Suppliers determine 70% of your performance towards the customer

Usefulness and necessity of supplier assessment

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VRS BUYNAMICS

PREFACE

USEFULNESS AND NECESSITY OF SUPPLIER ASSESSMENT

Many don't realize that at least two-thirds of the performance towards one's own customers is determined by the performance of one's own suppliers. Enough reason to keep an eye on the performance of those suppliers and to correct if necessary. This task mainly lies with purchasing. In their negotiations they don't just need to set agreements on pricing but also on supply reliability, completeness, guarantees, method of supplying, R&D and numerous other technical, logistical and commercial affairs. In practice, though, many of these affairs are not named or discussed.

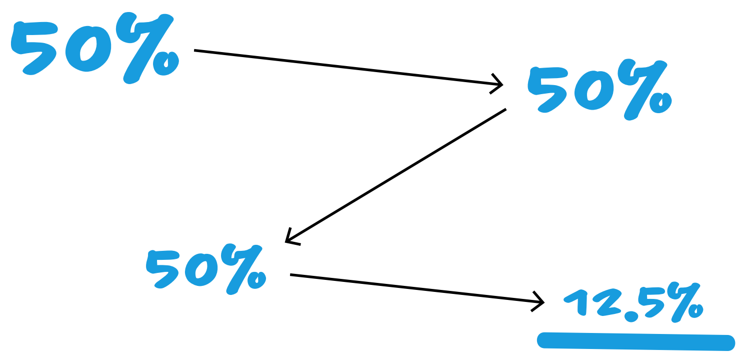
Oftentimes it is conveniently assumed that the supplier understands this and has his affairs well in order. We therefore see that a lot of information is lost in the communication between various departments, in particular, logistics and purchasing.

We can debate the exact percentages but everyone who has worked in a commercial organization will recognize the following:

Only 50% of the issues that cause annoyance in goods receipt eventually reach purchasing. Only 50% of this is then discussed with the supplier and in only 50% of cases something will actually change. In the end this is only 12.5%! an incredible waste of time, money and energy.

In this article we consider a supplier assessment system which both has the possibility to use data from your own system, and includes a survey tool with which (mostly qualitative) questions may be asked of your own organization. Such a system generates report scores, that can be compared to one another.

Supplier assessment is not only a fantastic tool to keep suppliers on their toes and have them perform better, but it also appears to be a highly effective tool to start a substantive conversation based on facts, about improving processes and performance. In short, supplier assessment is a very effective internal communication tool as well.



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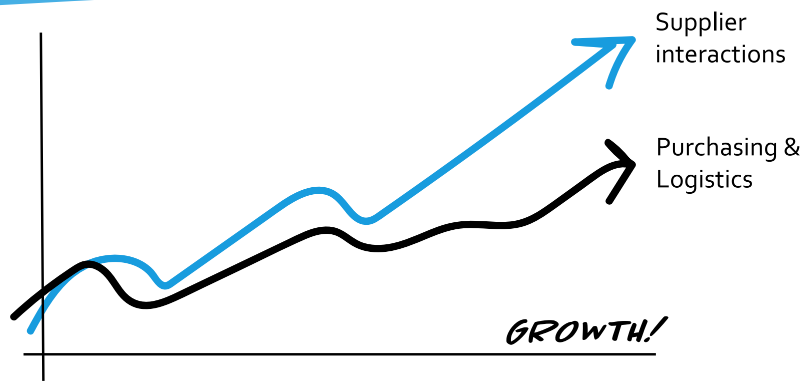
Supplier assessment: what is my own role in the performance of my suppliers?

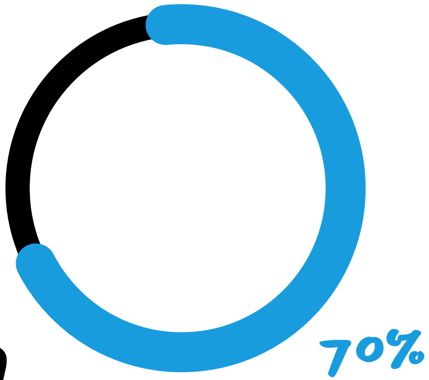
Assessing suppliers can be especially useful and effective. Though it is important that you do this wisely and avoid a few pitfalls. In this chapter we consider

- Usefulness of supplier assessment,
- How you can present the results to your supplier,
- The quality of your own data, but above all:
- Which role you actually play in the performance of your supplier.

Why would you assess suppliers?

Organizations tend to keep growing. Whether through organic growth, or through fusions or takeovers. This does not only apply to one's own organization but also to the suppliers. (Purchasing) assortments grow as well. If at first we only had a white and a black version, now it's also available in blue, yellow and purple, with or without adhesive strip, packaged per 5, 10, 50 or 100.



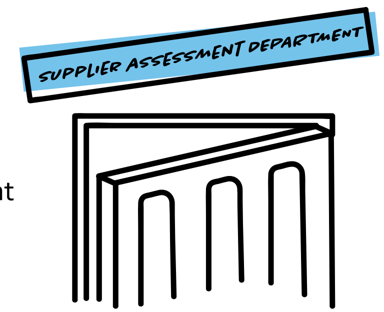


Performance affected by suppliers

However, stocks should remain small, delivery times shorter, so one should order more often. If you pile all these developments together, you see the amount of transactions and interactions with suppliers increase drastically. With that the chance of something going wrong also increases proportionally. If you have ten suppliers this is still manageable, but with over 100 it quickly becomes unclear. Furthermore, people often don't realize that, on average, 70% of ones own performance towards the increasingly critical customer, is determined by the performance of the suppliers.

Funnily enough the purchasing department and logistics department usually **don't** grow at the same speed as the amount of supplier interactions. You just have to be more efficient. Of course you can't respond to every incident but if you don't pay attention for just a moment, your position changes to Head Putting Out Fires. "...And again I haven't been able to do what I planned for today ...". A good way to face this, is an automated supplier assessment system. It nicely shows at which points it goes well with which suppliers, and where improvement is needed. And if you're able to smart feed the system with existing IT data, such a system requires little to no maintenance.

It's as if the department has an extra staff member that does nothing but follow and map the behavior of suppliers. The department gains in efficiency and effectivity.



I have results, now what?

A supplier assessment system is great, and having such data and results available is even better, but how you use it is a completely different story. In the next chapter it is addressed what you can do with the results of a supplier assessment system, but first the way you present these results to your supplier is discussed here. Before you do this, you should naturally be aware of the power balance between you and the supplier. If you order three screws and a bolt per year, your reports obviously won't impress much. But if you decide to present these to your supplier, you can do this in many ways. Examples of this vary from "I don't trust our own data so we only use the system internally" to "You scored a 5, that's insufficient, so we're ending the relation".

"I don't trust our own data"

In large organizations with a lot of employees and large systems, the data is never perfect. Where people work, mistakes are made. This is the case for nearly everyone. Yes, in the data it can occur that goods are delivered before they're ordered. Or that an order is placed on 1-1-1900.

Is that bad?
Is that a reason not to share the data and results with your supplier?

It often isn't necessary to be reserved here. There are 3 reasons for this:

1. As long as **the 'inconsistent' data is less than 10%**, not much is happening. From the 90% that is good, you can distill a lot. And the data that you do work with, has been cleaned up for a large part. On top of that, a good supplier assessment system can correct of filter the errors and is subsequently able to consistently increase the data quality.

2. Good, we know that the data isn't perfect and that there are errors. But these errors are consistently applied. In the end it's not so much about the absolute number (you scored a 5) but about the movement (you've gone up from a 5 to a 6, and that's an improvement of 20%).

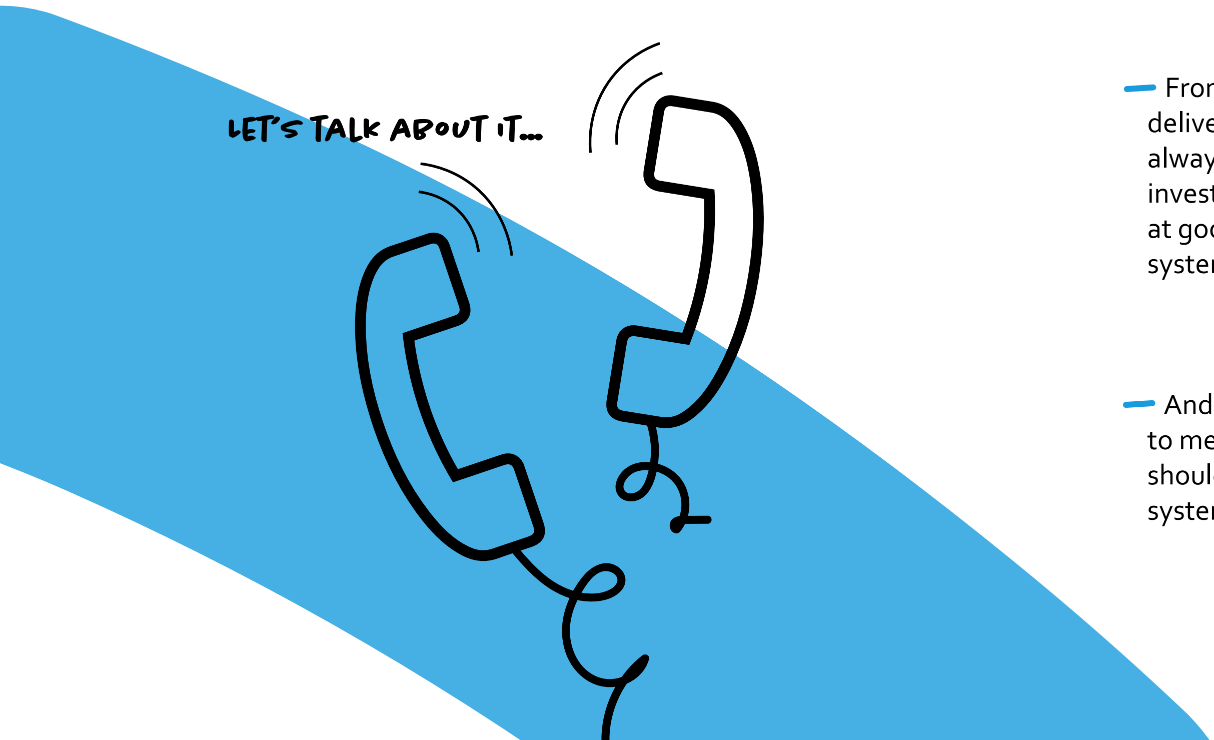
3. Thirdly it's possible with a good supplier assessment system to measure certain matters without judging the supplier on these.

