

WHITE PAPER

Supplier Performance Management –
Driving successful strategies & relationships





Introduction

Being an important and integral part of any supplier chain management, a robust and well thought out Supplier Performance Management becomes the key ingredient in enabling organisations to achieve business performance excellence. Supplier Performance Management is the art and science of measuring, analyzing and reporting supplier's performance over a pre-defined period. The goals of supplier performance are to reduce supplier costs and risks whilst driving continuous improvement initiatives to drive long lasting supplier relationships.

What is Supplier Performance Management?

Supplier Performance Management (SPM) is the means and ways of capturing, measuring, analyzing and reporting supplier's performance. The endeavor of Supplier Performance Management is to ensure a long and sustainable supply base together with win-win relationship with the supplier.

Supplier performance can also be termed as the 'Appraisals' of their performance.



Why Supplier Performance Management?

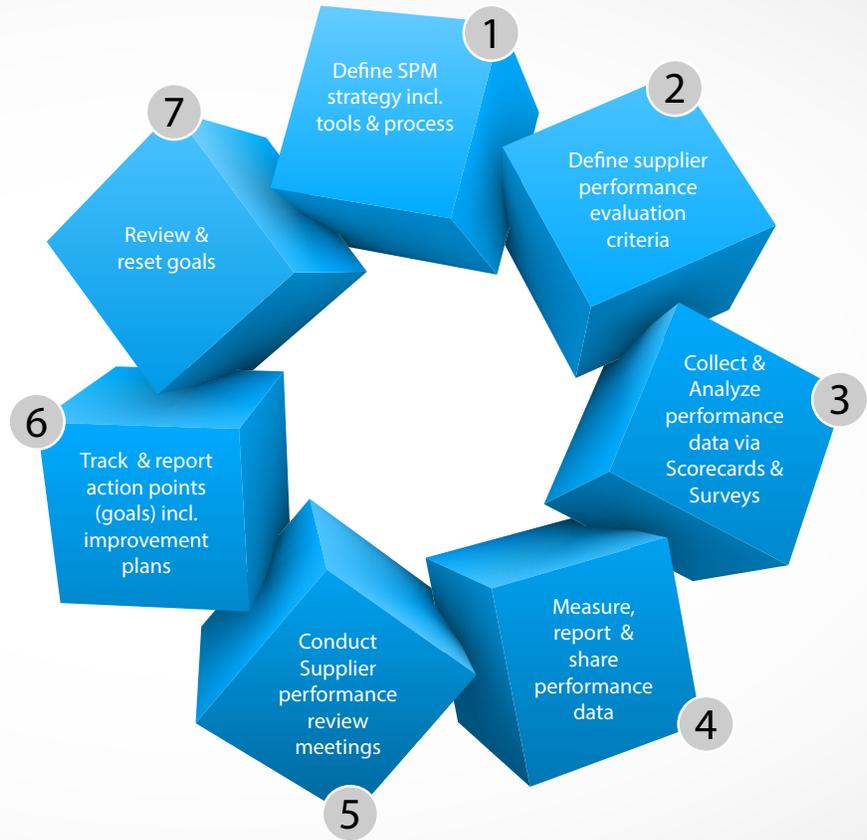
The top drivers for Supplier Performance Management are,

- **Supply chain disruptions on supplier management** – its key to know your supply chain, the possible disruptions & viable mitigants in place. This is possible only by knowing your suppliers better.
- **Procurement's visibility into spend on preferred suppliers** – this is very important information as this helps in making strategic supplier & supply decisions. The science behind grouping suppliers as preferred or favored.
- **Collaborating with suppliers to create new value** – it's very important to constantly collaborate with the suppliers in a healthy atmosphere as suppliers' progress could mean organizations' progress. Co-creation is the new mantra.
- **Costs incurred due to incomplete information on supplier relationships** – in today's very competitive environment, lack of timely information can have huge impact on costs as information drives strategies & decisions. Like in any relationship its sometimes very hard to calculate the cost of a wrong decision as trust & commitment is lost and
- **Risk to company due to suppliers' actions or policies** – in this dynamic business milieu contracting with the right suppliers is key & any slip could lead to un-necessary & un-called for litigations or legal hassles, therefore it's important to know with whom you are doing business with.

