

How To Improve Supplier Performance



Do you find yourself struggling to stay on top of vendor compliance? Are you frustrated by your inability to effectively measure and improve supplier performance?

If so, your supply chain may be costing you much more than what's written on the invoice.

But don't throw in the towel just yet. Understanding how to improve supplier performance doesn't have to be an exercise in frustration. By taking a proactive and collaborative approach, you can

Why Knowing How to Improve Supplier Performance Matters

Since the turn of the twenty-first century, the worldwide economic environment has undergone (and continues to undergo) major changes.

Digital transformation was already rewriting the rules for building competitive advantage and protecting business continuity even *before* the COVID-19 novel

coronavirus pandemic further altered the way the world does business.

Supply chain management is in many ways value chain management. And performance management, along with improving service quality and investing in data analytics, was one of the top priorities for supply chain organizations responding to an APQC survey in 2018.

Companies are actively seeking ways to:

- Leverage performance metrics (including key performance indicators, or KPIs) to find the root causes of supplier performance issues creating expense, waste, and risk, and take corrective action.
- Establish and perpetuate collaborative, long-term relationships with their suppliers to secure optimal terms and pricing while providing opportunities to expand these relationships into partnerships and mutually beneficial initiatives focused on developing new products, penetrating new markets, etc.
- Optimize their value chain by digitizing and optimizing business processes throughout the entire source-to-pay lifecycle and prioritizing strategic sourcing, minimizing the number of suppliers in the chain without negatively impacting business continuity, and finding ways to align procurement activities with larger organizational goals.

These goals make good business sense. Supply chain costs can account for between 10 and 20 percent of revenue for most businesses, and research firm McKinsey found that the COVID-19 pandemic created significant additional costs for nearly half (45%) of the companies they surveyed in 2021, with a third of respondents directly citing supply chain disruptions as the primary factor and 64% reporting revenue losses of 6 - 20%.

More encouragingly, 2020 research conducted by the Center for Global Enterprise (CGE) found companies who digitize their supply chains (and supplier performance management) by leveraging supplier performance data to build value and strengthen their bottom line, collaborating intelligently with suppliers, investing in supplier development, and implementing digital technologies can reduce their supply chain costs by as much as 50%, reduce overall procurement costs by 20%, and increase their revenues by 10%.

COVID-19 and other supply chain challenges aren't going to disappear anytime

soon, and supplier performance requires constant vigilance in order to minimize risk and maximize value.

Consequently, developing and implementing a data-driven, digital-focused supplier relationship management program makes good sense for any organization that wants to regain or improve its post-COVID footing, improve its competitive strength, meet (or exceed!) stakeholder expectations, and drive value and profits through process optimization.

Improving supplier performance is now, more than ever, about improving supplier relationship management.

Best Practices for Improving Supplier Performance

Traditionally, discussions concerning supplier performance dealt primarily with hard data, supported by metrics (usually KPIs) such as lead times, on time delivery, various aspects of product quality and quantity, pricing, capacity, etc. using supplier scorecards.

These scorecards are still extremely useful in performance evaluation, of course.

But procurement teams who view them not simply as evaluation tools, but opportunities to connect with suppliers and collaborate on everything from improving product quality to aligning goals and business processes for shared success are ahead of the game when it comes to strengthening both their supply chains and value chains from end to end.

Improving supplier performance is now, more than ever, about improving supplier relationship management. You can reduce risk, build value, and maximize vendor performance in your supply chain by following a few best practices.

1. Set the Stage for Success with Digital Technologies

It's hard to measure performance issues you can't see—let alone take corrective action. In order to truly optimize all stages of supplier performance management,

you need digital tools that let you capture, organize, analyze, and review supplier performance data in real time.

You need software solutions that allow you to measure supplier performance over time with vendor management KPIs, and provide intuitive and convenient ways to integrate supplier systems with your own to achieve true end-to-end optimization throughout the supply chain.

Investing in a comprehensive, cloud-based procure-to-pay solution like PLANERGY gives you access to powerful automation, analytics, and data management capabilities that not only make it easier to track and improve supplier performance, but connect internal stakeholders with suppliers to engage in supplier development and sourcing activities that align with both organization's goals.

