


INTER PLANT STANDARD – STEEL INDUSTRY		
 IPSS	GUIDELINES FOR VENDOR RATING & VENDOR DEVELOPMENT	IPSS:3-01-003-18 <i>(Second Revision)</i>
	Corresponding Indian Standard does not exist	Formerly: IPSS:3-01-003-01 & IPSS:3-01-005-01 (First Revision)

0. FOREWORD

- 0.1 This Inter Plant Standard was prepared by the Standards Committee on Materials Management, IPSS 3:1 with the active participation of representatives of Indian Steel Industry (SAIL, RINL, Tata Steel, JSPL) and also organizations (Mecon, Dastur & Co.) associated with steel industry. It was adopted in January, 2018.
- 0.2 This standard was published in March 1996 and first revised in July 2001. The practical problems faced in its implementation during the subsequent years, have been considered and necessary changes incorporated in this revision to remove them.
- 0.3 In the present revision, two separate standards – one for Vendor Rating (IPSS No.- 3-01-003-01) and the other for Vendor Development (IPSS No.- 3-01-005-01) have been merged into a single document for integrating the process of vendor development with the outcome of vendor rating system. This single document also provides ease of reference.
- 0.4 Wherever ERP system have been implemented or are to be implemented in plants / units, efforts may be made to integrate the Vendor Rating System into the ERP system, to the extent feasible.
- 0.5 It shall be the continuous endeavor on the part of all plants / units to find out and / or develop substitutes / sources of supply with a view to reduce cost of

input materials / services. Consideration may also be given to save foreign exchange and shall be in compliance to relevant governmental guidelines, from time to time.

1. SCOPE

- 1.1 This standard provides objective and step-wise guidance for Vendor Rating in steel plants / units and uses the output (rating score) for vendor development.

Note-: This document has been primarily designed for SAIL plants / units. The other organizations outside SAIL are free to adopt this with appropriate changes.

2. INTRODUCTION

- 2.1 The quality of a product / services depends upon the quality of the inputs, processes, etc. It is, therefore, essential that the inputs are procured only from those vendors who have demonstrated their capability to supply the inputs of desired quality and within the agreed time schedule at a cost already agreed to in Purchase Orders / Work Contracts. It is, therefore, essential to rate or classify the vendors on a scientific basis.

- 2.2 Vendor rating is a process of assessing the performance of a vendor in comparison with other vendors with a view to drawing up a comparative scale. This involves processing of huge amount of data into manageable information which helps in:

- 2.2.1 Providing accurate feedback to suppliers to highlight their strengths as well as their weaknesses (through the eyes of the customer) which can be used as an effective continuous improvement tool

- 2.2.2 Providing benchmark data, which will allow suppliers to establish where they are placed in relation to the best performers in their industry and hence improve overall competitiveness in the market

- 2.2.3 Selecting vendor(s) for issue of enquiries:

- Choosing Vendors with exceptional delivery ability provide greater value by reducing the risk of running out of material for the Company.
- Choosing Vendors with exceptional assurance of quality minimizes the chance that defective material will initiate any negative chain reaction for production or maintenance. Assured quality also reduces the time and expense associated with returning defective supplies

- 2.2.4 Deciding on continuation/suspension of dealings with vendors

3. PROCEDURAL STEPS

3.1 Preparation of Performance Rating Data Sheet:

- Performance rating data sheet for each and every Vendor/Supplier/Contractor/ Consultant is to be drawn up for all orders/Contracts. These data sheets are to be separately prepared for orders/ contracts related to MM and any other Contracting Dept. Wherever ERP system (online system) has been implemented, such separate data sheet i.e. list of orders / contracts falling within the period of evaluation for the purpose of vendor rating shall be generated through the online system.

3.2 Parameters for Vendor Rating: Vendor Rating shall be based on the following factors:

- a) Quality
- b) Delivery

3.3 Quality Factor:

3.3.1 Quality means the totality of features, characteristics and specification of a product or service that bears upon its ability to satisfy stated or implied needs of the customer.

