

## Supplier Performance Management Best Practices

*Best practices and steps to success in supplier performance management.*

Many of the eight best practices that we discuss below grow out of the C5 (connect, coordinate, check, control, and cultivate) Aberdeen operational supplier management framework, as discussed in Aberdeen Group's recent [Supplier Performance Measurement Benchmark Report](#).

**The first best practice** is open communication and data sharing between parties to make sure that everyone is on the same page.

**The second best practice** is strategic supplier selection (often known as supplier rationalization) for strategic engagements. This generally means concentrating purchases with a small set of suppliers to provide the buyer with greater leverage and fewer suppliers to proactively manage in performance and quality improvement initiatives. This does not mean single sourcing, as that is wrought with risk.

**The third best practice** is the definition of mutually agreed upon performance targets and mutually agreed upon metrics. Create joint action plans with your suppliers to meet these targets.

**The fourth best practice** is continual score carding to insure that the metrics are continuously up to date. Score carding should be done at least monthly, data tracked at a granular level by location, trade lane and product family and linked to customer facing metrics. Linking primary KPIs across processes helps supply managers understand how their metrics link up with those of their customer facing peers.

**The fifth best practice** is proactive monitoring of the supply chain on a regular basis. This is usually done by way of business process management (BPM) technology that can alert stakeholders to exceptional conditions, assign accountability, track resolution progress, and automatically update affected systems.

**The sixth best practice** is the implementation of cross-functional problem resolution consistent with overall business objectives. Considering that there is a huge opportunity cost associated with human productivity losses from resolving supplier performance problems, it is vital that problems are resolved quickly and correctly. Leading companies use pre-programmed rule-management systems to guide them through intelligent resolution strategies. These systems are updated regularly with best practices.

**The seventh best practice** is the implementation of control points at suppliers to minimize mistakes. Utilize technology to check that items and quantities on supplier's shipping documents on open order lines reflect those on the most up-to-date purchase order.

**The eighth best practice** is the use of predictive analytics and KPIs to transform supplier scorecards into forward looking risk management instruments to identify potential problems well before they materialize. Best in class firms scorecard, but leading firms are now using predictive analytics to spot inflection points and KPI correlations that identify potential capacity issues, lead time variability, quality, or supplier financial issues before they show up as a metric on a scorecard.

In Aberdeen's Supplier Performance Measurement Benchmark Report, they identified Steps to Success for laggards, average performers, and best-in-class enterprises alike. These steps were thought out, generally applicable and on-target so we will repeat them as-is and refer the reader to Aberdeen's report for additional insights.

#### **Laggard Steps to Success:**

1. Measure supplier performance constantly, and at least monthly. This is one of our eight best practices and key to continued success.
2. Improve visibility into supplier activity and inbound shipments. This will insure that your data is not only up to date but reliable.
3. Measure the downstream impact of supply disruptions. This will help you create actionable contingency plans that will minimize the cost of such disruptions when they can not be avoided.
4. Create a cross-functional review team. A key to sourcing success in general, it is especially true in supply risk management and supplier performance management.

#### **Industry Norm Steps to Success:**

1. Transform procurement and material managers into supply base developers. This is the essence of strategic sourcing best practices and improves your supplier performance management efforts across the board.
2. Implement supply chain management technology and manage supply disruptions based on business goals. This is another one of our best practices and ensures that downtime and costs associated with a disruption are kept to a minimum.
3. Insert control points at suppliers. Yet another one of our best practices, this helps catch potential mistakes that could be costly before they happen and streamlines operations.
4. Make scorecarding more granular. Good scorecards are granular scorecards and allow you to quickly zoom in on the root cause of a problem.

#### **Best in Class Next Steps:**

1. Apply statistical process control techniques. Take your processes up a notch with statistical control theory.
2. Adopt business process management technology. A best practice that allows you to catch exceptions as soon as the relevant data enters your system and stop small problems before they blossom into large problems.
3. Evolve your scorecard into a forward-looking risk management instrument. A best practice which helps you predict potential supply chain problems and take corrective action before your monitoring systems even notice a blip is the ultimate evolution of supply performance management.