

Supplier Performance Management: How and What To Measure



IN THIS ARTICLE

- What Is Supplier Performance Management?
- Why Is Supplier Performance Management Important?
- Factors To Consider When Setting Goals For Suppliers
- 5 Steps in the SPM Process
- Proper Supplier Management Includes Performance Monitoring

Measuring supplier performance is essential to maintaining a good relationship and ensuring that they continue to meet your standards.

But, how do you measure supplier performance? There are many factors to consider, and it can be difficult to know where to start.

In this blog post, we'll break down everything you need to know about supplier performance management, including how to measure it and what factors to consider.

What Is Supplier Performance Management?

Supplier performance management (SPM) is the process of assessing supplier performance in order to identify areas where they need to improve.

SPM also includes setting goals and objectives for suppliers, as well as establishing a system for monitoring and measuring progress.

Additionally, SPM can help you develop contingency plans in case of disruption, such as if a key supplier were to go out of business.

Why Is Supplier Performance Management Important?

There are many reasons why SPM is important. Supplier relationship management is crucial for your operations.

If suppliers feel like you're constantly criticizing them or looking for ways to reduce costs, they may be less likely to want to do business with you in the future.

Furthermore, regular assessment of supplier performance can help you identify potential supply chain risks early on so that they can be remedied before they cause major problems.

SPM can help ensure that your products or services meet the highest possible quality standards.

How To Measure Supplier Performance

There are several ways to measure supplier performance. One common method is using a balanced scorecard approach.

This approach considers quantitative and qualitative data points to get a well-rounded view of supplier performance.

A supplier scorecard is a document that tracks and monitors supplier

performance.

The supplier scorecard will have a supplier's name, the date of their last performance review, and the supplier's current performance rating.

This allows procurement organizations to identify which supplier is not meeting expectations and adjust their purchasing accordingly.

Many supplier scorecards also include qualitative measures such as customer satisfaction scores.

This allows organizations to get a more well-rounded view of supplier performance.

Ultimately, supplier scorecards help organizations make better purchasing decisions and ensure they get the best value for their money.

Some of the factors you may want to consider when measuring supplier performance include:

▪ **Quality**

This includes defects per million opportunities (DPMO), first pass yield (FPY), percentage of late deliveries, order accuracy, etc. Order accuracy measures how often your suppliers fill orders correctly.

Order accuracy can be calculated by correctly dividing the total number of orders filled by the total number of orders placed.

▪ **Cost**

This includes things like cost per unit (CPU), the total cost of ownership (TCO), scrap/rework costs, etc.

▪ **Delivery**

This includes measures like fill rate, on-time delivery (OTD), lead time, etc.

On-time delivery is perhaps the most important metric for assessing supplier performance. After all, if your suppliers can't deliver their goods or services on time, it will have a major impact on your business.

There are several ways to calculate on-time delivery, but one of the most common is to take the total number of shipments delivered on time divided by the total number of shipments due.

▪ **Flexibility/agility**

This includes measures like skill set diversity, ability to react quickly to changes in demand, etc.

▪ **Compliance**

This includes adhering to regulatory requirements, ethical sourcing practices, etc.

Focus most of your attention on your most strategic suppliers - those that are absolutely mission critical for the success

How To Measure Supplier Performance



Quality



Cost



Delivery



Flexibility / Agility



Technology



Compliance

Factors To Consider When Setting Goals For Suppliers

When setting goals for suppliers, it's important to consider what's realistic and achievable given their current capacity and capabilities.

Additionally, you'll want to make sure that the goals you set align with your company's overarching strategy and objectives.

Some other factors to keep in mind include the following:

- Costs/rates for products or services provided
- Supplier's available resources
- The complexity of the products or services being provided
- Supplier's financial stability
- Supplier's location
- Supplier's customer mix

Are the supplier's costs reasonable and in line with your budget?

Do you know how much you can realistically afford to spend? Is the current arrangement with the supplier going as expected as far as costs are concerned?

Have any circumstances changed on your end that mean you need to renegotiate pricing?

Does the supplier have the available resources to meet your needs? Are they financially stable enough to maintain a long-term partnership with your company?

You may run into issues if they're a new company or are having trouble scaling to meet demand.