3.3.2 Quality Rating (Q_R) for an item in a lot/ consignment/ Goods Receipt Note (GRN), as applicable, will be determined by the following formula:

$$Q_R = \frac{q}{Q} \times W_Q$$

Where

- q = quantity accepted
- Q = total quantity offered for inspection
- W_Q = 50 (weightage for quality factor)

3.4 Delivery Factor

3.4.1 Delivery means accepted quantity supplied in time as per the delivery schedule stipulated in the Purchase Order (PO).

3.4.2 Delivery Rating (D_R) will be calculated by the following formula:

$$D_R = \frac{q_1 + 0.8q_2 + 0.6q_3}{\text{-----}} \times W_D$$

Q

Where

q_1	=	quantity accepted within delivery period (DP)
q_2	=	quantity supplied beyond delivery period but within 5% of the scheduled DP
q_3	=	quantity supplied beyond 5% of the scheduled DP but within 10% of scheduled DP
Q	=	quantity to be supplied by that time as per PO
W_D	=	50 (weightage for delivery factor)

In case the quantities are delayed beyond 10% of the scheduled DP, then the value of q_2 and q_3 shall be considered as zero (0).

- 3.4.3 In case of phased supplies, the rating will be averaged for the quantity.
- 3.4.4 If amendment to the original DP is solely attributable to the purchaser, then the amended DP shall be taken for consideration of Delivery Rating, otherwise original DP shall be considered.
- 3.4.5 In case of door delivery consignments, the date of receipt will be taken as the date of supply. In all other cases, date of invoice/ RR / CN / e-Bill, whichever is later, will be taken as the date of supply when the material moves by rail/road irrespective of the delivery point stipulated in the order

4. PROCESS OF VENDOR RATING

- 4.1 The formulae given above shall be applied to one complete order at a time.
- 4.2 The composite Vendor Rating (VR) score shall be calculated by the following formula:

$$VR = Q_R + D_R$$

5. CLASSIFICATION OF VENDORS

- 5.1 Based on the Vendor Rating scores calculated for *each executed order*, average VR score will be worked out by the following formula:

$$A_R = \frac{VR_1 + VR_2 + \dots + VR_n}{n}$$

where

A_R	=	average VR score
VR_n	=	VR score for the nth order
n	=	number of rated orders

Vendor Rating shall be done every financial year and intimated to vendor. The data shall be maintained for five years including the current year.

- 5.2 Based on the A_R score, Performance Rating of a vendor shall be classified as follows:

Sl. No.	<u>A_R obtained</u>	<u>Performance Rating</u>
1	Above 90	Very Good
2	Above 75 and up to 90	Good
3	Above 65 and up to 75	Fair
4	65 or below	Poor

6.0 CORRECTIVE ACTIONS / VENDOR DEVELOPMENT:-

- 6.1 Depending upon the Grading of Performance, corrective measures would be initiated by taking up the matter with concerned Vendor/Supplier/Contractor/Consultant. Response of Vendor/Supplier/Contractor/Consultant would be considered before deciding further course of action. Based on the response of Vendor/Supplier/Contractor/Consultant, concerned Engineer-in-Charge for the Projects and/or OIC in case of O&M would recommend for continuation or discontinuation of such party from the business of SAIL.

- 6.2 Depending upon the Performance Rating, following action should be initiated:

Sl. No.	Performance Rating	Action
1	POOR	Seek explanation for Poor performance
2	FAIR	Seek explanation for Fair performance
3	GOOD	Letter to the concerned for improving performance in future
4	VERY GOOD	No further action

- 6.3 Reply from concerned Vendor/Supplier/Contractor/Consultant shall be examined. In case of satisfactory reply, Performance Rating Data Sheet to be closed with a letter to the concerned for improving performance in future.

- 6.4 When no reply is received or reasons indicated are unsatisfactory, the actions need to be taken as per 6.4.1 or 6.4.2 as the case may be:

- 6.4.1 Where Performance rating is "POOR": Recommend such defaulting Vendor/Supplier/Contractor/Consultant for putting on Holiday for a period from one to three years as given below:

- (i) Poor Performance due to reasons other than Quality: **One Year**

- (ii) Poor Performance on account of Quality (if any mark obtained against Quality parameter is less than 30): **Two Years**
- (iii) Poor Performance leading to termination of contract or Offloading of contract due to poor performance solely attributable to Vendor/ Supplier/ Contractor/ Consultant or Repeated Offence: **Three Years**

Non-performance of a Vendor/ Supplier/ Contractor/ Consultant leading to termination of Contract/ Order, such Vendor/ Supplier/ Contractor/ Consultant are also to be considered for Suspension.

