

# Risk vs Reward

How to use Supplier Quality Auditing  
to Put Money Back into the Supply  
Chain



Based on Experiences and Actual Case Studies

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# Supplier Audits: Everything You Need to Know

From local shops to global suppliers, the market can be a dizzying array of choice for companies on the hunt. But finding reliable partners overseas isn't easy - it's like searching for needles in haystacks all around the world! Thankfully with supplier audits we have an opportunity to clear away some of this fog and make sure our business relationships are worth their weight in gold.

## What Is a Supplier Audit?

Forget the hassle of running around, trying to inspect suppliers yourself - supplier auditing can make your life easier! From ensuring industry regulations are followed in regard to health and safety practices all the way down to manufacturing processes specific for each individual sector; from foodstuffs, right through electrical goods. Get a bespoke audit tailored specifically according to your needs without fail.

### Who Conducts a Supplier Audit?

Procurement and quality departments of the buyer organization conduct regular audits to ensure a top-notch supplier review process. This audit could be conducted in-house or by third parties, depending on what information needs gathering from suppliers - making sure that they measure up!

Keeping the quality up to snuff is no easy feat - that's why supplier audits exist! Every two years, a neutral third-party inspection company jumps in and evaluates if suppliers are living up to customer expectations. Supplier auditing makes sure everything meets required standards -- so don't break too many rules or you'll be caught during these intensive inspections.

## What Are the 3 Types of Supplier Audits?

Supplier audits can be broken down into three broader categories, namely: 1st Party, 2nd Party and 3rd Party.



## How Do You Perform a Supplier Audit?

When looking for the perfect supplier, it pays to be thorough. A comprehensive audit is crucial in ensuring reliable quality, practices and financial stability stands up - all tailored specifically to meet your needs. Pre-audit questionnaires will establish a strong understanding of the supplier before an onsite inspection further examines their processes – don't forget customer feedback! With the right info combined with clever audits you can sleep easy knowing that partnerships are made with providers who share your standards, whatever they may be.

**Here is a standard outline on how to make this work.**

### 1. Pre Audit Questionnaire and Pre-inspection Meeting

Before the auditing process begins, a pre-audit questionnaire gathers all necessary intel about both parties. Then comes the fun part - let's call it The Pre-Inspection Summit! This is where we come together to discuss how best to tackle the audit and make sure everything runs as smooth as possible. It's amazing what you can accomplish when everyone understands their roles and expectations

### 2. Team Selection

From here, a team will be formed to best match the audit type. These staff members are chosen based on their expertise and knowledge of the type of supplier audit.

### 3. Notification of Audit to Supplier

A notification is given to the supplier in writing (with several months' notice) to allow them to prepare. Written notifications also contain:

- The purpose of the audit
- The schedule of the inspection
- Names and details of the auditors

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## 4. Pre-inspection Meeting

This involves a brief introduction to the auditors and finalising any changes to the inspection schedule.

## 5. Execution of Supplier Audit

After the meeting is adjourned, the inspection will begin in which the auditors will inspect each aspect of the brief using a supplier auditing checklist based on the original goals and objectives. This checklist comes in the form of an observation sheet (OS) which records the inspector's findings.

## 6. Reporting Findings

Auditors should always give a report on the findings and observations post audit.

## How to Audit a Supplier by Yourself?

Auditing a supplier alone can be difficult if you don't have the proper knowledge or experience. But there are certain factors to be aware of which can assist in producing a more robust audit. These things include:

### Research Customer Complaints

Analyzing customer complaints can be a great starting point to understanding the key danger points with a particular supplier. When you're trying to decide if a new supplier or company is right for your business, asking previous customers of the provider or complaints which have been formally submitted can give insight into failures within the service. If there is repetitiveness within these complaints, it can indicate that the product or service is not up to standard.

### Check if a Supplier Is Outsourcing

Suppliers can often outsource work to subcontractors to complete orders and provide for clients. Understanding if suppliers partake in this can help clarify their performance and, ultimately, their final product.

It's key to get answers on whether subcontractors are involved in the supplier process and if those connections meet your organization's expectations. Uncovering how close a relationship between suppliers and contractors is can point out any potential problems that could arise from less-than ideal ties.

