

Keeping Score: How to Measure Supplier Performance

“Do you measure your suppliers?” If your answer is “no”, quickly implement a program and save your company some money. One of the most important aspects in dealing with suppliers is their capability to react quickly to quality issues. However, if you do not measure them on a disciplined and timely basis, your chances of making suppliers accountable for their performance are very low.

Ultimately, the goal is for continuous improvement between your company and your suppliers.

Many analysts, consultants, and software vendors have coined terms for the overall supplier management process. Some of the most common include Supplier Relationship Management (SRM), Supplier Performance Management (SPM), and Vendor Performance Management (VPM). These all have different yet similar meanings, varying from all-inclusive, collaborative and integrated supplier relationships, to simply measuring what the supplier has delivered. According to ARC Advisory Group’s Director of Supply Chain Management Research Steve Banker, “Performance Management boils down to measuring whether suppliers do what they have agreed to do. The metrics should be timely, inexpensive, and credible.”

The discussion within this paper will center on the mechanics of the measurement process, including specific examples. It will initially focus on high level supplier measurement methodologies, then dig deeper into supplier data touch

points, examine a retail case study of supplier performance implementation, and finally highlight benefits realized.

Key Supplier Measurement Methodologies

Company priorities can be evidenced by what they measure. Most companies want to develop a good business relationship with their suppliers, however many do not act like it. Their bottom line is to get the product they order and have it delivered on the date promised. What they don’t want are item substitutions, improper product or carton labeling, missing or inaccurate Advance Ship Notices (ASNs), or late deliveries. It is not until one of these undesirable events occur before companies refocus their attention back to their supplier relationship. However, a supplier management program would maximize collaboration, results and cost savings, without impacting customer satisfaction.

So, how do I measure my suppliers? Let's focus on three key areas, 1) define detailed expectations, 2) develop tracking procedures, and 3) deliver feedback to suppliers.

1. Define Detailed Expectations

Clearly define detailed expectations for your suppliers. This is normally found in the supplier routing guide, and it encompasses requirements from buyers, IT, and distribution center operations. The goal is to clearly articulate all specifications from the time a purchase order has been issued until the supplier invoice payments are completed. This includes PO/ASN EDI requirements, carrier selection and truck loading, product/carton labeling, and corresponding chargebacks. These routing guides are published as a comprehensive document, which regularly exceeds 100 pages.

2. Develop Tracking Procedures

Next, it is very important to develop tracking procedures for each ASN received by the distribution center. This process has to consistently track compliance by suppliers against the published routing guide. The standard operating procedure must then be followed consistently, recording the necessary transactional data to produce supplier KPIs. Common tools range from recording manually on receiving forms/ spreadsheets to integrated packaged software solutions.

3. Deliver Feedback to Suppliers

Lastly, deliver feedback to suppliers on a disciplined and timely basis. Always provide

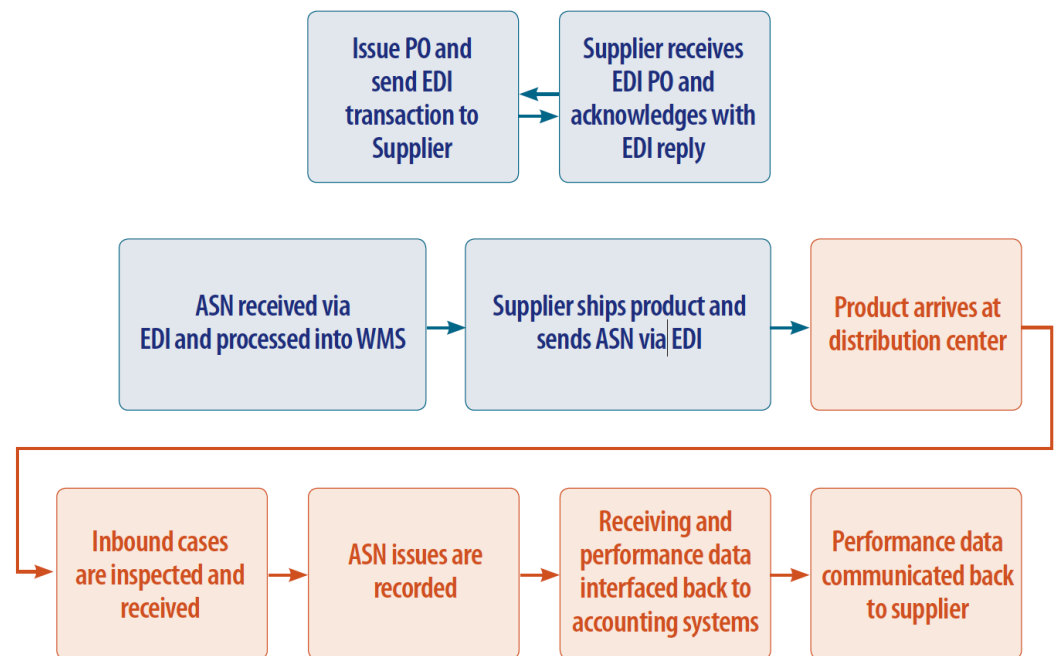
them with the measurements based upon factual data, so they can understand the issues. This same data will be used to implement the necessary chargeback systems as defined in the routing guide. The goal of this process is to work with underperforming suppliers and create the means for continuous improvement.

