

Supplier Performance Management (SPM)



Performance monitoring of suppliers is a fundamental part of contract management (CIPS: Performance Monitoring of Suppliers).



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Introduction

Most companies rely on timely delivery, price reduction and service quality offered by their suppliers in order to gain more profit (Cohen et al., 2008). Supplier performance directly affects the quality of the whole supply chain making it essential to establish an efficient mechanism to enhance it, accelerate its improvement and ensure the quality of services and/or products (Jiang and Bai, 2010). Through the evaluation and comparison of supplier performance, companies can ensure and maintain the best service and eliminate suppliers who fail to comply with performance requirements (Cohen et al., 2008).

Supplier performance can be assessed by evaluating a number of characteristics. These can include product and/or service quality, Mean Time Between Failure (MTBF), percentage of incoming rejects/delivery accuracy, warranty claims service, quality (against agreed service level agreements - SLAs), call-out time, customer service, response time performance against agreed delivery lead times, relationship/account management, accessibility and responsiveness of account management, or dynamics of commercial costs. In addition to these 'hard' performance indicators, 'soft' indicators are also important to consider. Some examples of 'soft' metrics are ethical issues, professional relationships and cultural fit (CIPS: Performance Monitoring of Suppliers).

The measures, objectives and targets used in the monitoring of supplier performance should include those agreed in the contract between the supplier and the company. The contract's objectives are twofold. First, it helps to ensure that suppliers are meeting the performance criteria. Second, it identifies room for improvement (CIPS: Performance Monitoring of Suppliers).

Definition

Supplier performance management (SPM) refers to the integration of performance evaluation analysis, performance decision, supplier incentives and punishment (Jiang and Bai, 2010). Consequently, SPM is the business process that includes the methods and systems used to collect and provide information in order to measure, rate, or rank suppliers on a continuous basis (Trent, 2011).

Successful Application

To implement SPM organisations should first involve the central organisational administration in designing scorecards and reports on the work that suppliers do. Stakeholder feedback and participation in scorecards is important during implementation as it facilitates the process and encourages more feedback. It is also essential for the company to cleanse the system of cards and reports that are no longer relevant or necessary to simplify and reduce complexity for users. As with most organisational issues, management support is needed to encourage participation and use the management platform to communicate the SPM group's plans and system initiatives (Gordon, 2005).

Steps to Successful Application

- Gather objective information about supplier performance, such as lead-times from order, quality standards being met, pricing compliance and whatever else is laid out in the contract.

- Obtain the experiences of customers in respect of service, attitude and response rates. These should be as objective as possible and reflect reality but inevitably may in some cases be subjective.
- Consider the supplier's experience of working with your organisation. This must be included in the evaluation, as it might as well be that they are facing unnecessary obstacles or dealing with difficult people.

CIPS: Performance Monitoring of Suppliers

Hints and Tips

- A very important factor for successful SPMs is the ease of use. Elaborate and complex solutions only add complexity and essentially to the total cost, whereas simple, easy-to-use solutions minimise training requirements and improve adaptability (Chauhary, 2011).
- A very important factor for successful SPMs is flexibility: every organisation has specific SPM related requirements and focus areas. Before shortlisting an SPM tool, an organisation should have a clear assessment of its requirements (Chauhary, 2011).
- Focusing on fundamentals is a very important factor for successful SPMs. A SPM tool should help to manage, monitor and find opportunities for further improvement in the supply chain. It is these fundamentals that should play a major role. Any additions should not increase complexity (Chauhary, 2011).
- A success factor of effective SPM is integration. SPM tools should be able and integrate with other information tools, such as supplier information management systems aiming at an automated collection and updating of supplier data. Integration also enables access to a single interface to provide comprehensive and up-to-date supplier information (Chauhary, 2011).

