

Supplier Rating: Systematic Assessment of Supplier Performance

Supplier rating refers to the systematic, usually periodic assessment of suppliers based on defined criteria such as delivery reliability, quality, prices and service. The process makes supplier performance measurable and comparable, thereby forming the basis for the qualification, development and selection of suppliers in the procurement process. In DACH industry, supplier rating is usually integrated via KPIs and scoring models in ERP systems or supplier portals.

Key facts

- Supplier rating assesses suppliers objectively using KPIs such as delivery reliability, defect rate, response times and price level.
- Common assessment cycles range from monthly short ratings to annual overall assessments.
- Scorecard models with four to eight criteria and percentage weightings per commodity group are frequently used.
- Results feed into supplier selection, lot-size allocation, the supplier development plan and risk management.
- In practice, overall scores from A (above 90 points) to D (below 70 points) are commonly used.
- Objective ratings complement subjective assessments from procurement and functional departments but do not fully replace them.

Definition: supplier rating

Supplier rating is the systematic assessment and grading of suppliers based on predefined, measurable criteria. It transforms qualitative expectations of supplier performance into scalar KPIs and reveals strengths and weaknesses of the supplier base at a glance.

Distinction from supplier performance assessment

In practice, the terms supplier rating, supplier evaluation and supplier performance assessment are often used synonymously. Strictly speaking, the rating denotes the regular, grading process based on operational data from goods receipt, quality inspection and order processing. The evaluation additionally covers the initial assessment and qualification of new suppliers, for example before first placement of a free-text order or as part of a request for quotation. Both processes draw on the same data sources but differ in timing and purpose.

Legal and contractual framework

A supplier rating should be contractually anchored, for example in general terms and conditions of purchase or framework contracts with a clause on performance assessment and its consequences. Transparency towards the supplier is important: criteria, weighting and measurement methods must be known so that results do not appear arbitrary. Ratings provide a snapshot; legal consequences such as contractual penalties usually only arise through separate agreements. Tax and liability details should be

examined on a case-by-case basis.

Methods and approach in supplier rating

The choice of method depends on the industry, commodity classes and the strategic importance of the suppliers. A graduated approach from data collection through scaling to interpretation and derivation of measures has proven effective.

Defining criteria and weightings

Typical assessment areas are quality (defect and complaint rates), delivery (delivery reliability, fill rate, expedite rate), cost (price level, price compliance, discount behaviour) and service (response time, project support, documentation for traceability of materials). The weighting varies by commodity group: for critical A-parts, quality often dominates, while for catalogue articles cost and process reliability are key. An assessment at commodity class level is helpful so that the same supplier can perform differently depending on the product range. The weighting should be reviewed annually.

Data sources and scoring models

Ratings depend on objective data: goods receipt and quality inspection, delivery date deviations from the ordering process, complaints and measurement data from the ERP system, for example from material master attribute maintenance. Common models are the 100-point scorecard with grades A to D, points systems with minimum thresholds per criterion, or Kepner-Tregoe matrices for strategic decisions. In addition, structured assessments from procurement, engineering and logistics are incorporated to capture soft factors such as willingness to cooperate.

Assessment cycle and feedback

In practice, monthly operational short ratings for critical suppliers and quarterly or annual overall assessments for the broader supplier base have become established. The feedback meeting is essential: results are disclosed to the supplier, discussed and translated into a vendor rating report with agreed improvements. Without feedback and consequences, the rating loses impact and is perceived by suppliers as a mere formality.

Key KPIs for supplier rating

KPIs form the heart of every rating. They must be precisely defined, measured consistently and underpinned by clear target values so that results remain comparable and actionable.

KPIs for quality and delivery

On the quality side, the defect rate at goods receipt in PPM, the number of rejected deliveries relative to total deliveries and the first-pass yield for complex parts count. Delivery reliability is frequently measured as OTD (on-time delivery), supplemented by the decision-relevant fill rate and the expedite rate as an indicator of extra effort and process instability. Compliance with agreed transport and packaging requirements is also assessed, as deviations there cause direct costs in goods receipt.

KPIs for cost and service

Cost-oriented KPIs are the price development deviation from the market index, savings contributions, the order share per catalogue as a measure of compliance with agreed assortments, and complaint processing time. Service-relevant factors are response times to enquiries and complaints, adherence to

deadlines for prototypes and the quality of master data, for example within parameter maintenance (MRP), as faulty supplier data triggers planning disruptions in the master production schedule (MPS). Soft factors such as innovation contributions are captured via structured questionnaires.

From KPIs to conclusions

Individual KPIs rarely allow conclusions on their own; the combined view is what matters. A supplier with excellent delivery reliability but a rising PPM rate may signal quality risks due to insufficient inspections. The KPIs are combined into a scorecard with traffic-light logic and trend indicators. Early warning indicators such as increasing order changes or delayed availability confirmations can additionally serve as leading indicators of later rating weaknesses and reveal deviations before they manifest in hard criteria.

Risks and controls when using ratings

Supplier ratings only work if they are methodically sound and accepted across all levels of the organisation. A flawed data basis, a missing consequences chain or an excessive KPI focus can achieve the opposite.

Typical pitfalls

Common errors are unclear definitions (for example what counts as punctual: delivery date at the plant or the confirmed date), double penalisation through logistical deviations arising from one's own disposition, and a data basis with small volumes that fluctuate randomly. Ordering parameters must also be properly maintained, for example via parameter maintenance (MRP); otherwise the rating reflects planning errors in one's own procurement. Another pitfall is measurement without consequences: without a supplier development plan, a negative rating has no effect.