***Example**: you can easily create an assessment criterion 'does the supplier confirm my orders (yes/no)'. But you also know that, if it's very busy, not all confirmations that come in on one day, are actually entered into the IT system. The supplier then scores badly, even though he does honestly confirm every time. In a good supplier assessment system you can then choose to give the score for 'confirmed or not' a weighting of 0. It is still measured, but the total score of the supplier is not affected by it. However, this measuring method does provide a lot of insight. And if the quality improves after some time, you can attach a weighting to it. Without supplier assessment this insight and the improvement probably wouldn't have been achieved.*

You're fired!

The other extreme, where you present results of the supplier assessment system as the only truth, also isn't good. It will nearly always lead to a discussion where the supplier claims to have completely different numbers. That's very logical because the chance he's assessing his performance in the same way, is practically zero.

Discussing the scores should be the start of a dialogue, not of a do-it-yourself trial. In such a dialogue it will probably become apparent that the supplier isn't the only one with shortcomings. That's not a problem at all, because at least now you're working together to improve the performance.



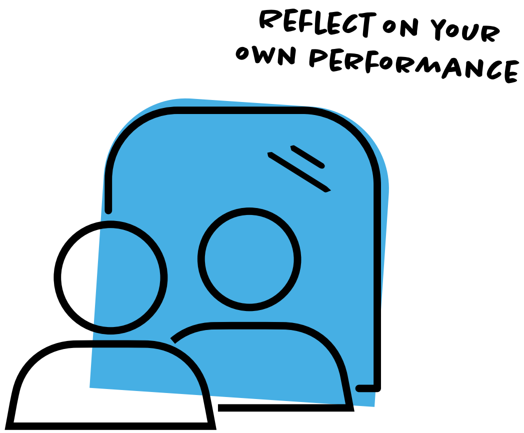
It turns out we sometimes make mistakes as well!
Here are some examples:

- The supplier has recently given off a standard delivery time of three weeks. Why does the IT system still show the old standard delivery time of two weeks? This is what the stock is attuned to (too low) and what the planning of the orders is determined by (too small and too short).

- The supplier has given off a standard delivery time of three weeks. Why does every order say that it should be delivered tomorrow? No wonder the supplier is scoring so low on 'delivery reliability/accuracy'.

- From your own numbers it appears that the supplier is structurally delivering too late. On the other hand, the supplier says delivery always happens exactly on the requested day. After some investigative work it turns out the goods are always collecting dust at goods receipt for a few days before being processed in the system.

- And the previously mentioned order confirmations. If you're going to measure whether the supplier is consistently sending these, you should be sure that the majority is actually registered in your own IT system.



The previously-mentioned four examples can be measured with a good supplier assessment system, and are therefore easy to solve. **Don't just measure the behavior of your supplier, but definitely your own as well**:

- Measure the difference between the standard delivery date and the actual one. If there is a substantial difference between them, it's time to agree on a different standard delivery time.

- Measure the difference between the standard delivery date and the requested delivery date. If there is a substantial difference between them, it's time to have a good conversation with the buyers. Which reasons do they give to not have to stick to the standard delivery time? Or are they just undisciplined?

- Some organizations manage to record the moment of arrival and the moment of processing for the goods. If this is the case, see how large the difference is and how long goods are left at goods receipt on average. A solution could be to increase the amount of staff at this department or, more easily, to be a little more accommodating in the assessment: for example, everything that's delivered up to two days too late, still receives the maximum score of 10 points. With this you camouflage/compensate your own shortcomings.

- Find out what percentage of all order confirmations does not end up in the IT system on average. If it's more than 40%, you should consider not measuring this element at all. But even in that situation you can still look at the quality of the confirmation and the amount of confirmations per order. Because a supplier who sends a new confirmation every day, will do you no good. Is the percentage between 10% and 40%? Then you can consider, as explained above, measuring it but not weighting it.

To conclude...

Transparency

The previously mentioned proves that it actually is impossible to assess suppliers without also looking at one's own behavior. Purchasers usually don't like too many supplier changes and in principle strive towards long-term cooperation. These are only able to develop through mutual understanding and respect. If you want to use a supplier assessment system in a good and useful way, you can't escape measuring and especially sharing your own performance.

In the long term your transparency will lead to significant improvements of your own quality. On one hand, because it forces you to take a closer look at your own performance and make improvements, on the other hand, because the quality of the supplier improves, which will automatically improve the performance towards one's own customer.

Supplier rating: what's the benefit, what can you do with it.

Most purchasers will understand that assessing suppliers can be useful. But not everybody knows all the things you can use your supplier assessment for and what effects this will have.

In the last chapter we've addressed your own role in the performance of the supplier, and the development that causes supplier assessment to be necessary and used more often: the growth of the amount of transactions and interactions with suppliers often does not keep pace with the growth of the purchasing department. Supplier assessment can therefore help to improve efficiency.

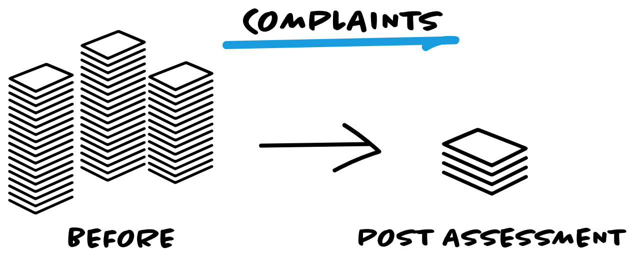
But where in the organization will you find these benefits? And what effects will occur?

Top 10 - Main Victory Points

1 More Efficient

"Those guys at Fluff Ltd. have again disorderly delivered all the goods", says the head of goods receipt. "And Wringer GmbH has again sent us a set of wrong invoices", states the administration.

Like that, such reports trickle in at purchasing all day, week after week. Not one purchaser still knows all reports, big and small, when the supplier comes in for a talk. Usually the complaints of the loud-yellers stick the longest, but a lot of small distress has been forgotten after a few days.

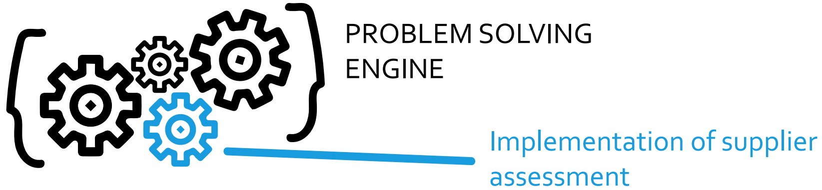


For an optimal cooperation between customer and supplier it is important that the supplier is well aware of the wishes and demands of the customer. This isn't always easy for the supplier because so many customers, so many wishes. To make sure he sticks to the agreements it is important that he is regularly held accountable for the things that go wrong.

Now you could hire someone who sprints through the organization all day and writes down all behaviors and mistakes on a clipboard, but a good automated supplier assessment system does this a lot more efficiently (and is cheaper). Besides, this saves the purchaser the trouble of gathering information himself from all nooks, crannies, systems and departments, while the supplier is already waiting at the reception.

But the biggest efficiency improvement is already made by telling your suppliers that they will be assessed. And by sharing these assessments regularly, you will see that many suppliers will start walking more upright by themselves, before you have even looked at the numbers. For example, if goods are scarce, and people know that the suppliers will be assessed at a customer, in three out of four cases they will choose to service the assessing customer first.