In addition to improving end-to-end supply chain visibility, providing real-time, leveled, and role-appropriate access to all relevant information allows everyone to collaborate more effectively.

This minimizes delays and errors that can damage relationships, but also makes it easier for suppliers to share business intelligence with your team that might not otherwise be available.

On the other end of the exchange, your teams providing real-time data in the form of live, automated supplier score cards makes it much easier for suppliers to take corrective action in a timely fashion.

2. Begin with Needs Analysis

Having a clear destination in mind is important; knowing whether you're equipped to make the journey, even moreso. An effective supplier rationalization strategy will help you determine:

- The current and optimal number of suppliers for your business, based on your business goals, business continuity planning, and supply chain disruption mitigation strategy;
- The capabilities of, and risks associated with, your current supply base, including root causes of business-critical points of failure or increased risk;

- The metrics and KPIs necessary to evaluate and improve supplier performance in support of actual organizational goals and needs;
- Risk mitigation and supplier improvement strategies necessary to achieve these goals, including clear policies for ethical and sustainable procurement as well as contingencies such as local alternative suppliers; and
- Which suppliers should form the strategic core of your supply chain and hold potential to become valued partners in product development, strategic sourcing, developing new methodologies, etc.

3. Look Beyond QCD

While they vary in complexity and scope, supplier scorecards have historically focused primarily on QCD—i.e., Quality, Cost, and Delivery.

These “big three” metrics remain the foundation of effective supplier performance evaluation and a core component of lean systems, but it pays to expand your list of metrics to provide a more granular view of supplier improvement.

By collecting and analyzing supplier performance data based on the criteria you established during needs analysis, you can customize your supplier scorecards to prioritize those metrics that have the greatest impact on your bottom line, business continuity, goals for sustainability and ethical procurement, etc.

Laying everything out on the table, so to speak, simplifies compliance and performance improvement for suppliers (who can, by integrating their systems with yours, provide feedback and communicate their own suggestions to further improve performance over time).

Your team can focus their time, resources, and talent on supporting organizational goals through mutually-beneficial collaboration with suppliers, allowing them to tackle root causes and pursue shared growth and success.

4. Prioritize Proactivity, Communication, and Collaboration

Like many other business processes, supplier relationship management is constantly evolving in the digital age.

What was once a simple matter of trimming underperformers and aggressively prioritizing relationships with key suppliers has become a much more nuanced affair.

This increasingly sophisticated paradigm is, incidentally, another strong argument for a comprehensive P2P solution, as automation (including guided buying and vendor performance evaluation) helps free your staff to focus on strategic relationship development instead of tedious, repetitive tasks more readily handled by software robots.

Regardless, by working proactively to engage with suppliers, your procurement and accounts payable teams can not only identify and correct performance issues—allowing you to rehabilitate, rather than replace, suppliers who provide essential goods and services—but also create opportunities to align supplier activities directly with your organizational goals.

A key supplier might, for example, be instrumental in providing raw materials that help your company reach its goals for ethical and sustainable procurement, or develop new internal workflows that boost performance, improve delivery times, and enhance product quality in exchange for exclusive (or primary) supplier rights.

A collaborative and communicative approach—including data sharing via not just supplier scorecards, but integration of digital transformation technologies such as Internet-of-Things (IoT)-enabled sensors into key points in the supply chain—also helps suppliers streamline and optimize their own processes.

These performance and profitability improvements translate to better service, reduced risk, and improved supply chain resilience for your organization, regardless of specific agreements you may share.

Optimize Supplier Performance through Shared Success

Eliminating waste, minimizing risk, and cutting costs are just the beginning. By taking a collaborative approach to supplier performance management, you can turn your best suppliers into powerful strategic partners who share your goals—and your success.

Invest in the necessary digital tools, take the time to evaluate your needs, and work closely with internal and external stakeholders to establish the procedures, metrics, and goals that will help you achieve lasting performance improvement and forge the long-term relationships that will help your supply chain (and your business) weather the disruptions that come with competing in today's complex global economy.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

[Book a Live Demo](#)

2. Download our guide "Preparing Your AP Department For The Future"

Download a free copy of our guide to future proofing your accounts payable department. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

[download a free copy of our guide](#)

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts