

THE ESSENTIAL GUIDE TO IMPLEMENTING VENDOR PERFORMANCE METRICS *in your Import Supply Chain*

INTRODUCTION

Importers strive to design their overall program to efficiently control and collect purchase order information and the cargo shipments those purchase orders become. One of the most common and persistent obstacles for maximum supply chain efficiency is the fact that suppliers and other vendors often fail to provide accurate, timely information and to keep their promises on shipping quantities and delivery dates. These imposed inefficiencies increase your office labor spend, slow your operations, limit your ability to fill orders or make sales, affect your bottom line, and frequently disappoint your hard-won customers. One of the best ways to quickly gain more control of your international business is to measure vendor performance metrics and work very hard to measure the right ones.

This paper will examine the reasons why you should measure vendor performance, what should be measured, how to evaluate your vendors, how to choose the right metric tool, and how to implement the new process in your supply chain.

Why Measure Vendor Performance?

Importers, often inundated with a multitude of logistics and compliance tasks, struggle to find the time to properly measure supplier performance. However, there are many reasons why this task is worthy of an importer's time and consideration. Establishing and effectively capturing metrics related to vendor performance allows you to:

- *Evaluate vendor performance against expected standards*
- *Enforce expected service levels through an agreed upon system*
- *Select vendors for increased future use based on past performance*
- *Adjust purchasing/procurement decisions and strategy based on accurate, germane performance data*
- *Implement and administer a penalty program based on performance*

The larger your supply chain, the stronger the reason to implement a vendor performance management program. However, many small to medium size importers find that visibility and access to this information is critical to their growth and success since suppliers play a key role in their competitive advantage.

What to Measure in Vendor Performance

Once an importer decides to measure vendor performance, the next logical step is to determine what should be measured. While this depends significantly on your company's structure and supply chain complexity, consider the following elements as you create a list of critical vendor analysis criteria:

- **Determine what matters most to your company and your supply chain.** *For some companies, shipping on time is the most critical task a supplier can fulfill. For others, it can be passing quality inspections and accuracy on shipping quantities. Reflect on what is truly critical and frame your analysis around that criteria.*
- **Make certain that you measure actions and not perceptions.** *It is not unusual for importers to go on "feel," rather than by hard data. Because it is possible for perceptions to distort reality, having good, meaningful data is essential. It will allow you to have a "reality check" on whether your perceptions of your vendor accurately match their performance.*
- **Ensure you are measuring root cause actions and not mid-stream events.** *In other words, what really matters is what causes problems or delays; it can be tempting to measure one event multiple times since all subsequent consequences of the first event are often out of scope.*

- **Identify the measurable items.** Measurable items may vary based on your industry, the products being sourced, the role of those products in your supply chain, your inventory policies, the role of the vendor, and many other potential factors; however, they will likely include:

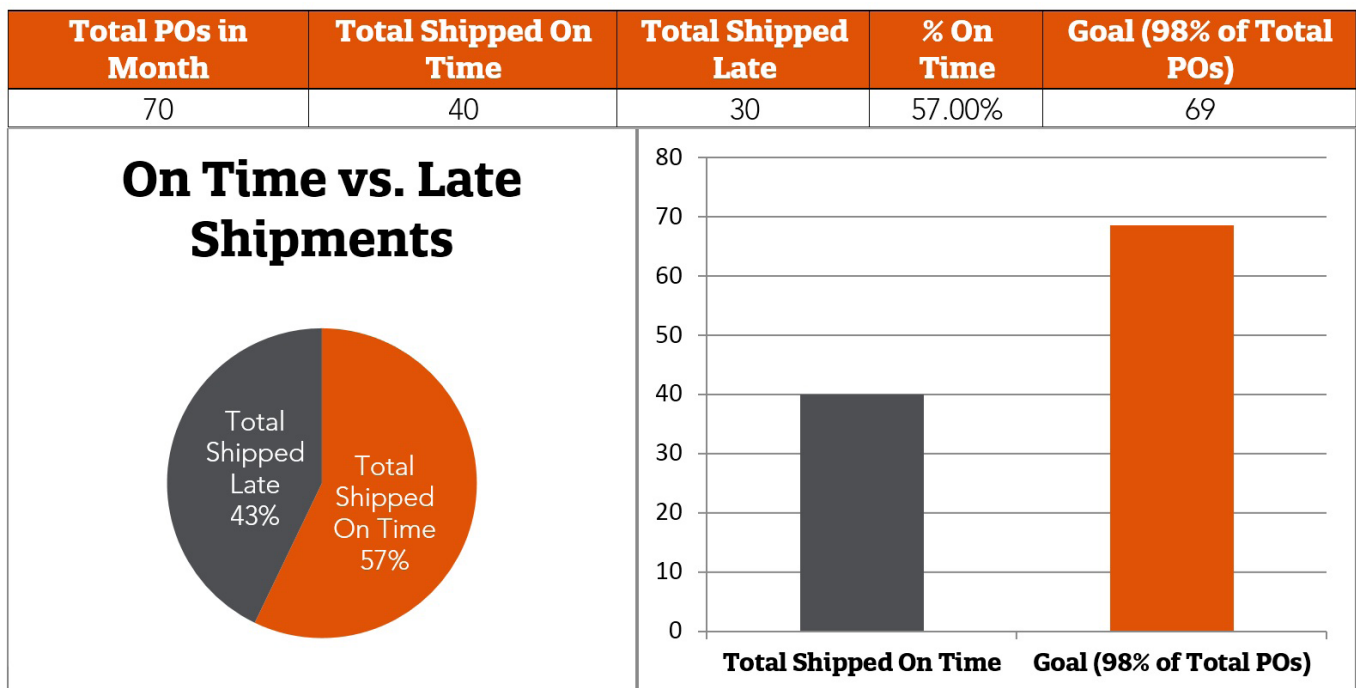
- » On-time bookings
- » On-time shipments
- » On-time arrivals
- » Quantity shipped vs. quantity ordered
- » Timely inspection compliance
- » Number of booking errors
- » Satisfactory packaging/labeling

It can be overwhelming to sift through your supply chain requirements and narrow down what truly matters for your business. Remember what Albert Einstein said, "Not everything that can be counted counts, and not everything that counts can be counted."