2 More Effective



The purchaser will also become considerably more effective with a correctly set up system for supplier assessment, and for two reasons:

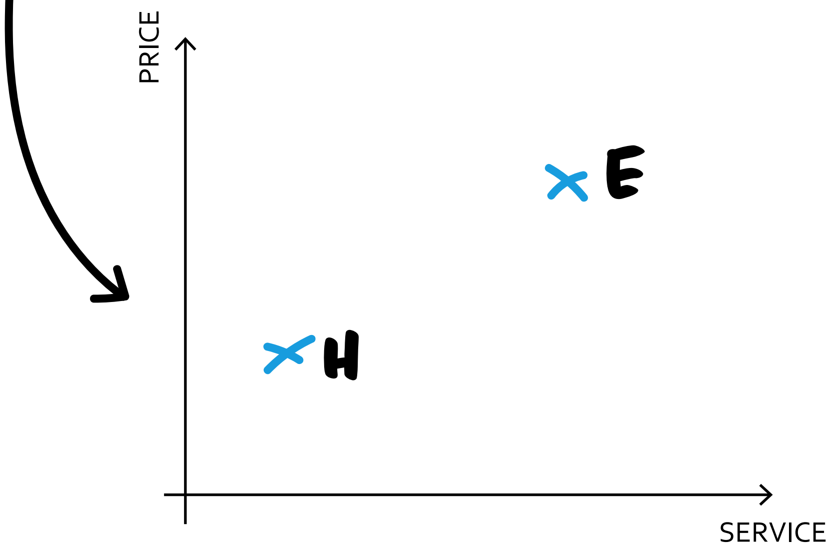
- You get to see exactly where it goes wrong for every supplier. With supplier ABC I have to discuss bad order confirmations, and with XYZ, bad paperwork for the shipments.

- Besides that, you can also see if it's bad that they are making these mistakes. You provide the topics in the system with weightings and then you can see exactly which problems weigh the heaviest, and therefore have to be solved first.

3 Buy from the best, reduce hassle

It becomes interesting if you have multiple suppliers within a product or service group. Put them below each other and compare them. With a good supplier assessment system that is relatively easy to do. Wouldn't we do ourselves a huge favor if we bought a little less from the Hopeless firm with a score of 4, and more from the Excellent firm with an 8?

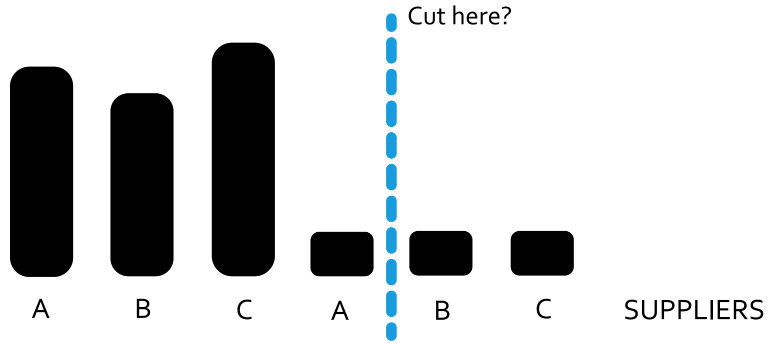
Yes, but the Hopeless firm is nice and cheap. That's correct but if price is only one of the assessment criteria, and the weightings are entered correctly, it will soon become apparent that a low price doesn't outweigh all the problems that Hopeless is causing. The result is that from now on, one's own organization is less burdened with putting out fires.



Reconsider your Pros and Cons for a lower price point

4 Reduction of suppliers

Just about every organization has one: a huge tail of small suppliers. Most purchasers therefore aim to shorten the tail quite a lot. Small suppliers cause scattered purchasing power, and mainly require a lot of time. With a supplier assessment system you can get insights about whether there is malpractice, and in what way.



Because malpractice is the rule rather than the exception: they are only a small supplier but conversely, you're often a small, uninteresting customer. Small customers usually don't get the same attention and love as larger customers, which also shows from the report scores. And with these in hand you could possibly convince others in the organization, like purchasing and production, that it would really be better to say goodbye to Example Ltd.

5 Decrease error costs

A huge victory point would be the decreased error costs. Literally, because error costs are often underestimated. In this context we are only talking about errors caused by the supplier. The cost:

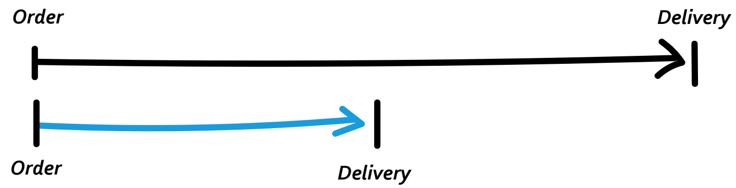
Receipt

Correcting an incorrect invoice:	50 €
Wrongly stacked pallet:	35 €
Missing packing slip:	35 €
Goods without particulars:	40 €
Total:	***...160 €***

But on top of that, think of...
extra phone traffic because of incorrect delivery times and order confirmations, not digitally provided information, shortcomings, not registering the shipment, damaged goods or packaging, bad pallets, return shipments, interrupted production, missed revenue, excessive safety stocks, etc., etc.

A supplier assessment system will not make these errors disappear, but has been estimated to decrease these with at least 10%. Just that makes investing in supplier assessment a no brainer. Threatening to recover the costs from the supplier does work wonders, by the way. Of course, only in the hopeless cases you will actually charge a fine.

6 Decrease stock and increase service level



By far the most important reason for purchasers and logistics personnel to start with supplier assessment, is the wish to measure delivery reliability. Does the supplier actually deliver on the day/time that I've requested and is the shipment complete? If not, I want something in my hands to show him that he's making a mess and that he needs to start delivering more accurately. That usually works perfectly. It actually works so well that delivery times become more reliable, which allows safety stocks to go down, standard delivery times to shorten and the level of service to increase. And less stock releases working capital and warehouse space.

7 ISO

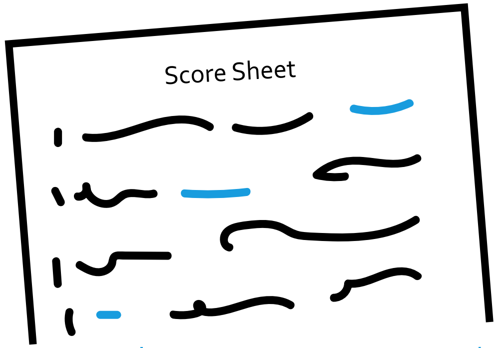
Many organizations have committed to a ISO norm. One of the requirements is having a system that allows them to notice, improve and recheck errors by suppliers. It is a rule rather than an exception for people in a company with such an ISO certification, to reluctantly admit that the supplier assessment is filled in quickly on the day before the audit, and then only for a few suppliers.

Once the audit is over, the assessments disappear into a drawer, until the next audit. An indescribable waste of all spent time and effort. One could have used these for something useful, like setting up a real supplier assessment system that automatically feeds itself with data.

8 Negotiations

Besides a tool to improve quality, a supplier assessment system is an argument machine. Arguments that one can use in the negotiations. The power balance usually bends heavily towards the side of the supplier. He knows his product and often markets much better than the purchaser, who has to purchase a variety of goods and services.

If he's lucky, the supplier has competitors with competing quotes, but especially with brand suppliers it's always difficult to negotiate without valid arguments. Of course you should first think about which information you can use with whom, but setting a report on the table always yields something.



"Listen, you're currently scoring a 5 on average with us. On January 1st that really has to be at least a 7. And if you can't do that, I will still get a 2% discount from you, because of all the error costs and annoyances you are causing us." And a modern purchaser will add to that: "And if you can manage to bring that up to a 9, you can increase the prices with 2%. That is an extremely good deal for us."

9 Purchasing performance measurement

Measuring your own purchase performance was regarded as something impossible for a long time. A purchaser who returns to the office with an additional 5% discount is usually welcomed with applause. But perhaps his coworker would have been able to earn a 10% discount with his eyes closed. Perhaps the resources have dropped enough that a 5% discount really is laughable. Or a purchaser who comes home with a 5% price increase could have performed excellently; as it happens, the supplier originally asked for a reasonable 30%.

Without a reference point it's very difficult to compare. With supplier assessment it nevertheless does become possible to follow the performance of one's own purchasers and the entire team. And now concrete, measurable goals for the future can be set. How exactly this works, is extensively discussed in chapter 5: 'Purchase performance measurement much simpler than expected'.

With this measurable performance in hand, it suddenly also becomes possible for purchasing to prove the added value of purchasing internally. You see, not everyone in the organization is always convinced of this. Supplier assessment also proves to be perfectly usable in assessment interviews, by both sides, for that matter.

ONE LAST ONE

10 The Buyer's Paradise

A last possibility of supplier assessment is the purchasing Valhalla (or purchasing paradise). How do you get there? Is it reachable for everyone? Unfortunately only for a few, as will be revealed below. Assume that you have multiple suppliers in a product or service group, and that these are relatively interchangeable. Also assume that you wouldn't mind to have a few less. Put these suppliers below each other, from best to worst, put them in a letter, whether or not anonymously:

TO: SUPPLIER A, SUPPLIER C, SUPPLIER D, SUPPLIER F, ..
SUBJECT: SUPPLIER TESTING

"Dear supplier,

Regard this supplier situation in our organization. We have decided to rationalize and in six months we will be parting ways with the two bottom suppliers.

Good luck!"

SEND

This will scare the socks off the suppliers and they will be afraid to lose revenue. But at the same time they will also be interested, because there is revenue to be won. Therefore they will start doing their absolute best to get higher on this, luckily relative, list. So, in theory the purchaser can lean back while the suppliers are tumbling over one another to present one offer and optimization after another. And all of this happens without the purchaser having to beat the dead horse himself. The system will start working by itself and the supplier will auto-evolve. Market forces are the optimal form.