Another driver which is internal to the company is the area wherein the organization can improve to help the supplier to deliver and exceed the expectations viz. a 360 degree feedback for the organization.

SPM Lifecycle:

Broadly the important stages of a SPM are elucidated below, together with the best practices in each of these stages. It's important for organisations to follow these stages to ensure a comprehensive plan is put in place to reap the benefits of SPM.



Stage – 1 (Definition of strategy):



In this stage the SPM strategy is defined for a definite period depending upon the supplier, commodity procured, category, relationship with supplier, past performance, etc. Even though the general process for SPM is decided at the organization level, here any deviations / exceptions are recorded / documented. The tools / applications that will feed data for SPM are also decided at this stage, Eg: which tools will provide information on Quality performance (i.e. rejection rate from P2P tool or survey responses), etc. Best practices suggest a "Pareto approach" is followed i.e. conduct performance management for the 20% of the total supplier base which usually constitutes 80% of the total spend.

Stage – 2 (Evaluation criteria):



In this stage the evaluation criteria are defined i.e. the supplier scorecard KPIs are defined. The KPIs are usually defined as per the commodity or category, but any exceptions to these general KPIs are documented / recorded. Best practices suggest that to make the KPIs metrics more potent they should ideally be aligned to the organization's own goals, objectives and strategies than when copied from other organizations.

Also, the supplier has to be measured against the Terms & Conditions agreed in the current contract with the supplier.

Stage – 3 (Collect and analyze performance data):



Based on the strategy and evaluation criteria defined above, suppliers' performance is collected from various sources / applications, surveys, scorecards, etc. Post collection of the data, it is analyzed for appropriate and accurate reporting. As best practice it's very good practice to solicit suppliers' feedback on organizations' performance (360 degree feedback). Supplier performance can take the form of either a survey questionnaire or interview (preferably face-to-face), sometimes even a site visit, and includes appraisals of various aspects of the supplier's business including capacity, quality adherence, financials, organizational structure and processes and performance.

Stage – 4 (Measure, report and share performance data):



In this stage the data collected in the above step is measured and reported in the appropriate formats to be shared with the appropriate audience.

Here, the key aspect is the mapping of the reports / information to the people. An efficient and effective process of generating reports / information is by templatisation of these reports / information. Here mapping of information with the end users is a very good practice. A RAG approach (red, amber, green approach) is followed to report the suppliers' performance against each parameter.

Stage – 5 (Conduct review meetings):



In this stage review meetings are conducted with the supplier as per the strategy defined earlier. The review meetings are done periodically i.e. once a month, quarterly, half yearly or yearly depending on the strategy. The agenda of these meetings include, discussion on past performance on various parameters, action points from previous review meetings, areas of improvement, support needed to drive improvement projects, etc. The attendees of these review meetings are usually the vendor managers, suppliers' representatives, key users of suppliers' products or services, team involved in procurement, finance, quality, category managers, etc.

Stage – 6 (Report and track action points):



In this stage the action points from the review meetings are recorded and tracked for completion or tracked for improvement. The minutes of the meeting are also clearly documented for future references. The key here is the mutual agreement of these crucial action points. The action points have to be very clear and well defined, the below given table is an example of how to document the objectives or action points.

Objective	
Supplier account objective	Target
Plan	States the expected output and success criteria; where possible, express numerically
Specific time-bound actions that will be taken to achieve target	Measure
Progress	States what will be used to determine whether the objective has been met
Reviewed and updated following supplier account reviews	

Stage – 7 (Review and reset goals):



In this stage the action points or objectives are reviewed against the targets and the goals are reset if needed.

Here it's important to note the support the organization needs to extend to the suppliers to meet their goals. This is a very important stage as it gives an important insight into the suppliers' ability to improve their performance and shows the suppliers' intention to deliver or exceed expectations. The outcome of this assessment will have an impact on various decisions taken at different levels of the organization like a poor performance might result in reducing the business given to that supplier & a very good performance might result in increasing the business or even removing the supplier from the preferred vendor list based on feedback, etc.

