

Vendor Management KPIs: The Best Metrics To Track and Improve Supplier Performance



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Apple founder and tech pioneer Steve Jobs once said, “Great things in business are never done by one person.

They’re done by a team of people.” For procurement professionals, the team they call on is built around not just staff, but a supply chain of vendors, all of whom have the potential to become valued allies in the pursuit of shared success.

The relationships you establish and develop with your suppliers can have a powerful impact on both your procurement function’s ability to build value for your company and your organization’s overall bottom line.

By identifying, monitoring, and adjusting vendor management key performance indicators, or KPIs, you can develop a rich, data-driven approach to supplier management, focused on high value, low risk, and strategic sourcing.

What is a Vendor KPI?

Vendor KPIs are specific metrics used to evaluate and measure the performance and effectiveness of your suppliers.

These metrics can cover various aspects, such as quality, delivery, cost, and service.

By tracking these KPIs, organizations can identify potential issues, improve efficiency, and build better relationships with their vendors.

The Importance of Vendor Management KPIs

Two of the most important ways in which procurement can support your company’s business operations are cost reductions and adding value.

Both of these benefit immensely from continuous improvement, which in turn requires awareness of how well your procurement team is utilizing its supply chain and making positive adjustments as needed.

These adjustments are part of a larger focus known as performance management.

Driven by data, performance management relies on real-time, complete, and totally transparent access to important metrics like vendor performance to guide new policies and processes that reduce human error, unnecessary costs, and risk exposure across the supply chain and procurement as a whole.

Enter KPIs.

Vendor relationships are by definition transactional, but it's not just about buying Widget X from Company Y.

A clear idea of how well a given vendor fulfills their obligations while complying with your company's legal, compliance, manufacturing, quality, and service level agreement requirements lets you quickly identify your best bets for a lean, mean supply chain—and who needs to be rehabilitated or shown the door.

How Do You Measure the Performance of a Vendor?

A vendor's performance is typically measured using quantitative and qualitative data.

Quantitative data refers to numerical information that can be measured and analyzed, such as delivery times, defect rates, and costs.

On the other hand, qualitative data includes subjective factors like responsiveness, communication quality, and adherence to industry standards.

How Can KPIs Improve Vendor Management Processes?

By tracking vendor KPIs, businesses can gain insights into their vendors' performance, identify areas for improvement, and take necessary actions to enhance efficiency.

KPIs can also help in vendor benchmarking, contract negotiations, and risk management.

Key Areas of Vendor Management

There are several key areas to consider in vendor management:

■ Key Areas of Vendor Management



Cost Management
and Profitability



Quality Control



Delivery
Performance



Service and
Support



Risk Management

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• Cost Management and Profitability

Cost management involves monitoring the total cost of doing business with a vendor. This includes product prices, delivery charges, and any other related expenses.

For example, if you are purchasing office supplies, you would consider not only the price of the items but also the cost of delivery and any taxes or fees.

Using a KPI such as Total Cost of Ownership can provide a comprehensive view of all the costs associated with a particular vendor.

It's necessary to evaluate the cost-effectiveness of any and all purchases to help you find all potential cost savings.

• Quality Control

Quality control pertains to assessing the quality of goods or services provided by the vendor.

This could involve tracking the defect rate, which is the percentage of products received that have defects.

For instance, if you receive a shipment of 100 units and 5 are defective, your defect rate would be 5%.

Regularly monitoring this KPI can help ensure you are receiving high-quality products from your vendors.

▪ **Delivery Performance**

Delivery performance involves evaluating the vendor's ability to deliver products on time and in the correct quantities.

A key KPI for this area is the on-time delivery rate, which is the percentage of orders delivered on the agreed-upon delivery date.

If a vendor consistently misses delivery dates, it could disrupt your operations and negatively impact your business.

▪ **Service and Support**

Service and support refer to the quality of customer service and after-sales support provided by the vendor.

This includes how quickly they respond to queries or issues, their willingness to provide assistance, and their overall attitude towards customer service.

Tracking a KPI like customer satisfaction rate can provide insights into the level of service provided by your vendors.

▪ **Risk Management**

Risk management involves identifying and managing potential risks associated with doing business with a vendor.