- 6.4.2 Where Performance rating is "FAIR": Issuance of warning to such defaulting Vendor/ Supplier/ Contractor/ Consultant to improve their performance.
- 6.5 An order for Holiday passed for a certain specified period shall deemed to have been automatically revoked on the expiry of that specified period and it will not be necessary to issue a specific formal order of revocation. Further, in case Vendor/ Supplier/ Contractor/ Consultant is put on holiday due to quality, and new order is placed on bidder after restoration of Vendor/ Supplier/ Contractor/ Consultant, such order will be treated as "Trial Order" and properly monitored during execution stage by the concerned site.
- 6.6 If a Vendor/ Supplier/ Contractor/ Consultant is put on Holiday, such Vendor / Supplier/Contractor/ Consultant shall not be considered in ongoing tenders / future tenders.
- 6.7 However, if such Vendor/ Supplier/Contractor/ Consultant is already executing any other order/ contract and their performance is satisfactory in terms of the relevant contract, should be allowed to continue till its completion without any further increase in scope except those incidental to original scope mentioned in the contract. In such a case CPBG will not be forfeited and payment will be made as per provisions of concerned contract. However, this would be without prejudice to other terms and conditions of the contract.
- 6.8. Effect on other ongoing tendering:
 - 6.8.1 After issue of the enquiry /bid/tender but before opening of Technical bid, the bid submitted by the party shall be ignored.
 - 6.8.2 After opening Technical bid but before opening the Price bid, the Price bid of the party shall not be opened and BG / EMD submitted by the party shall be returned to the party.
 - 6.8.3 After opening of price, BG / EMD made by the party shall be returned; the offer of the party shall be ignored & will not be further evaluated. If errant party emerges as the lowest (L1), then such tender shall also be cancelled and re-invited.

- 6.9 While putting the Vendor/ Supplier/ Contractor/ Consultant on holiday as per the procedure, the holding company, subsidiary, joint venture, sister concerns, group division of the errant Vendor/ Supplier/ Contractor/ Consultant shall not be considered for putting on holiday list.
- 6.10 Any bidder, put on holiday, will not be allowed to bid through consortium route also in new tender during the period of holiday.
- 6.11 If an unsuccessful bidder makes any vexatious, frivolous or malicious complaint against the tender process with the intention of delaying or defeating any procurement or causing loss to SAIL or any other bidder, such bidder will be put on holiday for a period of six months, if such complaint is proved to be vexatious, frivolous or malicious, after following the due procedure.

7 APPEAL AGAINST THE DECISION OF COMPETENT AUTHORITY (HOMM)

- (i) The party may file an appeal against the order of the HOMM for putting the party on Holiday list. The appeal shall be filed to Appellate Authority. Such an appeal shall be preferred within one month from the of receipt of Holiday order.
- (ii) Appellate Authority would consider the appeal and pass appropriate order which shall be communicated to the party as well as the Competent Authority (HOMM).
- (iii) Appeal process may be completed within 45 days of filing of appeal with the Appellate Authority.
- (iv) "Appellate Authority" shall the Head of Plant / Unit. In case of Corporate Office, the "Appellate Authority" shall be a Director (Technical).

8 VENDOR DEVELOPMENT BY TRIAL ORDER(s)

- 8.1 Where a vendor obtains A_R 65 or below and the poor performance rating is mainly on account of Quality factor, the vendor will be downgraded as "trial vendor" for the purpose of vendor development with the approval of HOMM. Intimation shall be invariably sent to the vendor in this regard.
- 8.2 For the orders to be treated as "Trial Orders" on the basis of poor vendor rating on quality front, the extant provisions of "Trial Procedure", in vogue at Company / Plant / Unit level, as the case may be, shall apply. Acceptance of trial results shall be as per the laid down provisions of the "Trial Procedure".