As stated, unfortunately only a few are lucky enough to reach the Valhalla, because you do need to meet a few requirements:

Buyer's Paradise Checklist

- It has to be a matter of a broad assessment so the suppliers are assessed on all their relevant points.
- You need, as stated before, several interchangeable suppliers in a group. Especially trading companies and retailers can find themselves in such a situation.
- The rest of the organization should also think this is a good idea and shouldn't start crying if you do end up parting ways with Fave Ltd.
- After six months you should actually part ways with the bottom two suppliers, otherwise they won't believe you again next time.
- Even if the results are phenomenal, it's very important to get coworkers and management behind your plans beforehand.

Supplier assessment: which system should I choose?

In chapter 1 we discussed your own role in the performance of the supplier. In chapter 2 we presented a top 10 of possibilities and benefits of supplier assessment. This third chapter offers a guideline for choosing a system to everyone who is planning to measure supplier performance.

Choosing the right system for supplier assessment mostly depends on three fundamental things:

- Scope and ambition
- Budget
- Maturity of the logistics and purchasing departments

> "Jim, I think our suppliers are not honoring their agreements well, resulting in complaining customers and missed revenue. At goods receipt and purchasing you're only putting out fires, instead of making better agreements. We're losing control of our suppliers and don't have a lot of options to improve them. When do you think you can have a supplier assessment system ready?"

Well, Jim didn't see that one coming. For a while he'd thought there should be a supplier assessment system, but he simply could not find the time. He was busy keeping the daily operation going. And now his boss beat him to it.

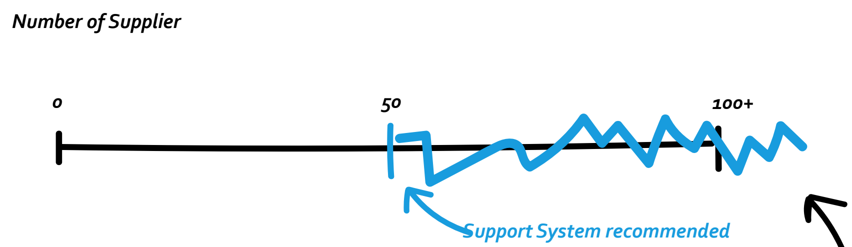
But where should he start?
In what way and in what kind of system could he best register the performance of his suppliers?

FIRST YOU NEED TO CONSIDER THE FOLLOWING

Scope and Ambition

What do you want to achieve with your supplier assessment?
If you only have one problem, for example, timely deliveries, and if you don't expect to ever have any interest in solving other problems, your system will be relatively straightforward. You could do that on the back of a coaster, so to speak.

If your ambitions reach beyond that, for example, because you want to assess multiple quality issues and/or logistic, commercial and financial issues, or simply because you want to be better prepared at supplier talks, it obviously becomes a whole other story. Luckily bigger ambitions do not necessarily make the needed investment a lot bigger. The invested time will also increase, but definitely not directly proportionally.



Of course the amount of suppliers also plays a role. If you're purchasing from 30 suppliers, setting up a whole system will barely outweigh the effort. Only from 50 suppliers/€15 million in purchasing it becomes useful to be supported by a system.

Budget

It turns out that not many purchasers have access to their own budget. They will have to knock on a door one floor higher up for money. If a supplier assessment system is a wish purchasing has, then in practice it's still pretty hard to get the funds. "Oh dear Peter, you've always done that pretty well in Excel, haven't you? For now we have some other projects we have to invest in. Come back next year." A year later it turns out to still be very difficult to bring the subject up again.

It's smarter to work together with your coworker from logistics/supply chain. Usually he does have a budget. And a supplier assessment system is, in short, equally interesting for both:

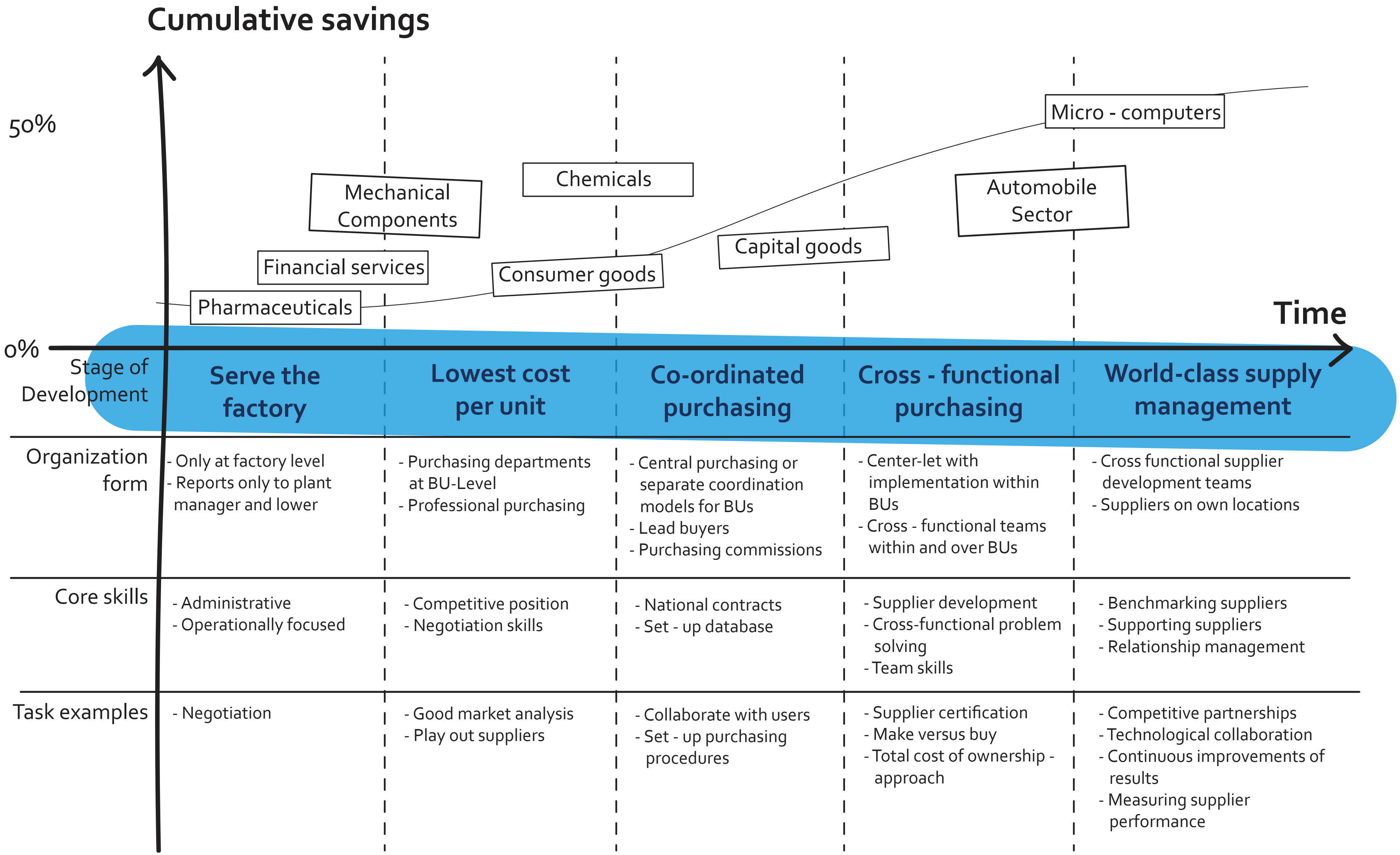
- For the purchaser to be able to negotiate improvements better, with substantiated arguments.
- For logistics to reduce process interruptions and error costs.

Maturity of the organisation

Perhaps an open door, but you can have access to a beautifully designed system with beautiful assessment criteria and ditto results, if the team is not capable enough to make use of these, it will be a waste of time and money. According to the theory the internal organization should be following the set ambitions instead of the other way around, but in practice this is pretty difficult.

Have a look at the five maturity phases in the model on the next page!!

The development model by Keough (1993) identifies five distinct maturity phases in purchasing:



Which system? Three basic choices

In choosing the setup of a supplier assessment system there are usually three possible fundamental choices:

Excel/business intelligence tool

Pros:

- Cheap to buy/often already present
- Very flexible
- Easily accessible for all users
- Surveys possible, but difficult to manage

Cons:

- Very vulnerable: often dependent on 1 builder, who is not an expert and also doesn't have to leave
- Eventually expensive in construction/maintenance
- No continuous monitoring of the suppliers
- No user-friendly interface
- Often no/flawed data link
- Data collection time consuming
- Not suitable for large numbers of suppliers and/or many assessment criteria
- Often looks like craftwork, which can undermine the message towards the supplier
- Discipline required and eventually only a limited lifespan of the system

Experience has taught that a setup in mainly Excel is not a solution. Organizations rarely gladly work with it. Without exception it bleeds out after a few years because the builder and the discipline have since left. With a BI-tool like clickview or Power BI the success rate is higher because the system can often be fed with IT data. But here the possibilities and knowledge stay limited as well, which keeps the thing very vulnerable.

Module within one's own IT/ERP-system

The larger suppliers of IT and ERP systems sometimes also offer an extra module for supplier assessment.