These risks could range from financial instability to non-compliance with regulatory requirements.

By tracking vendor risk management metrics, such as the vendor's financial stability or their compliance record, you can proactively manage these risks and protect your business.

Vendor Performance Management

Vendor performance management is the process of monitoring and evaluating a vendor's performance to ensure they meet or exceed their contractual obligations.

This process typically involves tracking KPIs, conducting regular reviews, and, if necessary, implementing corrective actions.

Top KPIs for Judging Supplier Performance

To properly measure vendor performance, you can look at a few different performance data metrics.

■ Top KPIs for Judging Supplier Performance



Defect Rate



Supplier Availability

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• Defect Rate

It refers to the percentage of products received from a vendor that have defects.

A high defect date can indicate problems with a vendor's manufacturing processes or quality control standards.

For instance, if you receive a batch of 1,000 widgets and find that 50 of

them are defective, the defect rate would be 5%.

Consistently high defect rates could indicate a systemic issue with the vendor's production process and might warrant a discussion about quality assurance protocols or potentially seeking an alternative vendor.

• **Supplier Availability**

Supplier availability measures the readiness or availability of a supplier to respond to your needs.

This could include their responsiveness to communication, their ability to address concerns or resolve issues promptly, and their capacity to fulfil orders at short notice.

A quick lead time may or may not always be possible.

For instance, if you have an emergency order and need to know how quickly your vendor can deliver, their response time would indicate their level of availability.

If they take too long to respond, it could disrupt your operations, indicating the need for improved communication or potentially finding a more reliable vendor.

In a scenario where you reach out to your supplier 20 times and receive a prompt response on 18 occasions, your supplier availability rate would be 90%.

Regular tracking of this KPI can help ensure your vendor relationships are reliable and capable of supporting your business needs efficiently.

Effective KPIs for Managing Vendor Relationships

Some effective KPIs for managing vendor relationships include:

Effective KPIs for Managing Vendor Relationships



Supplier Responsiveness



Contract Compliance

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• **Supplier Responsiveness**

Supplier responsiveness measures how quickly and effectively a vendor responds to your needs.

This includes their response time to inquiries, problem resolution, and their ability to adapt to changes in demand or requirements.

For example, if you send an urgent request for additional supplies and the supplier responds and fulfills your request within your required timeframe, they have demonstrated high responsiveness.

Conversely, slow responses or failure to adapt to changes can disrupt your business operations.

To measure supplier responsiveness, you might track the average response time to inquiries or the percentage of requests met within a specified timeframe.

For instance, if you send 50 inquiries and receive timely responses to 45, your supplier responsiveness rate would be 90%.

• **Contract Compliance**

Contract compliance is a critical KPI that assesses whether a vendor is meeting the terms and conditions outlined in their contract with your company.

This could include aspects such as delivery times, product quality, pricing,

and more.

For example, if your contract specifies delivery within two weeks and the vendor consistently delivers within this timeframe, they are demonstrating high contract compliance.

Failure to meet contractual obligations can lead to operational disruptions, financial losses, and strained vendor relationships.

Another thing to consider is how well the company meets their service level agreements (SLAs).

Contract management, though potentially time-consuming, is a necessary part of performance reviews.

To measure it, you could track the percentage of contractual obligations met over a given period.

If a vendor meets their obligations on 95 out of 100 occasions, their compliance rate would be 95%.

Regularly tracking this KPI can help ensure vendors are living up to their commitments and identify any potential issues early.

Common KPIs for Assessing Vendor Delivery and Quality

Common KPIs for assessing vendor delivery and quality include On-Time Delivery Rate, Order Accuracy (the percentage of orders correctly fulfilled), and Return Rate (the percentage of products returned due to defects or other issues).

Common KPIs for Assessing Vendor Delivery and Quality



On-Time
Delivery Rate



Order
Accuracy



Return Rate

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• On-Time Delivery Rate

This measures the percentage of orders that the vendor has delivered on the agreed-upon delivery date.

This metric is crucial for maintaining smooth operations and meeting customer expectations.

For example, if you place 100 orders with a supplier and 98 of those orders arrive on the agreed-upon date, the on-time delivery rate would be 98%.

