



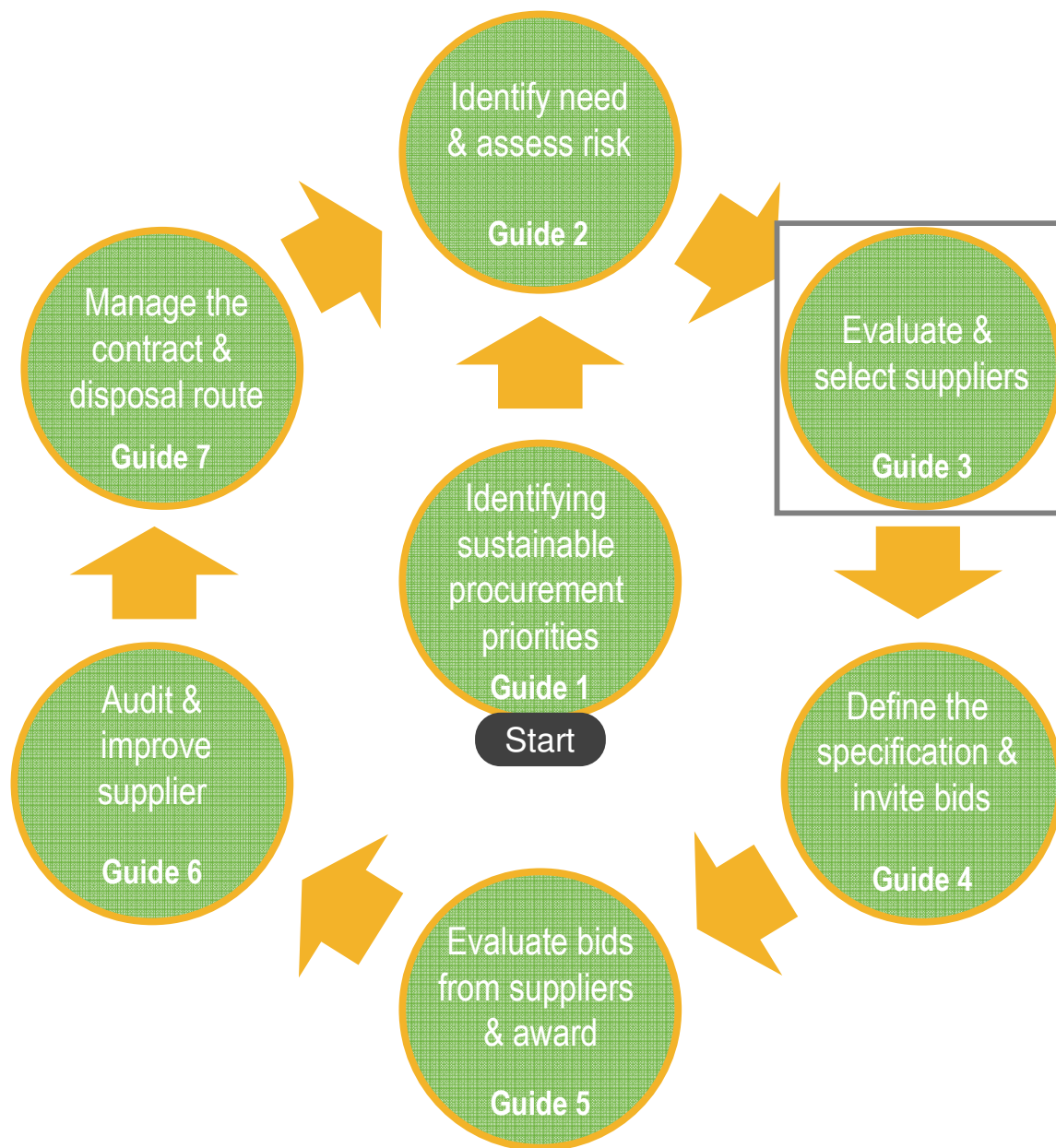
Guide 3 to Sustainable Procurement

Evaluate and Select Suppliers

A guide for agencies

July 2010

This guide is part of a series of documents focussed on 'Integrating Sustainable Procurement into Practice'. This material was developed by Sustainable Procurement Limited for the United Nations Marrakech Taskforce for Sustainable Procurement of which the New Zealand government is a member. The series is based around a typical procurement process with a guide for each relevant stage as identified below:



Please see the separate guidance notes referenced for other stages of the procurement process.