Pros:

- Integrated, 1 solution, 1 login
- Built by professionals, pleasant user interface and looks professional
- Suitable for large numbers of suppliers
- Small time investment/ready to use
- Continuity guaranteed

Cons:

- Extremely inflexible, only a few criteria available
- Generic and not tailored to one's own organization
- Very expensive to really customize/expand
- Solely based on IT data, no survey options
- Often many times more expensive than a separate solution, even without customizations
- No possibilities to follow one's own purchase performance

If the ambition doesn't reach much further beyond things like delivery reliability, there's more than enough budget and a simple/limited IT environment is valued, the purchase of an additional ERP module can be a solution. But amongst the real purchaser and supplier assessment enthusiasts the price/quality ratio is completely lost with such solutions.

Separate dedicated application for supplier assessment

There are also (web)solutions for supplier assessment on the market, especially built for this purpose.

Pros:

- Built by professionals, continuity guaranteed and looks professional, towards suppliers as well
- More flexible than an ERP module; the good systems can be designed completely according to one's own needs and taste
- Cheaper than an ERP module: prices start at ca. €6000 per year
- Set up 1 time, then forget about it
- Based on IT data and/or opinions of employees by means of survey options
- Analysis options show the state and movements of the suppliers and alerts inform the user if a supplier messes up
- Following one's own purchase performance is possible

Cons:

- Less flexible than Excel
- More expensive than Excel
- More set-up time needed than with an ERP solution
- Extra login for the users

HEY,
EVERY SYSTEM HAS ITS PROS AND CONS - MAKE SURE YOU ALIGN THESE WITH YOUR SPECIFIC NEEDS!

Conclusion

From the previously mentioned we can conclude that, if the ambitions and scale are somewhat serious, a separate solution for supplier assessment offers the best price/quality ratio.

If you summarize the previously mentioned, the following table emerges, which can be used as a rough guideline:

			Ambition		
			Small	Medium	Large
Small budget	Maturity	Low	Excel	Excel	-
		Medium	Excel	Dedicated	Dedicated
		High	Dedicated	Dedicated	Dedicated
Medium budget	Maturity	Low	Excel	Dedicated	Dedicated
		Medium	ERP	Dedicated	Dedicated
		High	ERP	Dedicated	Dedicated
Large budget	Maturity	Low	ERP	ERP	Dedicated
		Medium	ERP	Dedicated	Dedicated
		High	ERP	Dedicated	Dedicated

Always make sure you discuss the companies goals when setting up your supplier assessment

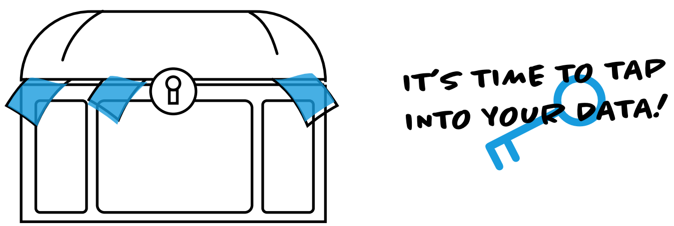
What can I deduce from my own IT data about supplier performance?

In basis it's actually pretty simple. If one can get the following seven points from the IT system, a lot can already be assessed:

- When do you have
- How much of
- What, for
- When, ordered from
- Who and
- When did
- How much arrive?

Data is the key to success for good supplier assessment

The most basic form of supplier assessment is a form on which one writes an assessment about a supplier on a few self-chosen points. However, within organizations of a certain size this is a disastrous way: too labor-intensive and therefore too infrequent, too subjective, too susceptible to errors and therefore too vulnerable in the longer term.



Untapped Data

Often it's also unnecessary. Every organization with some form of automation has purchasing data at their disposal, from which an incredible amount can be deduced. However, it's often an underestimated source of valuable information. And it is smarter to actually start with one's own data when setting up a supplier assessment system and add in subjective elements at a later time.

Most of those wanting to set up a supplier assessment system are mainly in need of measuring all sorts of affairs around the delivery time reliability and completeness. In this chapter we will initially discuss this subject. After that we will go into various other affairs you can assess a supplier on with the help of IT data.

Report scores

In the explanation below we will also make the translation into report scores. It's important to elaborate on this. There are three reasons to use report scores:

- It's very tempting to work with percentages in assessments (you deliver on the requested day 89% of the time), but it is essential to directly translate the measured results into report scores. Only then things can be compared, weighted and added up, to come to a weighted final assessment per supplier. This way you're able to compare apples and oranges (you score a 7 regarding the timely delivery, but a 3 when it comes to your paperwork for the shipment).

- Besides, 89% on-time deliveries doesn't say anything: one organization will be very happy with that but the other will see a reason to part ways with the supplier. A report score shows how much importance the company attaches to this performance.

- Everyone immediately understands a report score. The fact is that we were all raised with those. A 2 is severely insufficient, a 6 is on the edge and a 10 is fantastic.

THIS IS YOUR SCORE
IN RELATION TO OUR NEEDS

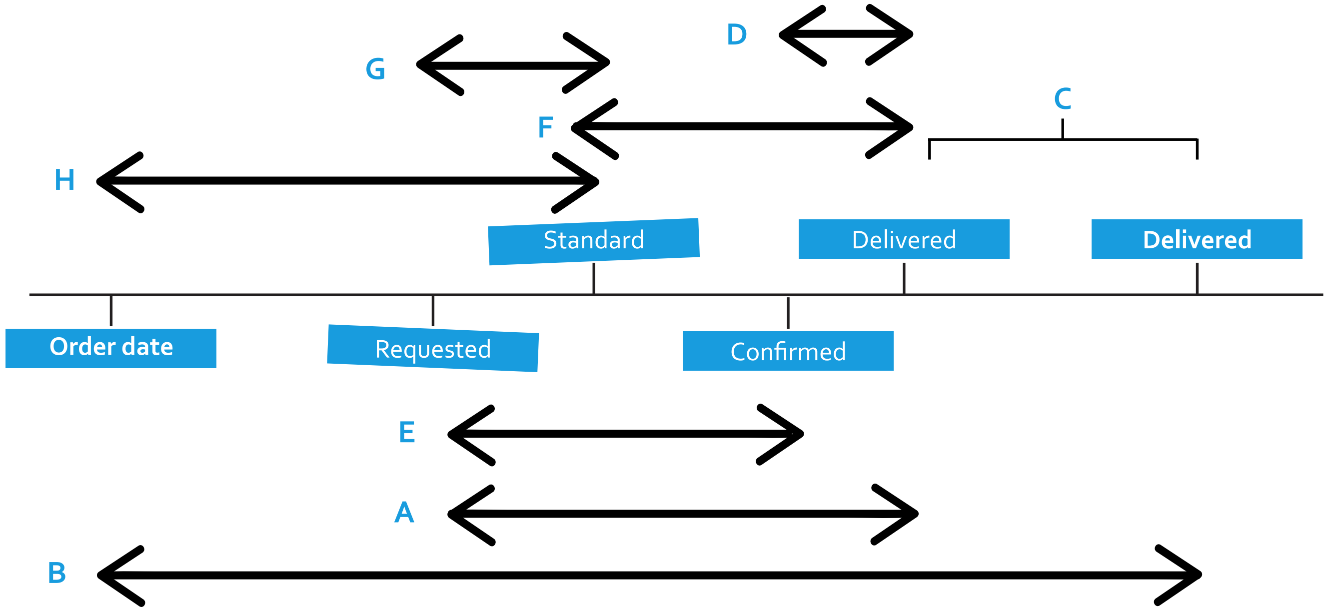
6/10

VS

THIS IS HOW OFTEN YOU
DELIVER ON TIME OVERALL

86%

The basis



With this basis ten issues can already be assessed, but six of those are really recommended. In the image above it's pointed out what kinds of things one can measure. We're basing this on an order that has to be delivered sooner than normally agreed on, and that will arrive in two shipments.

LET'S GET STARTED THEN!

A Delivery reliability

The difference between the requested date and the actual delivery date. The less someone deviates from the requested date, the higher the report score. If items remain at goods receipt every now and again, and are therefore processed later, build in some leniency.

For example, you could say that everything that's one day too early or too late, can still get 10 points. Between -two days and +two days gets an 8, between -three and +three a 6, and so on. You can also decide that everything that's delivered too early is still fine. In that case everything up to +one day results in a 10.

