Evaluation based on lowest price

The following table shows a tabulation of offers from Suppliers X, Y, and Z together with the minimum requirements of the buying company. Assuming that only a single supplier is sought, which supplier would be selected using the lowest price basis?

Requirements for copy machine	*Supplier X offer*	*Supplier Y offer*	*Supplier Z offer*
Minimum speed: 200 copies per minute	180	210	300
Minimum Warranty: 2 Years	2 years	30 months	3 years
Purchase Price	$22,000	$28,000	$35,000
Selected supplier:			

Knowing the discount rate, you can calculate the present-day cost with this formula:

Present-day cost = (future cost) x (applicable discount factor)

You obtain the discount factor from the following table:

Table of discount factors

Discount rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
3%	0.9709	0.9426	0.9151	0.8885	0.8626	0.8375	0.8131	0.7894	0.7664	0.7441
4%	0.9615	0.9246	0.8890							6756
5%	0.9524	0.9070	0.8638							6139
6%	0.9434	0.8900	0.8396							5584
7%	0.9346	0.8734	0.8163							5083
8%	0.9259	0.8573	0.7938							4632
9%	0.9174	0.8417	0.7722							4224
10%	0.9091	0.8264	0.7513							3855
11%	0.9009	0.8116	0.7312							3522
12%	0.8929	0.7972	0.7118							3220
13%	0.8850	0.7831	0.6931							2946
14%	0.8772	0.7695	0.6750							2697
15%	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323	0.3759	0.3269	0.2843	0.2472

Or...

Discount factor = $\frac{1}{(1 + \frac{r}{100})^n}$

Where: n = No. of years

r = the discount rate

An example: (Continued…)

5. Technical support ♦ In installation and commissioning (2) ♦ Training of staff on-site (1) ♦ Response time to queries (2) ♦ Response time to maintenance and repair (3)	10
6. Life-cycle cost ♦ Purchase price (2) ♦ Cost of spare parts (2) ♦ Cost of staff training (1) ♦ Cost of maintenance support (2)	7
TOTAL:	56

An example: (Continued…)

	Scoring suppliers' offers – *Measuring equipment* *Evaluation criterion: meantime between failures*				
	Not acceptable – has not met the required criteria **0**	**May not be acceptable – only barely meets minimum requirements** **1**	**Acceptable (baseline)** **2**	**Acceptable – has met all requirements and exceeded some** **3**	**Acceptable – has well exceeded all requirements** **4**
	Avge. less than 100 days between failures	Avge. 100-119 days between failures	Avge. 120-129 days between failures	Avge. 130-149 days between failures	Avge. 150 or more days between failures
Supplier A				X	
Supplier B			X		
Supplier C				X	