Control, consistency and escalation

Effective controls include a reviewed-by process in which procurement and quality validate ratings before dispatch, clear thresholds and escalation levels (meeting, improvement plan, withdrawal of allocations), and an overarching risk management to which ratings serve as input. Where ratings feed into a risk heat map or sourcing decisions, data quality should be audited regularly. Transparency towards the supplier, a documented complaints procedure for rating assessments and the traceability of input data create fairness.

Current developments and digital implementation

Supplier ratings are increasingly migrating into ERP, SRM and cloud-based supplier portals. At the same time, risk management, sustainability and AI-supported assessment are extending classic rating models.

Automation and integration

In integrated systems, data from goods receipt, complaint management and e-invoicing flows automatically into the rating, eliminating manual updates. In electronic procurement platforms, natural process KPIs arise from the ordering process with catalogues and the order share per catalogue. Advanced approaches additionally automate supplier declarations and certificates. Referencing supplier master data as the base object for proper assignment prevents duplicate ratings of the same supplier under different identities.

Risk, sustainability and resilience

Modern ratings integrate geopolitical risk, raw material dependency and single-source exposures, often represented through visualisations in a risk heat map. Sustainability and compliance criteria such as CO2 footprints, audited certifications and material traceability are increasingly weighted equally alongside classic KPIs. Smaller but growing is the integration of early warning indicators from external data sources such as commercial registers or shipping data. Against this background, supplier rating becomes a strategic decision-support tool, complementing the supplier benchmark against peer companies.

Typical metrics

On-Time Delivery (OTD): > 98 %

Typical target value for A-suppliers; standardise the definition of the reference date.

Defect rate at goods receipt: < 500 PPM

Industry-dependent; considerably tighter limits are common in series production.

Complaint processing time: < 10 working days

Until the final 8D report; shorter target times for critical parts.

Order share per catalogue: > 90 %

Share of orders placed via agreed catalogue items instead of free-text orders.

Overall score in the rating: > 80 out of 100 points

Common threshold for an A or B rating; below this, initiate development.

Practical example

A medium-sized mechanical engineering company with around 800 active suppliers introduced a supplier rating by commodity group. Previously, supplier allocation was based mainly on price comparisons and personal preferences; weaknesses in the delivery reliability of critical components were only identified late. After twelve months, the scorecard revealed structured patterns of weaknesses which the procurement team addressed in a targeted manner.

- Introduction of a 100-point scorecard with traffic-light logic by commodity group, including monthly sprints for A-suppliers and quarterly ratings for the broader base.
- Automatic data collection from goods receipt (PPM rate), order processing (OTD) and complaint management without manual entry.
- Mandatory vendor rating talks with every B- and A-supplier, plus a supplier development plan for suppliers scoring below 80 points.
- Linking the rating to sourcing decisions: suppliers with an A rating receive preference in framework contract tenders; suppliers below 60 points are phased out of the base.

Conclusion

Supplier rating transforms subjective supplier impressions into objective, comparable KPIs, thereby creating a sound basis for decisions in sourcing, supplier selection and quality management. Success depends less on the model than on clean data, clearly defined KPIs and a consequences chain. Without feedback and a supplier development plan, the process loses impact. Combined with risk and sustainability criteria, the rating becomes the central steering instrument for a resilient supplier base. For procurement organisations, it is therefore not an end in itself but an investment in security of supply and

competitiveness.

Frequently asked questions

What is a supplier rating?

Supplier rating is the systematic, periodic assessment of suppliers based on defined criteria such as quality, delivery reliability, price level and service. Results are typically presented as a score or grade (A to D). The rating serves as a basis for supplier selection, sourcing decisions and targeted supplier development.

Which criteria belong in a supplier rating?

Four core areas are common: quality (PPM rate, complaints), delivery (delivery reliability, fill rate, expedite rate), cost (price level, price compliance) and service (response times, documentation). Depending on the commodity group, criteria are weighted differently. Increasingly, sustainability and risk criteria are added.

How often should a supplier assessment be carried out?

In practice, monthly ratings for critical A-suppliers and quarterly or annual assessments for the broader supplier base have become established. Ad-hoc assessments are useful for new contracts, quality problems or changes to the production programme. The cycle should be defined in the procurement manual and transparent to suppliers.

What is the difference between supplier rating and supplier evaluation?

Supplier evaluation covers the initial screening, qualification and assessment of new suppliers before the first order placement. Supplier rating, by contrast, continuously assesses ongoing supplier performance based on factual data from goods receipt, order processing and quality inspection. Both processes draw on the same data sources but differ in timing and purpose.

How is delivery reliability calculated in the supplier rating?

Delivery reliability, often referred to as on-time delivery (OTD), is the share of punctual deliveries out of all deliveries in the assessment period. What matters is a clear definition of the reference point: the confirmed delivery date or the date requested by planning. The quantity should also be considered, e.g. as a fill rate or OTIF (on time, in full).

Which software supports supplier rating?

Supplier rating is frequently part of ERP systems, SRM modules and supplier portals; mature solutions automate data collection, score calculation and reporting. Many companies use spreadsheet-based scorecards for smaller supplier bases or cloud-based procurement platforms. What matters is less the choice of tool than the integration with goods receipt, quality management and the ordering process.