Supplier Data Touch Points

Since the objective is to focus on supplier measurement, actual supplier data touch points must be reviewed in more detail. The diagram below contains the overall

communication and data flow process, from the point of PO issue until the ASN receipt is complete. The key areas in accumulating supplier measurement data are highlighted by the boxes in red.

As you can see below, the data flow with suppliers can be very complex and distribution center processes are heavily dependent on the accuracy of PO and ASN data exchanged. And that is not easy, according to Banker, "When I have talked to companies that have implemented ASNs and flow through, one of the toughest hurdles was getting accurate and timely ASNs from their suppliers."



As enVista consultants working with our retail clients, we have also seen the challenges. However, when you get it right, the benefits are dramatic. I have seen retailers easily achieve 20% receiving productivity increases with some over 50% in flow through environments. Again, this is dependent on an ongoing and disciplined supplier measurement process.

The Men's Wearhouse (TMW) Supplier Performance Measurement Case Study

For most companies, much of the performance data tracking is a combination of manual and system processes. It includes the basics of receiving the inbound paperwork, conducting a visual inspection of the inbound receipt, unloading product into receipt processing, recording receipt of cases, and documenting any issues. Information is generally tracked on a paper worksheet or system form, then manipulated via spreadsheets to provide the information required.

To elaborate further, the current supplier performance measurement implementation lead by enVista at The Men's Wearhouse (TMW), describes the real world process. TMW's prior supplier performance system was very similar to the system defined in the previous paragraph above. There were many manual steps which added to the complexity of the performance transaction data tracking.

The goal of the new system was to be more tightly integrated to a newly implemented Manhattan Associates Warehouse Management System (WMS).

As part of the new WMS implementation, TMW was focused on the following supplier performance features:

- Automate their inbound case inspection process
- Utilize pre-configured supplier performance criteria
- Incorporate real-time supplier inspection rules, if necessary prompt users for specific inspection requirements
- Automatically modify supplier levels A/B/C
- Accumulate chargeback information
- Create automated supplier reporting.

Using the Manhattan Associates vendor performance module, two main decisions were required by TMW team:

1. Inspection level

Inspection levels are assigned to the TMW as Platinum(A), Gold(B), or Silver(C), which designates inspection attributes. Even though all suppliers are required to send case level ASNs, only Platinum suppliers can send cross dock ASNs. The inspection level also determines the percentage of inbound cases designated for inspection by receiving personnel. Suppliers can be promoted to a

higher level or demoted to a lower level, based upon the success or failure of the ASN audits.

2. Performance Codes

The performance codes are measurement criteria which correspond to the routing requirements. All performance codes are pre-configured to match specific measurements listed on the The Men's Wearhouse receiving worksheet, including non-compliance issues with PO/ASNs, inbound cases, BOLs, packing lists, and ticketing. The WMS allows entry of these codes by ASN, which tie back directly to the vendor performance transactions. These can determine the status of an ASN audit pass or failure.

The physical inspection process begins as the dock supervisor performs the pre-receipt review and documents corresponding issues. The ASN then proceeds to the detail receiving area where each case will be processed. As the first ASN case is initiated, the proper percentage of cases are marked for inspection. The system will automatically prompt for SKU and quantities for the first percent of cases defined by the supplier's inspection level. Any issues or discrepancies are automatically recorded with the WMS. (System functionality existed within the WMS application to prompt users for specific item and/or supplier questions, but was not initially implemented).

Upon completion of the detailed receiving process, dock personnel complete the ASN using the Quality Audit function. This evaluates the actual ASN receipt results against the expected EDI information. At this point, the supplier's ASN either passes or fails the audit. If appropriate, the supplier will automatically be promoted or demoted based upon inspection level parameters.

The final step is approval of the ASN's performance transactions. All ASN performance transactions and corresponding charge-back information is now available for processing. However, before final approval, additional transactions can be added or existing transactions can be modified to the ASN. This data is utilized for reporting purposes and automatically available for interfacing to internal accounting systems.

Benefits Realized

So what are the main take-aways about supplier performance measurement? It has been well-documented that the payback on performance management has a high level ROI at a low cost in time and dollars. A few key benefits of ASN receipt accuracy are as follows:

- Decreased ASN receipt processing time
- Decreased accounting and administration
- Factual data for communication with suppliers
- Highlights underperforming suppliers

For those companies looking at implementing a new performance measurement system, it can be as simple as a manual worksheet or as complex as an integrated software package. It may require external consulting resources to develop your program and provide assistance designing your processes. But overall, measuring supplier performance is a key component to continuous improvement. It takes internal discipline and accountability to successfully develop a strong long-term supplier relationship.

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