## What Are the Benefits of Supplier Audits?

As companies grow the size of their supply chain, selecting the appropriate supplier is essential. A supplier's reputation and quality will ensure that business runs smoothly and reduce potential issues or risks. Because of this, an audit of suppliers is essential to help in the decision-making process.

**Some of the benefits of implementing a supplier audit are:**

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## 1. The Risk Reveal

Reviewing all production processes with a supplier audit can unearth hidden obstacles that might impact the delivery of your product to clients. By anticipating any yield gaps or quality issues, you're one step closer in avoiding delays and deformities.

## 2. All About the Customer

An organization's reputation is built on customer satisfaction, which depends heavily upon the quality of their products. A thorough supplier audit can help ensure standards are met while minimizing any potential issues regarding product quality and safety. It also serves as a great way to measure how well suppliers are performing - all in pursuit of ultimate customer delight.

## 3. He

Regular supplier audits are the key to fostering strong, ongoing relationships with suppliers. Not only do they make sure objectives are consistently met; they open up communication channels and offer opportunities for growth through improved visibility into both parties' activities. Supplier audit schedules can be tailored specifically to an organization's changing needs - a great way to ensure progress.

# What Is a Supplier Audit Report?

ISO 9001:2015 INTERNAL AUDIT CHECKLIST		Doc: QF-892.1	Revision: A	Pg. 2 of 29
Refs	Requirements	What to look for and how	Comply	Auditor notes and evidence
<b>QSP 041 Context and interested parties</b>				
4.1	Determine external and internal issues that are relevant to the purpose and strategic direction of the company	Are the issues determined? Who determined the issues? How are the issues documented? Are there both internal and external issues? How are the issues communicated (Quality Manual, Training, etc.) Are the issues reviewed from time to time to ensure their continual relevance? Are there any records demonstrating that external issues were reviewed? Were there any issues added or removed after the initial set of issues were determined?	Note "Yes" for compliance and "No" for non-compliance.	
4.2	Determine interested parties relevant to the QMS and their requirements.	Are interested parties determined? Who determined the interested parties? How is it documented? Are the interested parties and their requirements of the interested parties determined? Are the interested parties reviewed from time to time to ensure their continual relevance? Are there any records demonstrating that interested parties were reviewed? Were there any interested parties added or removed after the initial determination?		
<b>QSP 042 Quality management system processes</b>				
4.3	Determine the scope of the QMS • ISO 9001 requirements that don't apply to the company	Are the boundaries and applicability of the QMS established and documented? How is the scope documented? (Quality Manual). When determining the scope, are external and internal issues considered? Are requirements of interested parties considered?  Are there any ISO 9001 requirements that are claimed not to apply to the company? Are these claims substantiated? Are these claims reasonable and justified? Are any ISO 9001 requirements related to enhancing customer satisfaction excluded?		
4.4	Define the processes of the QMS	Are processes needed for the quality		

Organizations have an important procedure to make sure they get quality and compliance from their suppliers. They use a supplier audit report, which records all the details of what happened during the audit – this is essential for keeping everything on track. The report would detail information such as:

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- The business and condition of the facilities
- Audit Results
- Key faults and comments
- Opportunities for Suggestions
- A list of what was audited
- Images of Course!

## EvalTOUR Provides Supplier Audits as a Part of Process

The Evaltour Sourcing Portal is an example of a 2nd party audit system. EvalTOUR.com enables businesses to give customers a quick look into the business with a mild audit to ensure they are comfortable with pursuing a request for quote.

