

Supplier Performance Management: FAQs

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With the increased reliance upon outside firms to supply goods and services, companies have become increasingly and sometimes painfully aware of the importance of supplier performance and its impact on their own performance and market competitiveness. A number of factors such as globalization, increased supply chain complexity, and the accompanying increased supply risks have converged to raise awareness of the importance of good supplier relationships and performance. Good suppliers can be value-added resources to help improve bottom lines through contributions and improvements in the areas of total cost, quality, time, and technology.

Most companies are now using supplier scorecards to evaluate suppliers and manage performance. But many are struggling with the supplier performance management (SPM) process. Here are some frequently asked questions about SPM.

1. *What KPIs should we use on our supplier scorecards?*

Starting out by thinking about specific KPIs for scorecards is backwards. Scorecard metrics should not be chosen for their individual merits. You should first start by understanding your company's goals and strategies and then see how procurement's goals support those. Then figure out how suppliers can support those goals and make sure that performance expectations for your suppliers are aligned. For example, if your firm is trying to delight its customers, purchasing needs to find ways to support that goal and then flow it down through its expectations for supplier performance, e.g., improve supplier quality and responsiveness.

2. *How many KPIs should we use on our scorecards? Is there an optimal number?*

No. Some think that a scorecard should have a certain minimum number of KPIs. Maybe they feel a need to fill it up? It is better to start with one or two of the "vital few" and then expand. Quality of KPIs is key, not quantity. Some firms choose more KPIs than they can possibly manage or keep track of. Or, they choose areas that they can easily measure just because the metrics are available rather than focusing on choosing the most meaningful metrics.

3. *How do we know that we have chosen the best metrics? Should we look at what other companies are measuring?*

The best metrics are those that are the most meaningful, measure what's important to a company, and link to its goals. Meaningful metrics relate to what *your* company is doing.

Other companies' metrics may be neither directly relevant nor even readily available for your firm to use. The good metrics should be:

- a. Relevant – relate directly to your company and your supplier performance expectations
- b. Measurable – can be readily calculated without needing a lot of resources (crunching spreadsheets, for example) and are easily understood by the supplier
- c. Actionable – metrics lead to actions and improvements in the areas of cost, quality, time and/or technology

4. *We use spreadsheets for SPM. Why would we want to use a formal SPM software solution?*

Spreadsheets have many drawbacks. They typically require scarce resources to maintain, are less visible in an organization, have far less functionality than an SPM system, are not scalable, and are often not fully deployed and ultimately abandoned. SPM software capabilities go beyond scorecards and may include, for example:

- a. Supplier survey & assessment development and deployment
- b. Systematic collection of assessment results
- c. Stakeholder satisfaction surveys
- d. 360° evaluations (supplier evaluates customer and vice versa)
- e. Creating and calculating KPI formulas
- f. Importing KPIs and performance data from other systems
- g. Rolling up KPIs to scorecards
- h. Sharing scores and results with suppliers
- i. Trend analysis
- j. Alerts regarding performance issues
- k. Measuring against contracts and SLAs
- l. Tracking corrective actions & improvement plans
- m. Site visit or audit support

5. *How do we reap the benefits of SPM? It seems hard to get suppliers to improve.*

Good suppliers are eager to find ways to improve their business performance, since it benefits their whole business and not just one customer. Scorecards can be a source of positive information to help suppliers improve, saving themselves and you money.

Supplier performance improvement is not a one-way street. When it comes time to review performance, the conversation should be two ways. Sometimes changes need to be made in the buying organization to help suppliers improve their performance. A common example of this is last-minute orders that suppliers can't fulfill on time. This

kind of dialog evolves with the customer-supplier relationship. As time goes on and trust grows, the chances of continued improvements are increased. SPM is usually not as successful when done in a top-down or edict type of manner.

6. *Our company has supplier scorecards. How do we ensure that we get measurable results?*

Establish a baseline with a supplier and measure performance against that so that you can readily see the improvements. Track performance improvement and any savings that come out of the process, and, really important, communicate this information in every direction within your organization and with the supplier. Keeping success a secret is a sure way to undermine the SPM process and lose support for it.

Here are some key success factors:

- a. Management buy-in & support
- b. Alignment with company and organizational goals and objectives
- c. Creating and putting in place a good business process
- d. Communicate, communicate, communicate: with suppliers and within your organization. Engage stakeholders. Communicate achievements and successes
- e. Taking action and making improvements as a result of the supplier evaluation process