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TO WHAT EXTENT DOES YOUR AGENCY EVALUATE SUPPLIERS ABOUT SUSTAINABLE PROCUREMENT?

Background

This guidance document details the key issues involved in evaluating suppliers. In particular, it explains the logic and method of applying sustainability criteria in supplier evaluation. Specifically, it gives guidance concerning how suppliers of different contract categories could be examined, based on their overall sustainability risk profile as follows:

- Critical contracts - High Value and High Sustainability Risk
- Secure contracts - Low Value, but High Sustainability Risk
- Drive contracts - High Value, but Low Sustainability Risk
- Routine contracts - Low Value and Low Sustainability Risk

Whilst referencing inter-linked procurement stages, this guide focuses on developing supplier evaluation criteria to manage sustainability impacts. This is informed by a sustainability risk assessment once the contract need is identified. See Guide 2 Identify Need and Assess Risk. Sustainability risks that are best managed by supplier selection need to be turned into questions and criteria for suppliers to answer. This guide highlights the key issues that need to be considered.

Why is this important?

Suppliers have to be selected to bid for contracts, the method of this selection needs to be logical and structured to avoid any criticism or implication of impropriety. When practicing sustainable procurement, certain sustainability risks could be managed by the selection of supplier, for example for timber only choosing a supplier who meets a particular sustainable forestry management standard. Alternatively, procurers may choose to invite many suppliers to bid for a contract and put the emphasis on the specification and bid evaluation. There is no right or wrong answer as to which stage of the procurement process these issues are managed. However, if suppliers are being evaluated to determine a bid list then there must be a logical method to determine the selection and this guide illustrates some of the issues involved.

How to use this guide

The guide is structured by subject, so it can either be read fully in order to obtain a complete overview of the issues in supplier evaluation and selection or the reader can jump to a specific subject area. However, the guide does follow a logical order so it is recommended to start at the beginning and work through to avoid any confusion.

Introduction

A key procurement decision is the selection of suppliers. Selecting the right suppliers to bid for a contract is a critical stage in the procurement process. Often it is the suppliers who will control and manage the key sustainability impacts in goods (products) or services bought, either directly in their own business activities or through their suppliers along the supply chain.

At this stage, procurers are usually evaluating a range of suppliers to determine which have the highest likelihood of meeting their needs. These suppliers are then invited to bid for the contract. This guidance note, highlights the key issues involved in evaluating and selecting suppliers.

Using risk assessment to inform supplier evaluation and selection

Guide 1 Identifying Sustainable Procurement Priorities details the use of risk assessment to identify and prioritise sustainability impacts and Guide 2 Identify Need and Assess Risk covers in detail the risk assessment process recommended for contracts. It is important that you understand these principles before reviewing the supplier evaluation guidance note further.

Difference between bid evaluation and supplier selection criteria

The bid evaluation process is distinct and separate from the supplier selection process. The bid evaluation is usually always made on the basis of best Value for Money, this is defined differently by different agencies. The bid evaluation process must provide a fair, transparent and accountable method for evaluating supplier bids on the basis of balancing sustainability and other non-financial factors with cost. This is best applied and demonstrated by the use of a properly constructed bid evaluation model.

The bid evaluation process looks forward at the proposals for the specific contract, whereas the supplier selection process looks back at the status and previous performance of the suppliers. Whilst the two processes may cover similar topics, supplier selection and bid evaluation are two quite separate issues. Procurers need to ensure that there is a logical link between supplier selection criteria and bid evaluation criteria. Procurers must not ask the same questions in both stages and the timing of questions needs careful consideration.