The more complex your needs are, the higher the chance you'll have a smaller supplier pool to work with. Highly complex needs require specialization, which many suppliers won't be capable of providing.

What level of quality are you expecting from your supplier? Are you looking for the highest quality possible, or are you willing to sacrifice some quality to get a lower price?

Regardless of the circumstance when you chose to work with this supplier, are they holding up their end of the bargain as outlined in the service level agreement (SLA)?

Is your supplier meeting your deadlines effectively? If there are consistent delays in receiving products or services, this will negatively affect your operations, and ultimately your customer reputation.

What kind of customer service do you expect from your supplier? Do you need them to be available 24/7 in case of emergencies?

Do you need them to provide regular updates on the status of your project? Did the supplier clearly meet your expectations?

For projects to run smoothly, it's important that everyone involved is aware of the goals that have been set and understand their role in achieving those goals.

This is especially true when working with suppliers. By taking the time to consider all of the relevant factors, you can set clear and achievable goals for your suppliers that will help ensure the success of your project.

The more clarity you have upfront, the better off the relationships will be over the long term.

SPM, just like supplier evaluations, should be conducted regularly, to ensure that everything is running according to contracts and as expected.

5 Steps in the SPM Process

1. Define Objectives and Expectations

The first step in SPM is to define objectives and expectations for supplier performance. What goals do you hope to achieve through SPM? What specific metrics will you use to measure supplier performance? Be as specific as possible in setting these objectives and expectations.

Consider using SMART goals to help ensure everyone is on the same page. This will go a long way with risk management. If suppliers aren't

clear about what you need from them, when, and why, it can spell trouble for your initiatives before they even get off the ground.

2. **Collect Performance Data**

Once you have defined your objectives and expectations, it's time to collect data on supplier performance.

This data can come from various sources, including financial reports, customer surveys, delivery reports, quality control data, and more. Work with your suppliers to ensure that you are collecting all of the relevant data points.

Data from your procure-to-pay software like PLANERGY can help you ensure orders are accurately invoiced and received. The automated three-way matching process prevents you from paying for items you did not order or receive and supports order accuracy performance metrics.

3. **Analyze Data**

Once you have collected the data, it's time to analyze it to see how well your suppliers are performing against your established objectives and expectations.

Use tools like regression analysis, benchmarking, and cause-and-effect diagrams to help you interpret the data and identify areas for improvement.

4. **Take Action**

Once you have analyzed the data, it's time to take action based on what you've learned.

This may involve setting new expectations for supplier performance, renegotiating contracts, or terminating relationships with underperforming suppliers.

The goal is to ensure that your organization is getting the best value

possible from its supplier relationships. The sooner you can spot issues and take corrective actions, the better.

Regular supplier evaluation is vital for procurement teams. You can never be completely certain that 100% of your supply base will meet all of your expectations all the time.

As your business needs evolve and business processes change, you may outgrow your existing supplier.

As market conditions change, their performance levels may not be what they once were, meaning that, to protect your supply chain and service quality, you must find another vendor.

5. **Aim for Continuous Improvement**

SPM isn't a one-and-done task, as with many things in the procurement world. You should always focus on continuous improvement, even in your supplier relationships.

It is an ongoing journey that requires businesses to constantly evaluate their performance and identify areas where they can make improvements. Continuous improvement can be a challenge, as it requires businesses to take risks and experiment with new ideas.

However, the rewards of continuous improvement can be significant, as it can lead to increased efficiency, higher quality products and services, and improved customer satisfaction.

Steps in the Supplier Performance Management Process



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Proper Supplier Management Includes Performance Monitoring

Effective supplier management is essential for maintaining good relationships with suppliers and ensuring that they continue to meet your standards.

There are many factors to consider when measuring supplier performance, but some of the most important include quality, cost, delivery, flexibility/agility, and compliance.

When setting goals for suppliers, it's important to keep in mind what's realistic and achievable given their current capacity and capabilities.

Enhancing supplier performance requires ongoing effort and careful planning.

By taking the time to identify and track the right key performance indicators (KPIs), you'll be in a much better position to manage your suppliers effectively and drive improved performance from them over time.

What's your goal today?

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