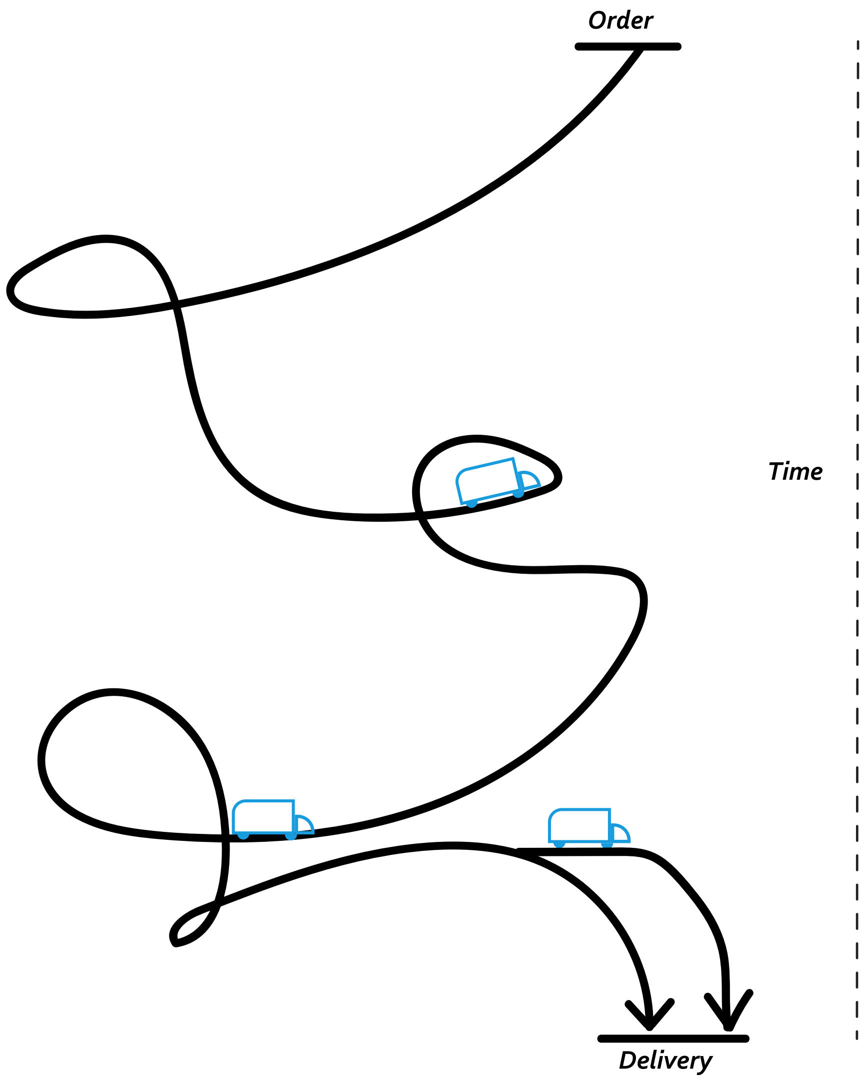
Of course it's of importance that the requested date is realistic. If a standard delivery time of three weeks applies, but you're asking to urgently deliver everything tomorrow, the supplier will get a lousy assessment. That's why it's important to also include one's own ordering discipline in the assessment. For details, also see chapter 1: 'What is my own role in the performance of my suppliers'.

B Length delivery time

The difference between order date and date of receipt. Normally you're happy with a short delivery time, so you can keep a low stock and are able to react quickly to changes in demand. For example, three days a 10, five days an 8, etc.

C Partial deliveries

Not just delivering on time is important, you also want to receive everything at once. Partial deliveries increase the receipt and error costs and can obviously lead to a supply shortage or even loss of turnover.



One can assess partial deliveries in four ways:

	Order	Order line
Completeness	What percentage of items in the order was included in the first delivery?	What percentage of items in the order line was included in the first delivery?
Amount of deliveries	How many deliveries does the supplier need to completely deliver the order?	How many deliveries does the supplier need to completely deliver the order line?

In completeness you attach 10 points to, for example, everything over 99%, 8 points over 96%, etc. In the amount of deliveries one can attach a 10 to a complete delivery, and, for example, a 4 to delivering twice, and a 0 to more than twice.

Don't: OTIF (On Time In Full)
There is a possibility to combine completeness and timeliness in one simple number. You only count the orders that are delivered completely and on time, in comparison with all orders. However, here things are being combined that should not be combined with each other. All nuance is lost. Let me give you an example:

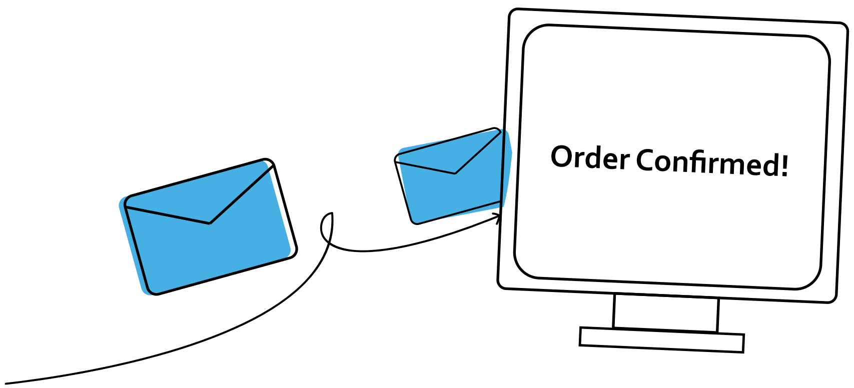
	Date requested	Amount requested	Date delivered	Amount delivered	OTIF
Supplier A	10-11-2020	100	10-11-2020	99	0
Supplier B	10-11-2020	100	30-11-2020	100	0
Supplier C	10-11-2020	100	09-11-2020	101	0
Supplier D	10-11-2020	100	10-11-2020	100	1

On the basis of OTIF Supplier A is just as bad as supplier B and C, while there is certainly a distinction to be made. I would much rather deal with supplier C than with B. By measuring timeliness and numbers separately, you can make a distinction between suppliers who are consistently a day too late or consistently 20 days. Or suppliers who deliver 99 pieces and the missing 1 the next day, and suppliers who deliver 25 pieces and the missing 75 pieces only after three weeks.

The basis + 1 : the confirmed date

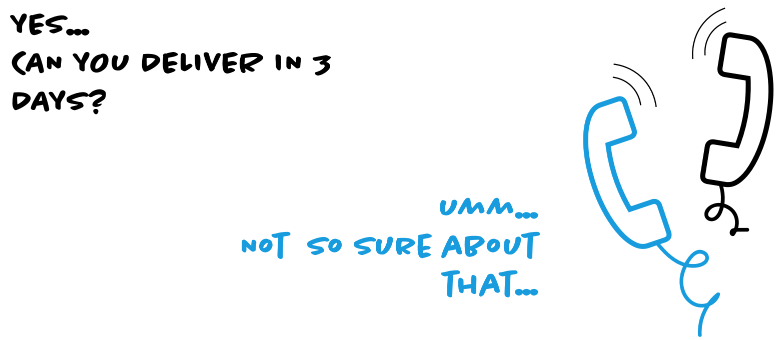
If you manage to also pull the supplier-confirmed date from the IT system, then four more assessment options emerge.

D1 Are they confirming (yes/no)?
In organizations where suppliers don’t all work with electronic messages (like EDI), order confirmations often still arrive per email. These then have to be entered into the system. Order confirmations are important to be sure that the purchase orders have been received well, accepted well, and that the goods will come on time. Measuring whether the supplier confirms the orders therefore is not an unnecessary luxury. With this you prevent surprises and gain more control over your ordering process. However, one has to be able to trust that the order confirmations are actually entered into the system. If one has doubts about that, do measure it, but don’t hold it against the supplier (weighting 0).



D2 Reliability confirmation
Besides that you can see if the order confirmation corresponds with reality: they said they would deliver on the 10th but is that true? How many days are there between the promised and actual delivery date?

D3 Amount of confirmations
If the IT system registers this, you can also look at the amount of confirmations per order. A supplier who confirms a new delivery date every day, well, that’s of no use to you. Even if the IT system doesn’t save this separately (the new confirmed date overwrites the previous date), then a good supplier assessment system can register all changes.



E Flexibility
You can also get an impression how much the supplier is able to adapt to the fickle order pattern of the customer. Do they really try to please the customer as much as possible? Because you can measure how many days are between the date requested on the (urgent) order and the date confirmed by the supplier.

The basis + 2 : standard delivery time

It becomes really interesting if the standard delivery time is also available. In good item management the standard delivery time of the supplier is also registered in the IT system. "If you order something from us you have to account for a standard delivery time of three weeks, except for our assortment 'crazy colors', we need five weeks for those". If you include this element in your assessment, it suddenly becomes possible to not only assess the supplier better but mainly your own order behavior as well.

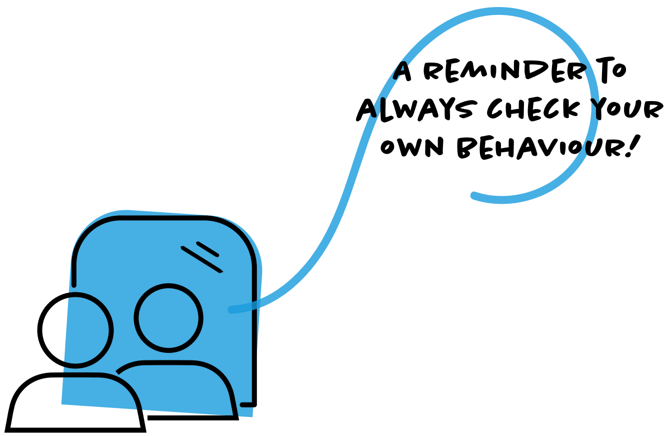
F Is the standard delivery time correct?
By looking at the amount of days difference between the standard delivery date and the actual delivery date, you will get an impression of whether the standard delivery time is correct in the system. However, there are two sides to this:

- Either one's own organization is not paying attention because they're badly maintaining the standard delivery time. Or, the updates from the supplier aren't copied, or the suppliers aren't regularly actively asked what the current standard delivery times are.

- Or it's possible that the supplier is just giving off wrong information that turns out to be incorrect in reality.

