

# Chapter-4

## VENDOR DEVELOPMENT

The Company was maintaining an Approved Vendor Directory (AVD). The Corporate Standards Department of the Company was responsible for the generation, updation, maintenance and publication of AVD for standard material and components. The vendors were discovered from

- Requests from the parties,
- Listed with the reputed institutions such as Electronic Component Standard organization (LCSO),
- US Military and National and International Buyers Guides etc.,  
information available on internet, Transfer of Technology agreements, design houses, and
- Advertisement in media.

### 4.1 Thin vendor Base

Audit scrutiny of the Approved Vendor directory of the Company revealed that the company was having a very thin vendor base.

The table below indicates the number of vendors registered with the Company<sup>2</sup> for total 42730 types/categories of standard material/components being procured by the Company for manufacturing products for its suppliers.

**Table 3**

Electronic Components		Mechanical and Material components		Total components	
Total No . of parts	Vendors in AVD	Total No of parts	Vendors in AVD (Nos)	Total No. of Parts	Vendors in AVD (Nos)
10021	1	3345	1	13366	1
10893	2	2814	2	13707	2
1301	3	3442	3	4743	3
4687	4	2906	4	7593	4
1308	< 4	2013	<4	3321	<4
<b>28210</b>		<b>14520</b>		<b>42730</b>	

It may be seen from the above that against almost one third (31 percent) of the standard items (13366 items), the Company had only one vendor and against another one third (32 percent) of items (13707 items) the Company had only 2 vendors registered with it.

This indicated the level of inadequacy of the vendor base of the Company.

The inadequate number of vendors available with the Company stressed the level of dependency to the extent of quality and price being dictated by the vendor. Therefore, in order to discourage

<sup>2</sup> Status as on July 2010

the monopolistic scenario, the Company needs to urgently diversify and widen its vendor base. The fact that in respect of 3095 (7 percent) items the same vendors were continuing since 1977 till date only corroborates the Audit concern.

The Management stated (December 2010) that the same vendors would continue in the Directory until evaluation of new vendors is completed and further added that US Military and Bureau of Indian Standard (BIS) approved buyers lists also contained only one approved vendor.

Expressing its concern, the Ministry stated (March 2011) that the company has been advised to take concrete steps to widen the vendor base.

## 4.2 Validity period of registrations

As per the procedure, the vendors were to be registered initially for a period of three years and after the expiry, a grace period of six months was to be allowed within which the validity shall be renewed for continuation in the AVD.

Audit observed that:

- Four vendors registered for supply of 132 electronics components were continuing in the AVD (December 2010) though the stipulated validity period had expired in December, 2009
- For 1572 parts, the vendors registered during 1977 to 1997 were still continuing till date and no alternate/additional source was developed even after 13 to 33 years.

During discussion, the Management stated (November 2010) that though efforts are being continued to develop multiple vendors for standard items, this exercise takes considerable time and involves various factors i.e., quality approvals, in-house evaluation and feedback from/units etc.

The Ministry stated (March 2011) that the validity period of registration as stipulated in the Purchase Policy of 2009, has to be maintained and the system should be able to identify the deviation along with justifications thereof.

### 4.3 Vendor performance rating system

As per the Procedure, based on quality, delivery and service parameters, the company classified vendors as

- Preferred (rating above 90 per cent),
- Acceptable (rating between 75 to 90 per cent) and
- Non-preferred (rating less than 75 per cent)

Vendors failing to qualify in any of these categories were put under observation. During this period, such vendors were required to improve the rating in order to come in the range of acceptable category failing which the vendor would be removed from the Approved Vendor Directory.

The table below indicates the assessment of performance of the vendors conducted by the Company during the years 2007-08 to 2009-10.

**Table 4**


Year	Total no. of vendors rated	Preferred vendors		Accepted Vendors		Non-preferred vendors		Additions/deletions during the year	
		No.	%age	No.	%age	No.	%age	Vendors added in AVD	Vendors deleted in AVD
2007-08	4251	2455	57.75	807	18.98	989	23.27	38	14
2008-09	6042	3363	55.66	1326	21.95	1353	22.39	49	14
2009-10	6316	3785	59.93	1059	16.77	1472	23.31	81	44
<b>Total</b>	<b>16609</b>	<b>9603</b>	<b>57.78</b>	<b>3192</b>	<b>19.23</b>	<b>3814</b>	<b>22.99</b>	<b>168</b>	<b>72</b>

It may be seen that 23 per cent of the vendors were rated as 'non preferred vendors' by the company. The occurrence of procurement from 'non-preferred vendors' was seen to be only in two per cent of the total value of procurement made during the period covered in Audit. The Company did not record any reasons for going in for procurement from 'non-preferred vendors'. The Company must ensure that reasons for doing so are recorded in all such cases in future.

Audit further observed that though the rating of 66 non preferred vendors was consistently less than 75 percent for last 3 years, i.e. 2007-10, even then, 1088 orders for ₹ 44.89 crore were placed on them.

The fact that the Company could add only 168 vendors in the Directory during the last three years which accounted for only one per cent of the total vendors and indicated lack of adequate efforts made by the Company to enhance the vendor base.

The Management stated (March 2011) that efforts were being made to enhance the vendor base. The Ministry stated (March 2011) that as the vendors are classified as 'non-preferred' by the units for lack of performance / commitments on delivery and /quality, the company has been advised to exclude such vendor from its Approved Vendors Directory.



In conclusion, the Company has a very thin vendor base and for majority of the material/components it has only one or two vendors registered with it. Thus, in the absence of an adequate vendor base, the Company had to place the orders even on those vendors which were either 'non- preferred vendors' or with expired validity. The Company also did not add significantly to the new vendors in its Directory. As the vendor base impacts the competitiveness of the procurement prices and provides leverage in selecting the suppliers and negotiating with them, the Company needs to urgently address this issue of widening the vendor base to achieve economy in procurement.