Defining Acceptable Vendor Performance

Once you decide to measure and have a good idea of what to measure, it is time to understand how to interpret the data and determine whether you are achieving acceptable vendor performance.

Many importers choose to design and utilize vendor report cards. Depending on what tool you use for measuring vendor performance, you might have access to this type of reporting. Here is a basic example of a report card resulting from a performance metric implementation. It measures on-time shipments and you will see that the goal is set to 98% on-time performance. This vendor only performs at 57% on time; therefore, there is clear room for improvement. The sample size in this example is small, but the impact can be quite large on even the most basic supply chain.



It is best to create a report card that can be provided to the vendor (and your purchasing people) so that they can easily see their performance against your standard expectations (and perhaps against the performance of other suppliers).

So, what is "good" and what is "bad" performance? Here are some steps to help you measure:

- **Set the target service level for each vendor metric.** *In the example above, we determined that the goal is to obtain 98% on-time performance. Once that is established, you will have a clear cut way to determine whether your vendors are meeting your expectations. A goal should be outlined for every aspect that you deem critical to the success of your supply chain.*
- **Establish what defines satisfactory performance for every measured action.** *Will success be defined as meeting the target service levels defined above? Which ones? Are your suppliers fully aware of your measuring criteria?*
- **Define your scoring system.** *In general, the easiest way to measure this is by simply analyzing a percentage of satisfactory results against total results.*
- **Tailor your targets as necessary.** *The scoring targets may vary by product line, by purchase volume, by country of origin, and by many other aspects specific to your industry and business. Please note that making different targets for different vendors could hinder your ability to compare one supplier against others in the same segment.*

Note: This is a very subjective science. While 90% on-time shipping/on-time arrival may be acceptable for some, 98% is a more sensible and realistic target for others. This is completely up to you, the importer, when evaluating your inventory keeping method, your purchasing practices, your use of the materials, and your unique sourcing realities.

The next step is to consider which elements are and which are not under your vendor's control and decide if you can build something into the model to allow for unforeseeable factors that affect overall performance.

Some examples of factors that might be outside of your vendor's control include:

- *Weather*
- *Vessels omitting ports*
- *Carrier schedule changes*
- *Automated Manifest System (AMS)/export clearance issues*
- *Import clearance delays and governmental inspections*
- *Labor strikes within the supply chain*

Choosing the Right Vendor Metric Tool

Importers have many choices when it comes to choosing the best tool for measuring vendor performance. Below are some possibilities and key questions to consider:

- *Will your own internal system allow for collection of this data?*
- *Will your staff be able to manage the actual data collection and entry?*
- *Does your logistics provider offer vendor metric scoring (and broader Purchase Order Management tools) within their system?*
- *Does your logistics provider offer data collection and supplier report cards as a core service?*
- *Will you contract with a technology company that does nothing but purchase order management (which means adding another, unrelated player into your supply chain)?*
- *Will you use your own repository or one sourced from a technology company, but manage the data collection and supplier report card features through your logistics provider?*

Implementing Vendor Metrics

Once you have selected the right tool to measure your vendor's performance, you should consider taking the following steps to ensure a successful implementation so that you can achieve a good return on your investment:

Provide training

- *Ensure all parties are trained on the process, the tools, and the reports, and be sure to include training on the system/repository itself.*

Establish written agreements/Standard Operating Procedures (SOPs)

- *SOPs should be created to address the following with your vendors:*
 - » *Performance expectations*
 - » *Initiation date for measurement implementation*
 - » *Performance review frequency*
 - » *Any penalties for sub-standard performance, if applicable*

Note: You may also want to consider including a metric review period, which allows you to capture data during a set time period to evaluate your own target levels and metric-capture logic. This allows you to perfect your plan where needed.

Get ready to implement

- *Schedule face-to-face meetings to go over all of the steps of implementation.*
- *Accept that there may be a few bumps along the way as the new process is implemented. Vendors who are now being monitored closely may resist, but help them to understand that the new system isn't about penalties; it is about creating an agile, efficient, and effective supply chain. After all, your success is their success.*

- *Understand that the SOP may require a few iterations while perfecting the process.*
- *When outsourcing, understand that work must be performed and someone will need to be compensated for performing that work.*

Conclusion:

The concepts and overall philosophy behind measuring vendor performance and creating supply chain metrics are extremely simple and clearly beneficial. However, importers must combine creativity with realism to fully ensure that all chosen measurements and metrics are the best of the possible measurable choices. This often means that the decisions you make about what not to measure or what cannot be reliably measured are as important as the final metrics you choose to drive your program. With clear and relentless communication, you'll get the buy-in and support that you need from your vendors to shape their behaviors and propel their overall performance. The good news for you is that their improved efficiencies lead to your improved efficiencies, and that will show up just where you want it...on your bottom line.

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