So you're stuck with the dilemma of whether you can hold the supplier accountable for incorrect standard delivery times in the system, or not. If you're of the opinion that the IT system normally contains the current standard delivery times, you can feel free to take the score on this issue into account in your assessment of the supplier.

G Are we sticking to the standard delivery time?
As stated before, suppliers often wrongfully get a bad assessment because the customer is not considering the agreed upon standard delivery time enough. There are orders that immediately have to be delivered the next day, while they've agreed on a standard three weeks. It essential that one's own behavior is also reviewed in the assessment of supplier performance. This has also been discussed extensively in chapter 1 ('What is my own role in the performance of my suppliers').



This criterion is easily measured by looking at the amount of days difference between the requested date and the agreed upon standard delivery date. Because this is an internal measurement, one should attach a weighting of 0 to this (you can't hold the supplier accountable for this).

H Length standard delivery time

It's not only possible to hold the supplier accountable for the length of his actual delivery time, but you can also assess the standard delivery time. After all, the longer the standard delivery time, the more stock usually has to be kept.

Business days/calendar days

In all criteria discussed above, we're looking at the difference in days between moment A and moment B. In this it's better to calculate in business days than in calendar days. A delivery that was requested for Friday, but isn't delivered until Monday, is then only one day too late instead of three. A good supplier assessment system can take into account not only the weekends (as an option) but also needs to offer the option to specify a list of holidays, so these aren't seen as business days.

Moreover, many of the examples listed here are on the basis of days. However, there are industries that measure the supplier reliability in hours. This doesn't make a difference for the discussion. They can simply replace the word days with hours.

Quality of data

It's often claimed that supplier assessment isn't going to work in an organization because the quality of data is insufficient. In nine out of ten cases this is more an excuse to not get to work. Also see chapter 1 for the more extensive explanation, but flawed data absolutely doesn't need to be a deal breaker.

More than delivery time alone

IT data can't just be used to assess issues around delivery time and completeness. Often there is a lot more data available that can be used to automatically assess the supplier on this, so the assessment becomes even broader. A few examples:

- Invoice differences.

This can be done in money (the differentiation related to the purchased revenue at the corresponding supplier) and/or in numbers (amount of invoices with a difference in relation to all invoices in that time frame from the corresponding supplier).

- Credits.

If it's possible to separate the credits from potential bonus or kickback payments, then it's a good assessment criterion. Here, too, one can do this in money and/or in numbers. Nine times out of ten a credit is an indication that the supplier has made a mistake. Yes, it is possible that the customer himself has made a mistake, and then it's not right to hold the supplier accountable for his flexibility. But if this 'mistake' is consistent, it's still interesting to compare the scores with other suppliers and to keep an eye on the development of the score.

- Short payments.

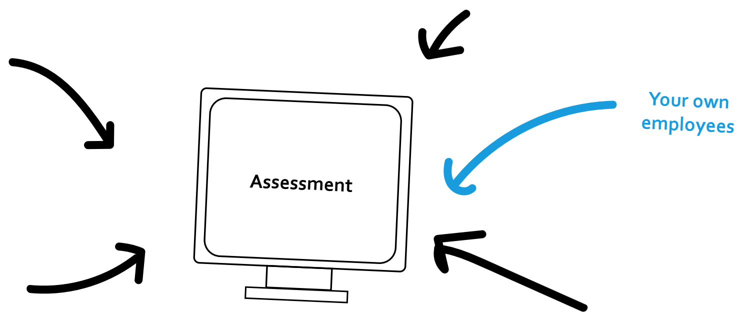
A standard element of every supplier agreement should be the payment conditions. Some organizations manage to have all suppliers comply with the same condition. However, in most cases the payment conditions are part of the negotiation palette. In the Netherlands they roughly vary from 90 days to 8 days and everything in between. A good supplier assessment system is able to convert both days and short payments into one report score, making use of an internal interest rate.

— Processing speed.
As also discussed in chapter 1, some companies don't just register the moment a shipment is delivered, but also the moment this is added to the stock. It happens regularly that goods stay at goods receipt for longer because of busyness/staff shortages. Then it's possible that a supplier is addressed on his later deliveries when in reality, it turns out the issue lies with goods receipt. By measuring the difference in days between arrival and processing, one will get a better impression of one's own performance and one can look at the performance of the supplier with more nuance.

— Margin.
Some retailers and wholesalers don't yet have much influence on the margin they can make with a lot of brand products. The manufacturer ensures a good demand from the market with his marketing, and the distributors subsequently compete each other to death. To put it in black and white, the selling price is determined by the market, the purchasing price by the manufacturer, and the trader is in between. In that case it's smart to charge the manufacturer for the height of the margin that the trader can make, and thus make it an element in the supplier assessment.

— Turnover rate.
Something similar can also be said about the turnover rate of the stock of an assortment (turnover divided by the value average stock). A high turnover rate indicates high demand from the market, combined with a small stock, which the supplier can be rewarded for in the assessment. This is a criterion that is once again relevant mainly for retailers and wholesalers.

— Turnover rate x margin.
If you really want to do it perfectly, you combine the two above-mentioned criteria. "It's okay that we're not making a lot of money off of the product because we are selling a million of it per day". Or "We're not selling a lot of it, but if we do sell some, we're making a great margin". In both examples this produces a high multi and therefore a high score in the supplier assessment.



Narrow or broad?
Assessing on the basis of IT data is not rocket science and there are applications that are able to do this for you perfectly. However, if you want a more fair, broad assessment of your suppliers, in which all kinds of other affairs are included, like logistics, finance, CSR and/or commerce, it's sensible to regularly collect these assessments from one's own employees. A good supplier assessment system can do this automatically by means of surveys.

NOW THAT WAS A LOT OF INFORMATION!

Purchase performance measurement is much simpler than expected.

This chapter will discuss the added benefit of supplier assessment - Purchase performance! By assessing internally the purchasing team can easily share their performance and show what their added value is to the company. Consider:

- Using supplier assessment for internal performance measurement
- Performance per purchaser
- It only get better
- It's a free choice
- Supplier assessment is also focused internally

Using supplier assessment for internal performance measurement

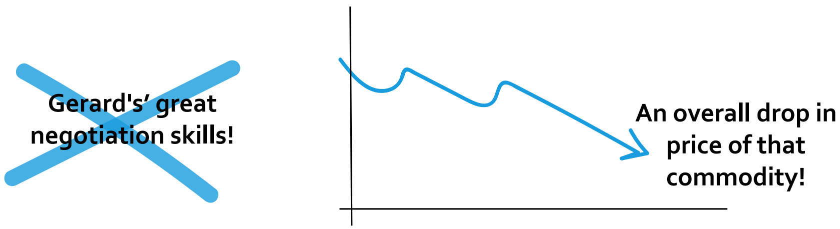
"Guys, I have great news! Next year we'll be paying 6% less for all products from Blue Eyes Ltd!"

Coworkers stare at Gerard in disbelief. That's truly a w o n d e r f u l saving that Gerard has accomplished! On a yearly basis that's as much as six hundred grand of extra profit. Gerard's boss is also very pleased with the achieved result. He therefore wouldn't be happy to see Gerard leave and thinks that he'd be able to arrange a nice bonus for him. The question, however, is if this extra appreciation is justified.

Gerard's example might sound familiar. Purchasers often have to harness all their creativity and ingenuity to convince the supplier to improve the conditions just a little more. And if they succeed, that gives a nice, warm feeling. But the question is if these pats on the back, praise and warm feelings are actually justified. Maybe they are, but we're honestly not sure.

Maybe Marie, Gerard's coworker, would've come home with a price reduction of 10%. You never know. Maybe the commodity prices were halved and a meager 6% discount isn't all that impressive. The reverse is just as true. If Gerard comes back with a price increase of 10% he can't count on much approval at the office. But perhaps he performed extremely well because the supplier initially asked for a 25% price increase.

What facilitated a 6% discount?



The big problem is that you don't know what's good and impressive because you simply don't have a reference point. You won't know you're purchasing well until you acquire a better position than your competitors with a specific supplier. Unfortunately the supplier doesn't usually share that insight with you. You could also say that you're purchasing well or better if you manage to make the margin that the supplier usually makes off you, lean more your way going forward. Only then you can say that the purchaser has improved the purchasing position of one's own company.

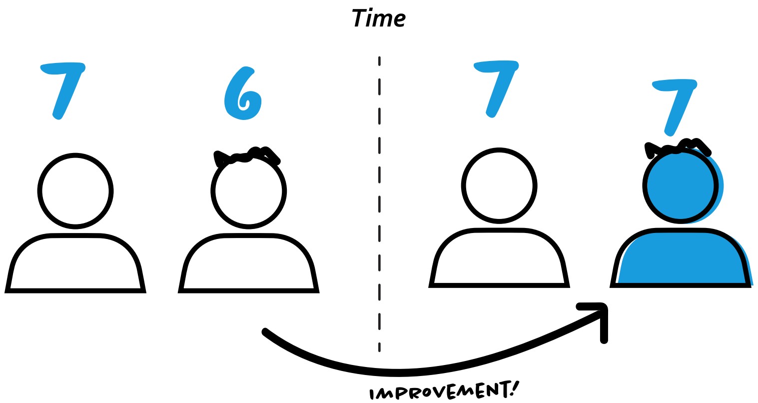
The right comparison

In the previously-mentioned example we're mainly talking about prices, but of course this also applies to other conditions in the same way: no more fees on small shipments, shorter delivery times, better supply, EDI, no more costs for packaging, longer price coverage, better marketing contribution, a project support, a good return procedure, etc., etc.