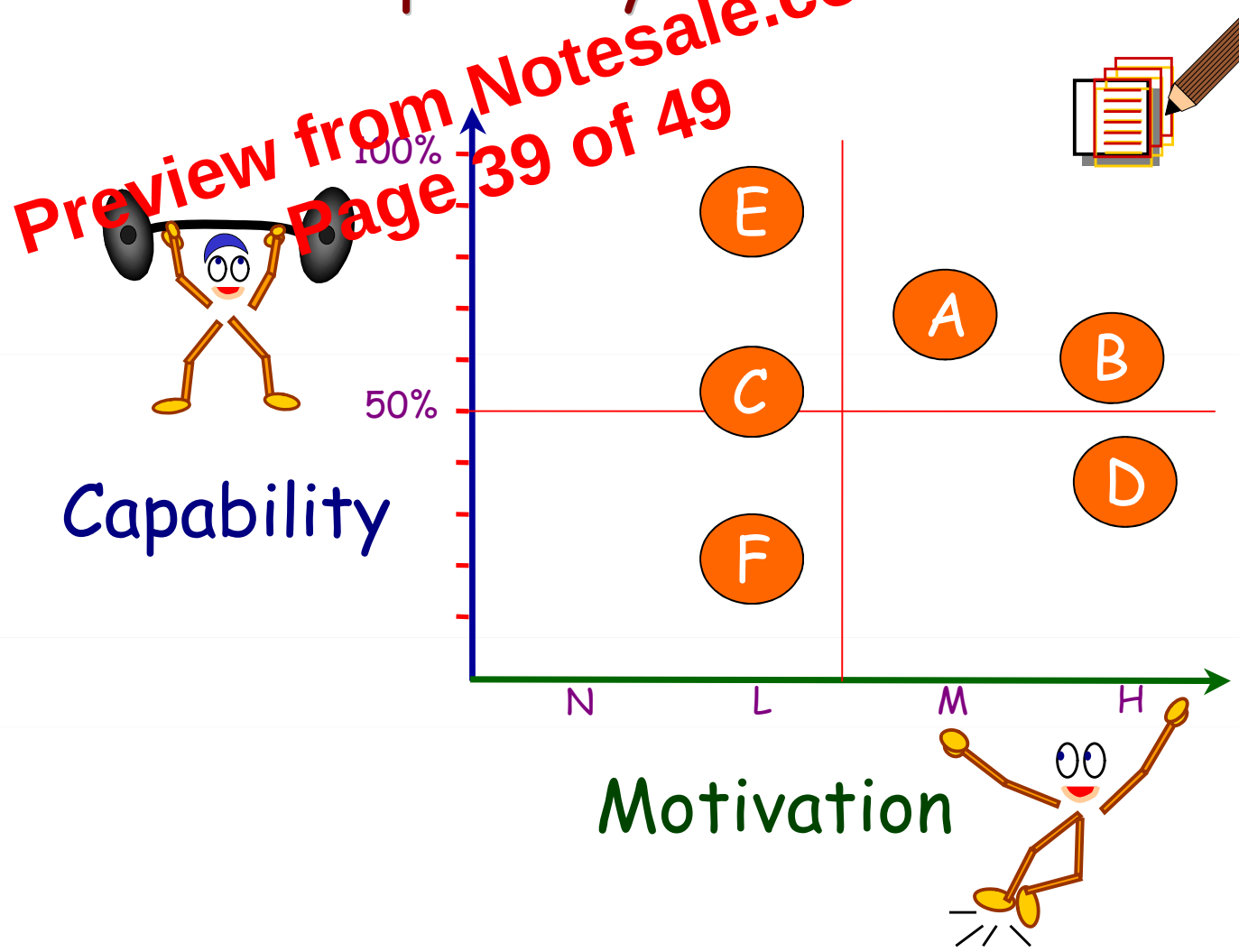
An example: (Continued…)

Evaluating offers - Purchase item: measuring equipment						
Bid evaluation criteria (and components with allocated weights)	Supplier A		Supplier B		Supplier C	
	Score	Wtd. Score	Score	Wtd. Score	Score	Wtd. Score
1. Technical performance						
♦ Precision in measurement (10)	4	40	1	10	2	20
2. Reliability						
♦ Low meantime between failures (3)	3	9	2	6	3	9
♦ Low outage rate (3)	3	9	2	6	2	6
♦ Durability of the equipment (4)	4	16	2	8	3	12
3. Lead-time to delivery						
♦ Delivery of the main equipment (9)	2	18	4	36	3	27
4. Supply horizon – continuity of spares						
♦ Offer of continuity of supply (1)	3	3	3	3	4	4
♦ Financial stability (3)	3	9	3	9	1	3
♦ Core product for supplier (3)	4	12	2	6	3	9
♦ Sustainable market position (3)	4	12	2	6	0	0

Combining the scores...

