related and other necessary data/documents	Contracts		
ii	Bank Guarantees / Indemnities	Provided BGs and extensions timely and as per contract	Finance		
iii	Accuracy of Bills	Bills raised by contractor; a. were correct/accurate and b. were always accompanied by supporting documents	Finance		

IV. Comments (Please indicate any other issues and whether you would recommend this contractor)

Procurement	
User Function	
HSE	
Technical Services	

Security
HR
Finance
Contracts

VI. Summary Rating

S.No	Item	Weight age	Rating		Evaluation	Rating
1	Pre Award/Award Stage	10%	0.00		Excellent	5
2	Execution Stage	70%	0.00		Very Good	4
3	Closure/ others	20%	0.00		Good	3
Overall Rating		100%	0.00		Average	2
					Poor	1

B Overall Comments (To be filled by Contracts Department)
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C Recommendation and Focus Areas for Improvement (To be filled by Contracts Department)
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Reference

- ✓ Purchasing & Supply Chain Management by Robert M. Monczka, Robert B. Handfield , Robert J. Trent
- ✓ Re-engineering Materials Management, by Prasanta Kumar Dey