The supplier evaluation criteria should be considered before making any contact with suppliers about the particular contract. The best time to consider supplier evaluation criteria is during the initial contract risk assessment and to finalise it once the risk assessment is complete. Thereby ensuring that supplier evaluation criteria are founded in risk assessment and are able to be answered by information asked for in any supplier qualification process.

Identifying potential areas for supplier evaluation

The areas for supplier evaluation are a function of the sustainability risks identified in the contract. When a contract is first being planned risks should be identified and documented. See *Guide 2 Identify Need and Assess Risk*. Example risks may include:

- High CO2 emissions due to poor energy efficiency/ travel management
- Supplier sub-contracts the work to an organisation with poor sustainability credentials
- Suppliers staff are not properly trained in the sustainability issues associated with this contract
- Unsustainable materials in the product
- Employees exploited by supplier
- Reputation damage to the agency through poor sustainability practices by supplier etc

The risks identified then need to be managed. There are five options available:

- | | |
|-----------|---|
| Option 1: | The risk cannot be managed and is therefore not addressed (these risks need to be closely monitored) |
| Option 2: | The risk is managed by the choice of supplier |
| Option 3: | The risk can be addressed in the specification |
| Option 4: | The supplier needs to provide proposals on their approach, the procurer will then evaluate this in bid evaluation |
| Option 5: | The risk is managed either by targets to be delivered once the contract has been awarded or generally as part of contract management activity |

Each contract will typically employ a range of these management options. For risks that can only be managed by option 2, (choosing the most sustainable supplier) a supplier selection process

will need to be used. The categories used in supplier selection should relate directly back to the risk assessment undertaken at the start of the contract.

As highlighted in Guide 4 *Define Specification and Invite Bids*, sustainability criteria can be applied at all stages of the procurement process. As an example, see below sustainability criteria to manage carbon-dioxide/particulate emissions from travel in a computer services contract. Pay particular attention to the way the criteria become more specific and more difficult between supplier selection and specification. Also note that the bid evaluation criteria highlighted have a direct link to clauses/questions in the specification. Similarly, contract management criteria also link back to both specification and bid evaluation criteria and provide the method by which compliance is monitored and continuous improvement encouraged. Procurers need to think very carefully about the appropriate stage for managing the risks as there are numerous options.

Table 1 - Example of possible sustainability criteria to manage Carbon-dioxide/ particulate emissions from travel associated with providing an IT Service

Procurement Stage	Possible Sustainability Criteria/ Actions
Supplier Selection	<ul style="list-style-type: none"> • Ensure service provider has a sustainable travel Policy and has experience of sustainable travel planning & control
Specification	<ul style="list-style-type: none"> • Set a target number of miles to be travelled to support this contract with yr on yr reduction targets, say 4,000 (if it is not feasible supplier will voice concerns in their proposals, negotiate total figure) • Supplier to produce a sustainable travel plan to minimise miles travelled by car and plane (should reflect principles below) and reduce carbon emissions from its vehicles • Require use of telephone conferencing/ VC conferencing wherever possible, all journeys must have a justification and be reported quarterly for review etc • Require train/ public transport where feasible, ask supplier how they will incentivise this with their employees • Ban use of domestic flights for journeys that can be undertaken in less than 5 hours by train • Proposals to reduce car/plane travel • Any proposals to carbon off set travel, by whom and to what level
Bid Evaluation	<ul style="list-style-type: none"> • Does the supplier meet the minimum requirements in the specification? • Robustness of sustainable travel plan • Incentives for low emission vehicles either as lease cars or through mileage rates or other staff incentivisation • Targets to reduce car/plane mileage beyond those in the specification • % target for carbon off set, value of fund, robustness of carbon off set fund/ mechanism proposed. 100% gets a maximum score.
Contract management	<ul style="list-style-type: none"> • Reduction in miles travelled to deliver and support the contract • Reduction in carbon emissions from transport • Continuous improvement against the sustainable travel plan, with financial incentives for the supplier • % carbon off set against miles travelled against the target agreed • Financial penalties for non-essential/ unjustified journeys when phone conferencing/ video conferencing could have been used