This lack of a good reference point leads to people comparing the new situation with the old by default: it's better than it used to be, so we're improving.

If you're able to set up a broad supplier assessment system (you're measuring the supplier on a variety of points with which you cover a large part of the service and price package), then you can do a lot more with it than just assess the supplier. Usually suppliers are linked to a purchaser. Then it's also possible to add up all scores of the suppliers of that purchaser and average those.

Performance per purchaser



If Gerard scores a 6 with this, it obviously doesn't say much about his performance. And the fact that Marie in the next room has a 7 also doesn't say much, because she might have a completely different purchasing package. But if Gerard manages to improve the average score of all his suppliers from a 6 to a 7, at the end of the year you can conclude quite objectively that he performed very well in purchasing. The chance his suppliers secretly agreed with each other to perform better for a year, is practically nil.

Of course this is all fun and games but if you want to put this into practice, a few conditions apply:

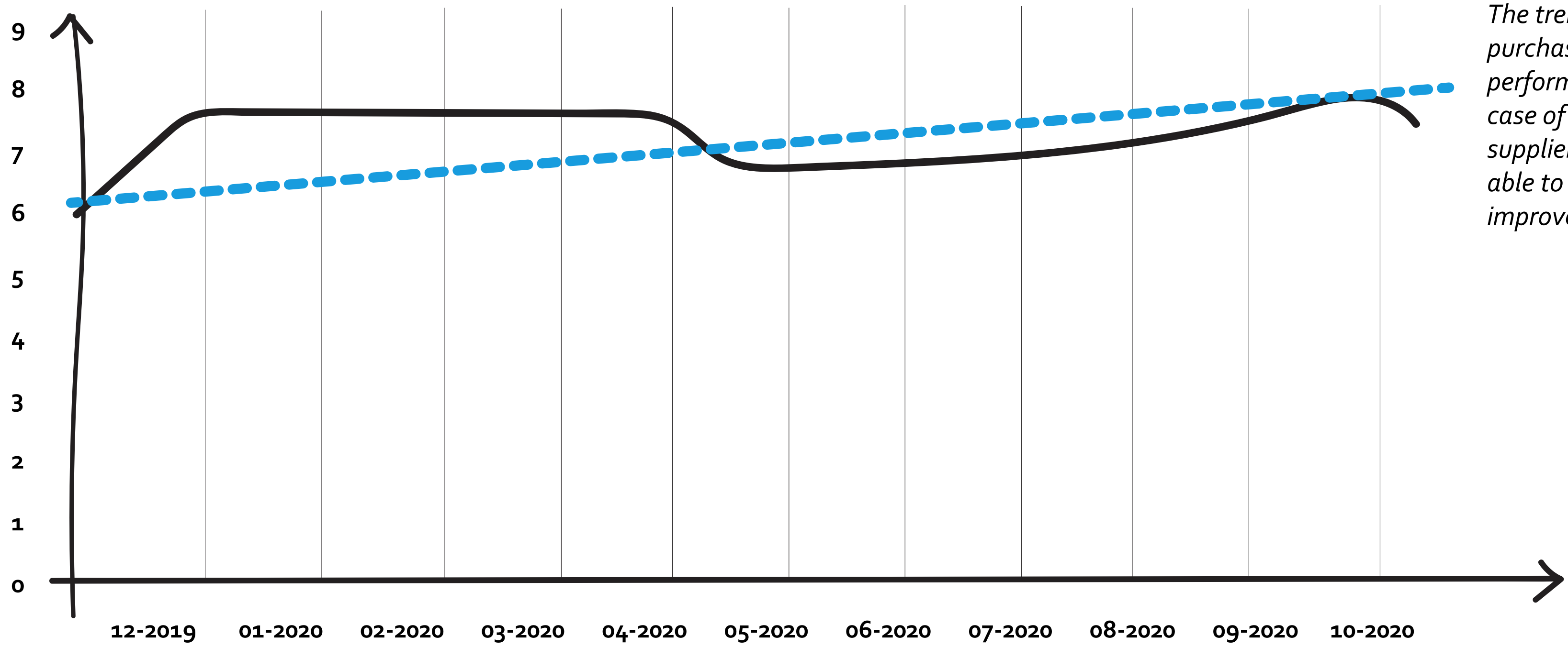
- You should set up a broad assessment in which the suppliers are assessed on multiple relevant points.
- The purchaser himself shouldn't have the possibility to manipulate the results himself. With the use of IT data that's already quite difficult. With subjective assessments by employees it's important there are at least four, preferably outside of the purchasing department.
- The results per purchaser should be shielded from others (or you're working in a very transparent organization).
- You should have consensus beforehand about the method of measuring and the use of the results.

If you manage to achieve the above mentioned, you truly have a wonderful instrument in your hands to say something about the performance of the members of your purchasing team. It's not about the absolute numbers but mainly about the movement. And if that's positive, it definitely isn't strange to attach a performance bonus to it at the end of the year.

It only gets better!

But all the good doesn't end here. Because if you can assess a purchaser, you can also assess all purchasers together. In other words, you get insight in the performance of the entire team, which is an indication of the total purchase performance of the company. And with this it becomes clear, not only for the CPO but also for others within the company, how the purchasing department is performing and what value they add. It's not unusual for purchasing to have trouble highlighting their own added value internally, and supplier assessment can help with that.

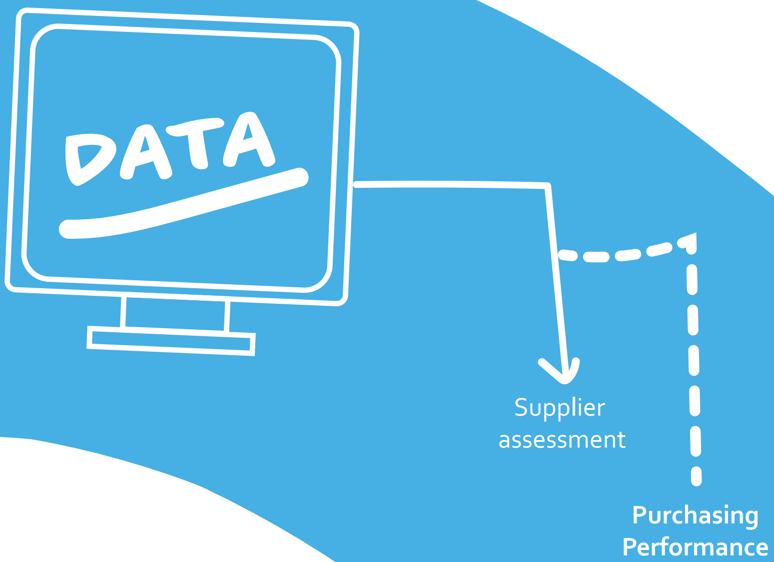
This way it's also possible to set purchasing goals (of course this also applies to individual purchasers). This can be done on the total score, but naturally on elements as well, like the delivery reliability. Now we're collectively scoring a 6.5 and we agree amongst each other that we want to be at a 7.5 at the end of the year. Subsequently you can see at every purchasing consultation or logistics consultation where the score stands, and which suppliers are trying to keep you away from this goal.



The trend of the total purchasing performance, in this case of 2512 suppliers. Are you able to consistently improve this?"

It's a free choice!

Measuring the purchase performance is a nice 'by-product' of supplier assessment. It's not the primary reason to start measuring the performance of suppliers. But if you're going to do that anyway, why not also follow one's own purchase performance? That is a choice, obviously not an obligation. And that also applies to the choice to assess individuals in this manner. If there is no need for it, or people feel uncomfortable with it, omit it. Because there is a certain 'HR' component attached to it, which should be supported by multiple parties within the organization. For this reason you can obviously also choose to only follow the collective purchase performance.



Supplier assessment is also focused internally

Purchase performance measurement based on the report scores of your suppliers is one thing. But besides that, you also have the internal criteria that you do measure, but don't hold the suppliers accountable for (weighting 0). This has been extensively discussed in chapter 1 ('What is my own role in the performance of my suppliers'). You can think of:

- Sticking to the agreed standard delivery time.
- Correctly documenting standard delivery times in the IT system.
- Quickly processing received goods in the system.

Following all these things will also give you insight into the internal performance. Furthermore, there are some systems available with which you also ask your suppliers for their opinion through automated surveys. How do they see you as a customer? This can also provide many surprising, possibly painful, insights.

Perhaps the above mentioned sounds too complicated or far sought for some. That might be true if you're considering building a system yourself. But why would you? There simply are (SaaS) packages for supplier assessment on the market that have already integrated purchase performance measurement. To really have a measurable impact on the behavior of your suppliers in this way, with minimal effort in the relatively short term.

SO...DID YOU GET ALL OF THAT?

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NEXT LEVEL NEGOTIATIONS

MORE INFORMATION ABOUT VRS AND OTHER BUYNAMICS-TOOLS CAN BE FOUND HERE ON OUR WEBSITE.

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