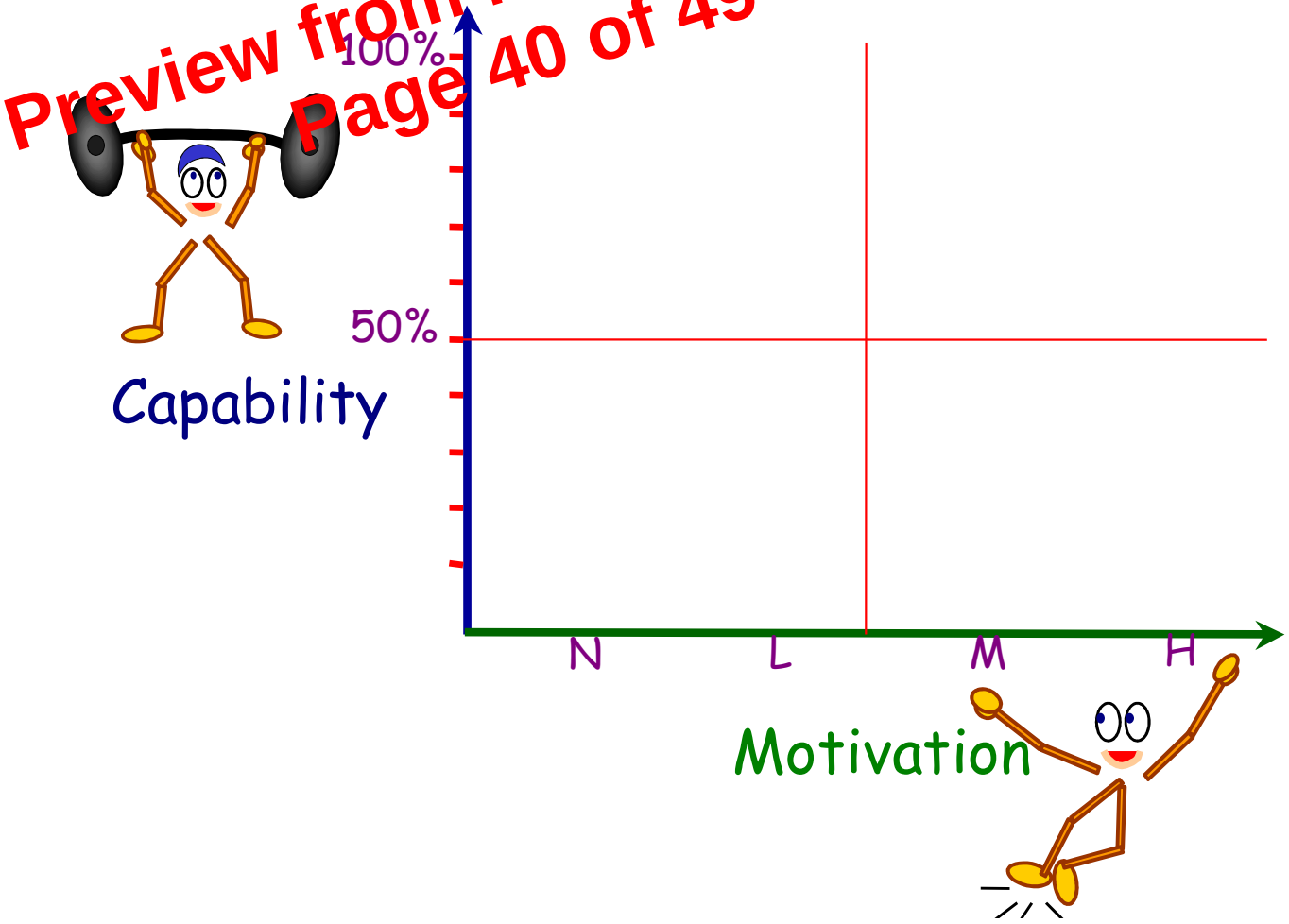
Supplier Ratings:

Capability & Motivation...



Weighted scoring: supplier ratings for capability & motivation

- In the chart below, plot the positions of the three suppliers, as a result of the capability and motivation ratings that you arrived at in the previous two Action Points.
- Which supplier's bid would you select? Explain your decision.



Method & depth of evaluation in the context of the Supply Positioning Model