**Here is an example of what supplier auditing would look like:**

*John Doe had been searching for the perfect aerospace supplier for months. He was feeling frustrated, as all the prices he was receiving were pretty similar and nothing seemed to stand out from one another. The previous year had been a difficult one because of a supplier that hadn't performed well, so John knew he couldn't afford to make the wrong choice this time around. After much deliberation, John decided that what he needed was an in-depth audit of each potential supplier before making a final decision. So off he went on his mission - determined to find the right fit for his business needs. He started with Supplier A, who seemed okay on paper but their processes weren't quite up to par when it came down to it. Next up was Supplier B; they had amazing quality processes but their price tag made them seem too expensive at first glance – until John realized how much money could be saved in the long run due to their superior systems and practices! With some trepidation but ultimately confidence in his choice, John selected Supplier B after conducting his thorough audit process. And lo and behold – they more than lived up to expectations! Not only did they perform exceptionally over two years running - proving themselves worth every penny - but their continual improvement efforts actually led costs going down even further by year three! John breathed a big sigh of relief - knowing that this time around, he'd managed not just find an acceptable solution - but also one that could easily become part of an ongoing success story!*

***“Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives.”***

## Why doesn't the industry naturally adopt supplier auditing?

Most companies struggle to adopt these systems because they see it as a hassle or more work. Later in this book, we will talk about how to truly use supplier auditing to put money back into your pocket.

How well do most companies keep up with their audit processes?

According to <https://www.nts-unitek.com/blog/transforming-supplier-audit-program/>

- Audits were perpetually 6 months behind schedule
- Only ~ 13% were performed on-site at the supplier facility as desired, the rest received a basic desktop questionnaire
- Suppliers who received the on-site audits significantly outperformed those who received the desktop questionnaire

Many of these companies never had a standardized desktop auditing process.

These clients will always experience disruptions higher than average due to not identifying risk as proactively as they need to. What happens to these companies is unpredictable. They begin to have slippages in performance and finding out that the new supplier has poor service.

## Here are some goals to set to try and gain the most from audits:

1. Standardize your supplier evaluation process
2. Use price as a tie-breaker and not the sole goal especially for important categories
3. Use supplier audits when performance mandates it - By raising performance, you realize cost savings

## The Cost Savings Checklist:

This checklist is a tool that you can use to find cost savings from your supply chain.

1. Is your largest supplier performing well and if not do they have a corrective action?
2. Are your suppliers located in geographically acceptable locations?
3. Are the locations of your suppliers driving up shipping costs or having weather issues?
4. Does your supplier base have an opportunity for consolidation due to supplier having similar capabilities?
5. Is there a large amount of manual information transfer that can be changed into electronic data transfer?
6. How do your suppliers handle their raw material supply base? Do they qualify and find the best of the best?
7. Do your suppliers have enough storage capacity for you?
8. How much of the inspection performed by the supplier is relevant to your product?
9. Do your suppliers have an opportunity to take over any value add activity for you?
10. How clean is your supplier factory?
11. Can this lead to lost product or additional waste that leaks into cost for you?
12. Does your supplier have adequate warranty and customer support?
13. Do you get dedicated support or not? If knowledgeable, does your supplier use the best process for your product or service?
14. Does your supplier train their employees well?
15. What payment terms will your supplier give you without credit or reference check?

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Cutting Sales Cycles Sales Cycles average about 102 days and this greatly impacts the speed to value. In a world of manufacturing where quality, partnership, collaboration, and transparency equal cost opportunity, we want to help you give the tools that brings the network into the loop early – with over 600,000 manufacturing businesses across the United States, Canada, Mexico, Europe, and Asia, we are trying to make it so that the sourcing tour to connect is instantaneously digital.

Conducting a digital desktop ISO audit, reviewing the business catalog, leveraging the communities' reviews, and making an objective decision before even picking up the phone or sending an email, your sales cycle is mostly done before even saying a word. Make it Digital How many ISO audits does your quality manager fill out for new prospects? How many times do you show someone around your quality management system to answer the same questions repeatedly? Understanding and learning a company's culture can be done by reviewing how well they build their quality management system.

Capability starts with the Quality Management System. So, eliminate the time it takes to break this down for customers instantly by making it digital, all inside of a custom and shareable link. Why EvalTOUR? After spending years in the supply chain industry... After seeing many failed supplier partnerships... many failed new product launches...and many quality audits...the root cause started with two problems: Not understanding the quality management system before building the partnership Not using a 360-sourcing process when building these partnerships We conducted deep market surveys and found that only 30% of businesses take a 360 view of a supplier before RFQ due to time and effort being the barrier. Our goal – Making this easy as possible. The result for you – less time wasted and a much shorter sourcing process. Speed to Value starts with Bringing the Sourcing Tour to You.