So by using the risks identified and identifying those that are best managed through the supplier selection process procurers can begin to build a set of supplier selection questions that can be asked of the supplier. It is important that these questions are founded in the risk assessment

process and kept as few and simple as possible. Do not ask questions just for the sake of it or as an endurance test for the supplier.

Use of questionnaires/dialogue

Many agencies use standard questionnaires to assess suppliers' capabilities. Standard questionnaires can be useful, but should only be used where necessary and should be adapted to each contract's need. It is very frustrating for suppliers who have to complete numerous questionnaires if the information provided is not actually used by the buyer. It can often be more productive to write a key set of specific contract questions, see table 2 below. Ideally, buyers should actually discuss the sustainability issues with the supplier either face to face or using telecommunications. A two-way discussion will give the buyer a far greater understanding of the organisation's commitment to sustainability and will begin the process of relationship building between the two organisations.

Table 2 – Example supplier selection questions for computer equipment and service contract

Sustainability Issue	Supplier Evaluation question
Organisational commitment to sustainability	Please provide details (including and targets and achievements) of your organisation's sustainability management policy, your organisation's top 10 highest sustainability impacts, management system to control sustainability issues. e.g. Environmental Management System (EMS), ISO 14001, Social Accountability SA8000.
Sustainable Travel Management	Please provide relevant sections from your staff travel policy, showing how you minimise environmental impact of your travel. Detail current use of technology to minimise travel to customers e.g. use of Video Conferencing, phone conferencing etc
Minimised non-renewable resource use/ wastes from spare parts/ consumables/ packaging	Please provide your sustainable sourcing policy/strategy for hardware, spares and consumables, also include the current % of these items bought and any targets with current level of achievement. Detail your current approach to packaging reduction with any targets and current achievement levels
Minimised use of any hazardous chemicals	Please detail your current procurement policy to minimise the use of any hazardous substances/ chemicals that may be bought in connection with this contract
Subcontracted employees are not exploited	Please detail how you ensure that your sub-contractors (including those in the developing world) do not exploit their employees and how this is checked/ audited to ensure compliance. Also detail specifically your organisation's policy in this regard.
Supplier must comply with sustainability legislation	Please detail the key sustainability legislation that you believe applies to this contract (including your procurement connected with this contract) and how you will ensure that its requirements are met.
Use of eco-labelled equipment to	Please detail your current approach to the procurement of Eco-labelled hardware/ consumables, also detail which eco-labels you will apply to the selection of specific hardware/ consumables for this contract.
Minimising consumption	Please detail examples of successes in previous contracts where you have reduced consumption of hardware (optimised asset replacement strategy), consumables and spares. Detail previous position, target, approach and achievements.

Produced courtesy of the Environment Agency for England and Wales.

Identifying the key supplier selection criteria

When determining the supplier selection approach it suggested that procurers categorise criteria as follows:

Mandatory -	Mandatory selection criteria which a supplier must meet in order to be on the bid list.
Preferred -	If the supplier cannot meet these, it does not necessarily stop them from bidding. However, these issues will inform the basis of the supplier selection criteria.
Leading -	Limit these to as few issues as possible. These issues will really differentiate suppliers and will separate the exceptional suppliers from the ordinary. These issues should have the highest weighting within the supplier selection process.

Determine the weighting for sustainability issues

The appropriate weighting to sustainability in relation to other criteria, must be established as soon as possible. The final time that this should be set is up to the time that supplier interest closes for the contract. No amendment should be made to the sustainability criteria, ratio, weightings or any part of the supplier evaluation approach once the date for supplier interest has passed. To do so may invite criticism from suppliers and may lead to accusations of in-proper procurement practice. If amendments do not stop after the selection date closes, then an unscrupulous procurer could change the weightings or criteria to favour a particular supplier regardless of how good the supplier actually is.