Potential Advantages

- SPM enables companies to reduce supplier numbers to as few as possible while maintaining high-quality supply for all components (Morris, 2010).
- SPM offers a method of evaluating supplier capabilities and serves as an input into future decisions. In that sense SPM builds a strong foundation of continuous improvement and enables organisations to identify future cost savings, improve quality, increase flexibility, or improve delivery metrics (Berr-Sorokin, 2011).
- An interactive SPM enables suppliers to have ongoing access to the same information used to evaluate their performance, as it allows multiple people from different organisations to access consistent, relevant, authorised information (Morris, 2010).

Potential Disadvantages

- There are no standard SPM measurements that can be universally applied across a number of industries (Trent, 2011).
- SPM can offer an insufficient dynamic evaluation of supplier performance (Jiang and Bai, 2010).
- SPM can be inefficient due to the lack of control and regulation from enterprise (Jiang and Bai, 2010).

Performance Monitoring

- Supplier scorecards: cost of poor quality, delivery cost, inventory cost, response index,

order fulfilment score, order visibility score, returns/charge-back score and can be extended to custom categories such as vendor risk, innovation, customer complaints and corporate social responsibility (Chauhary, 2011).

- General metrics: financial health (risk of bankruptcy, liquidity, sales etcetera), operational performance (quality, lead times, customer services etcetera), contract compliance, business processes (defect prevention, inspections etcetera) and overall cost (Morris 2010).
- Key Performance Indicators (KPIs): can be defined in SLA; general categories - cost of poor quality, delivery cost, inventory cost, response index, order fulfilment score, order visibility score, returns/charge-back score; custom categories - vendor risk, innovation, customer complaints, corporate social responsibility (Trent, 2010).

Case Studies

- MTD developed a fact-based non-conformance SPM system and supplier scorecards which allowed the company to charge back supplier-related costs. The company recovered around US\$6m in the first six months of the programme which accounted for 1% of its revenue. All scorecards and metrics were easily defensible, so MTD and its suppliers focused on solving problems, not debating data. This improved communication led to lower non-conformance issues and better overall product delivery and supplier performance (MTD).
- In July 2005 the UK National Health Service (NHS) launched a new SPM system that introduces a service for negotiating contracts. Within the first six months over 1,500 suppliers registered to participate, and issued around 20,000 automated communications. The majority of these interactions between NHS and its suppliers would previously have been performed manually (email or hard-copy document exchange). Time saving has been considerable, leading to significant performance and productivity improvements for the entire procurement team (Bravosolution, a).
- When implementing a new SPM, as a first step GSK defined objectives and requirements of the manufacturing, purchasing, production control, warehouse, and planning departments. The new system was automatically fed invoice, procurement and product information from information systems. Reports provided valuable performance and information to all departments. Other benefits included: annual cost savings of US\$500,000, a reduction of suppliers from 120 to 25 critical ones and the improvement in supplier performance from 68% at inception to 92% (GradeCard).

Further Reading/References

Web Resources

- Collecting supplier performance information <http://supplyperformance.wordpress.com/>
- Analytics in supply chain performance management http://www.industryweek.com/articles/supply_chain_performance_management_ignore_analytics_at_your_own_peril_21239.aspx?Page=2
- Supplier Performance Management: Best Practices <http://www.esourcingforum.com/archives/2006/07/30/supplier-performance-management-iii-best-practices/>
- Supplier metrics that matter <http://www.cpoagenda.com/previous-articles/autumn-2005-issue/features/supplier-metrics-that-matter/>

Books

- Supplier Evaluation and Performance Excellence: Sherry Gordon - Supply chain performance management essentials
- The Pillars of International Purchasing: Globalisation, Shipping, Supplier Performance- Faustino Taderera - International cases on supply chain performance management
- Unleashing the Power of Supplier Performance Metrics: easier said than done: Lisa Levinson and Robin Sunström - Supply chain performance management metrics
- Service Operations Management: Improving Service Delivery: Prof Robert Johnston and Graham Clark - Overview of key operational issues, including supply chain performance management
- The Science of High-performance Supplier Management: A Systematic Approach to Improving Procurement Costs, Quality and Relationships: Randy A. Moore - How to achieve better supply chain performance management

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Video

Tracking your way to optimal supply performance management

<https://www.youtube.com/watch?v=DtIgJMjpBcc>

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