SPM Challenges:

The key challenges organisations encounter to implement a robust Supplier Performance Management are:

Disparate systems – This arises from having different systems for various activities like PR, PO, invoicing, reporting, etc. This can impact the collection of data for analyzing suppliers' performance. (Likely Solution – a technology offering/ solution that cuts across the sourcing & procurement lifecycle with real time reporting)

Lack of management commitment for a robust SPM – This stems SPM at the bud, thereby impacting the whole SPM process (Likely Solution – management's commitment at all levels of the Organization is very essential to the success of SPM, as the suppliers' performance information is collected across. Therefore, the more detailed & accurate the data is, the better is the analysis resulting in the Best SPM & review)

Lack of consistent process across the organization – It only makes comparisons more effective which in turn helps in making informed decisions (Likely Solution – the SPM process has to be made very easy & flexible, yet effective & consistent so

that it can be implemented across the organization, hence the need to align the KPIs to Organizations own goals, objectives and strategies than when copied from other organizations)

Lack of scorecard KPIs specific to commodity / category – This also makes comparisons more effective and makes the organisations take the 'Horses for Courses' approach, as drivers or measurement yardsticks for different commodities, categories are unique & different (Likely Solution – even though the process of SPM has to be consistent, the parameters to measure the performance has to be specific to commodities, categories. E.g. timely delivery is a KPI for a goods, timely completion is a KPI for services)

Lack of quality information or lack of information at the right time – Either of these will distort the fact and bring down the decision making ability (Likely Solution – it's essential to have a well augmented process & technology in place to ensure data is collected regularly & accurately, even if it means real time or in person in some cases)

Paucity of time to conduct informed supplier performance reviews – This is due to lack of efficiency and efficacy of the SPM process which leads to unproductive supplier review meetings (Likely Solution – again the need for a well augmented process & technology solution that shortens the data collection, data analysis & information compilation lifecycle) and

Lack of mechanism to record review meetings & track action points – It removes the sting out of the purpose of having goals in SPM as there will be no clear objective or purpose or agenda to drive these meetings (Likely Solution – it's not only important to have a well augmented process & technology solution for collecting data/ information, its equally important to have one for recording the review meetings & tracking action points for completion).

Advantages of SPM

Even though the advantages of a well thought out and well implemented SPM spans across the organization yielding both tangible and intangible benefits, listed are a few of them:

- SPM helps organisations to better understand their suppliers and the suppliers' core capabilities by gaining better insights into the suppliers' performance
- SPM helps build mutually beneficial relationships with suppliers and drives continuous improvement opportunities
- It drives the identification, prevention and mitigation of supply risk
- It will drive the setting up of criteria for new supplier on-boarding and have an approved supplier list
- Assists in having realistic SLAs (Service Level Agreements) into supplier contracts that are based on past performance information gained from SPM
- It drives rationalization of suppliers based on performance information i.e. disengage with low performers and high-risk suppliers whilst giving more business to high performers
- It could lead to identification of new sources of supply
- Gains insights that help suppliers improve their performance by reducing costs and risks and
- It creates preferred or certification programs.

Conclusion

In this dynamic and un-predictable world, an organization's capability to access the right information at the right time holds the key to sustenance and longevity. As the suppliers are an important and integral part of supply chain management and supplier management an important part of any organizations' strategies, having the right information on suppliers and suppliers' performance becomes imperative.

To have access to this supplier information, organizations need to have the right processes in place facilitated by the right technology driven by the right people. This requirement of right people, technology and processes are an integral part of any "Platform" offering. So, migration to platforms is a decision in the right direction. Also, this shift to efficient platform offering will aid organizations to get access to valuable information in

social media and third party applications (by linking your data collection points to various 3rd party providers of information like D&B, Reuters, Bloomberg, etc) and will also help in getting a 360 degree view of the organizations' performance which is quintessential during these tumultuous times. Therefore, right information at the right time drives long lasting relationships & enables informed decisions, vital for a strategic decision.



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