Regularly tracking this KPI can help identify vendors who consistently meet their delivery commitments and those who do not.

If a vendor's on-time delivery Rate is low, it could indicate issues with their supply chain efficiency, which might necessitate intervention or even a reconsideration of the partnership.

• Order Accuracy

Order accuracy takes into account factors such as the correct quantity, product specifications, and pricing.

For instance, if you place an order for 100 units of a specific item and receive exactly that - the right item, the right quantity, and at the correct price - the order accuracy is 100%.

On the other hand, if you receive 90 correct units and 10 incorrect ones,

your order accuracy rate would be 90%.

Monitoring order accuracy helps identify issues related to miscommunication, errors in the ordering process, or problems with a vendor's fulfillment procedures.

Consistently high order accuracy indicates a reliable vendor who understands your needs and delivers correctly.

• **Return Rate**

Return rate represents the percentage of products returned to the supplier due to defects, inaccuracies, or any other valid reason.

A high Return Rate can indicate problems with product quality, order accuracy, or the vendor's understanding of your product requirements.

For example, if you order 100 widgets and have to return 5 because they are defective or not as ordered, your return rate would be 5%.

Constantly monitoring this KPI can alert you to recurring issues with a vendor's product quality or order fulfillment, potentially signaling the need for a discussion about these issues or a search for a new vendor.

Vendor Risk Management Metrics

Vendor risk management metrics involve assessing vendors' financial stability, compliance with regulatory requirements, and so on.

Vendor Risk Management Metrics



Financial Stability



Compliance with
Regulatory Requirements



Vulnerability to
External Risks

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• **Financial Stability**

Financial stability refers to a condition where the financial system - which includes financial intermediaries, markets, and infrastructures - is capable of withstanding shocks and the unraveling of financial imbalances.

This is a state wherein the financial system can consistently facilitate and enhance economic processes, absorb shocks, manage risks, and enable smooth transactions for households and businesses.

For instance, a financially stable system allows families to borrow money for purchasing homes or cars and businesses to secure funding for operations or expansion without significant disruptions.

In the context the procurement process and supplier management, it means sourcing from financial stable vendors who will be operational for years to come, so you can always count on being able to obtain your raw materials.

• **Compliance with Regulatory Requirements**

This involves adhering to rules and regulations set out by regulatory bodies that govern their industry.

Failure to comply can lead to penalties, legal consequences, and damage to a company's reputation.

Regular audits, internal controls, and a strong compliance culture are essential components of ensuring compliance.

Businesses also need to stay abreast of any changes in legislation or regulation that could impact their operations.

• **Vulnerability to External Risks**

This refers to a business's susceptibility to factors outside its control that could negatively impact its performance or survival.

These risks could include economic fluctuations, changes in market trends, geopolitical events, natural disasters, and more.

Understanding these risks and developing contingency plans to mitigate their potential impact is a crucial part of strategic planning.

Regular risk assessments can help identify potential vulnerabilities and devise strategies to protect the business against them.

Establishing Effective KPIs for Vendor Management

Organizations should identify their key business objectives to establish effective KPIs for vendor management, determine the metrics that best measure these objectives, set target values for these metrics, and regularly review and adjust the KPIs as necessary.

Why Use a Vendor Scorecard?

A vendor scorecard is a tool used to measure and track a vendor's performance against a set of predefined metrics.

It helps provide a clear and objective overview of a vendor's performance, facilitating better decision-making.

Metrics for an Effective Vendor Scorecard

An effective vendor scorecard should include metrics that reflect the key areas of vendor management, such as cost, quality, delivery performance, and service.

Examples include Total Cost of Ownership, On-Time Delivery Rate, Defect Rate, and Customer Satisfaction Rate.

Monitor Performance Metrics for Continuous Improvement

Tracking vendor KPIs is crucial for effective vendor management.

It provides valuable insights into vendor performance, facilitates better decision-making, and ultimately improves business outcomes.

Tools like PLANERGY can automate quantitative data tracking, making the process more efficient and accurate.

Remember, the key to successful vendor management and solid supplier relationships is setting clear objectives, measuring performance accurately, and using a strong vendor management system to manage all the data in one place.

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