As stated previously, the approach/ weighting used in supplier selection should relate directly to the risks that can only be managed by choosing suppliers that operate in a manner that best manages the issues identified. It is not possible to give precise guidelines for sustainability/ cost ratios/ weightings as contracts and organisations policies vary.

Finalising the supplier selection criteria

The extent and complexity of the supplier selection criteria selected should reflect the nature of the contract. Procurers should bear in mind that it is better to use fewer, key criteria, rather than a long list, each one of which will carry little individual weight when compared to the total score.

In order to clarify suppliers' ability to meet sustainability criteria, it can be useful to structure the issues into the form of a questionnaire, using questions drawn from the risk assessment. See table 2 previous.

Suppliers should then be assessed on how well they answer the specific supplier selection question you have developed. It should be apparent from the risk assessment, that some sustainability criteria will be more important to a particular contract than others. Criteria that are more important should be given a higher weighting. Thereby increasing the score of more important issues and lessening the influence of lower priority issues. This is explained in more detail below.

Scoring sustainability criteria and determining the suppliers to bid

The scoring method aims to indicate how well each supplier meets each of the specific sustainability criteria. Care must be taken to differentiate between the sales pitch and the real achievements of suppliers. It is also essential to avoid personal preferences from exerting too strong an influence.

Points are awarded to each supplier for each individual sustainability criteria, which are then weighted as appropriate. Weightings may need to be used to ensure high risk criteria are given more importance in the overall score.

The total marks available for the assessment are irrelevant, as a mathematically normalised (factored) score should be calculated. For example, if suppliers A, B and C were awarded total sustainability points of 150, 220, and 240 respectively, scores are as follows:

Supplier C	Highest Score (240)	=	100	points
Supplier A	$(150 \times 100)/240$	=	63	points
Supplier B	$(220 \times 100)/240$	=	92	points

Note: You should only assess a supplier on the information provided. Prior knowledge of the company and “we know they have the capability to do this” should not really be taken into account.

To determine the suppliers who are appropriate to bid for this contract, procurers should select the appropriate number of suppliers in rank order based on the scores calculated. The number of suppliers or the score over which suppliers will be selected to bid, must be pre-determined so as to ensure there are no accusations of in-propiety. So for example, if the supplier selection score was set as a minimum of 70 points, only suppliers C and B would be invited to bid, supplier A would be discounted as they did not meet the minimum score.

Summary

The definition of supplier evaluation criteria must be founded in the risk assessment process. In essence identifying the sustainability risks that are best managed through the choice of supplier. Sustainability criteria can be applied at any stage of the procurement process from supplier selection, specification, bid evaluation to contract management. This guide primarily focuses on the approach necessary to fairly evaluate suppliers for inclusion on a bid list.

Procurers need to consider the risk profile of the contract and set sustainability criteria appropriately. The position with regard to the acceptability of a cost premium to reduce sustainability impacts also needs to be determined. Weightings applied to specific sustainability criteria as well as to the suppliers overall sustainability need to be considered, along side weightings to other non-sustainability related criteria. Finally, consideration needs to be given as to whether there will be a minimum sustainability threshold overall, below which suppliers are rejected from bidding.

Procurers must take into account the legal framework in which they operate and ensure that any sustainability criteria they apply can be justified from a legal perspective if challenged.

Undertaking supplier evaluation varies from a very simple approach of a few key issues, to a much more detailed approach dealing with numerous non-cost factors. Having a structured and logical supplier evaluation process will ensure that all suppliers are treated fairly and that the most appropriate suppliers are selected. This will ensure that the appropriate level of sustainability is applied, that risks are managed and that the organisation is actually selecting suppliers based on sustainability and risk management principles. Effectively, practicing sustainable procurement.