



# Unit 8

## Improving Efficiency and Accuracy

### Learning Outcomes

**By the end of this unit the learner will be able to:**

- ✓ Defend your position on why a particular supplier should be selected based on an evaluation strategy

## Unit 8

# Improving Efficiency and Accuracy

## Managing Supplier Performance

### Supplier Evaluation Plans

Supplier performance evaluation systems are becoming more and more common. Many major manufacturing companies, as well as some service companies, have established formal supplier evaluation programs.

The purpose of a supplier performance evaluation has to be to both enhance the relationship between the supplier and the purchaser as well as to monitor performance. Performance evaluation can start after a contract has been awarded, although it's really a part of the selection process as well.

### Aggregate Evaluations

Typically, a three to six month average is used for aggregate evaluation of a supplier's performance. For example, with a six-month aggregate period, a supplier's rating in June would be an average of all ratings received between January and June. Using a set average that moves ahead with the contract (as opposed to repeatedly evaluating a bad month for the entire length of a contract) allows suppliers to recover from any mistakes, and also ensures that they are highly motivated to improve.

The length of your evaluation window is important and needs to be set up depending on the contract, the value of products and services you are purchasing, and the overall goals of the relationship. A very short window might be ineffective if it lets suppliers off the hook too easily, but a very long window can seem punitive and be destructive to the relationship.

### Categorical Evaluations

You can also implement a categorical evaluation plan, which is helpful if employees from various departments of the purchasing firm maintain informal reports. These departments typically include staff from supply management, engineering, operations, accounting, and quality assurance, and can also be extended to include risk management and health and safety.

### Weighted Evaluations

Alternatively, a weighted point plan (similar to the weight assignments that are used at the time of contract consideration) can be implemented. For example, quality might be weighted at 40%, service at 30%, and price at 30%. It's not all straightforward, because each of those weights needs to be assigned a measurement factor that you will draw from the contract.

Here is an example of this type of evaluation.

Weight	Factor	Formula
40%	Quality performance =	100% - Percentage of rejects
30%	Service performance =	100% - 5% for each failure
30%	Price performance =	Lowest price offered/Price actually paid

This process can be used to evaluate any supplier whose performance is important to you. Performance of competing suppliers, or if you have multiple suppliers for one particular product or service, can also be compared using this type of tool. Remember that valid performance comparisons of multiple suppliers requires that the same factors and weights get used consistently across all suppliers.

## Controlling Quality

### Quality Control

Quality control is a broad and varied specialized area. One major issue for the procurement manager is to make sure that they get full value for the price they are paying for products. All staff along the supply chain must frequently ask themselves, “Am I certain that my company is getting full value on this contract?”

There are several concepts and tools that can help you to ensure strong performance from your suppliers.

### Enforcing Quality Requirements

In most organizations that have created a formal quality program, you will find that a corrective action process is part of it. This process includes accurate documentation of quality standards, in addition to sharing that information with the supplier. It includes a root cause analysis of any issues that are ongoing so that the problem and subsequent corrections can be monitored.

### Documenting Quality Requirements

Your ability to capture appropriate documentation is essential in the quality management process. This documentation should relate to supplier conformance, incoming material inspections, supplier site visits, and proof of suppliers' qualifications or certifications related to your products and services. Usually, quality reporting is required periodically throughout the term of a contract and is part of a formal supplier review.

### Communicating Standards

Within the request for proposal and the contract, you will include a baseline point of reference that describes the expected standard for quality. These might be communicated via written specifications, standard operating procedures (SOP's), and/or key performance indicators (KPI's).

### Taking Corrective Action

Many organizations use a corrective action process whenever standards of quality are not met by their suppliers. This process is intended to document and notify the supplier of nonconformance and the necessary steps to correct the situation. The goal of using this process is to eliminate the cause of the problem and make sure it doesn't recur. It is not intended to apply punitive measures, although there most certainly can and will be consequences written in the contract for these kinds of problems.

There are seven steps recommended in this process.



## Setting and Monitoring Delivery Standards

### About Supplier Relationship Management

Contract management also calls for the use of **Supplier Relationship Management (SRM)**, which encompasses business practices as well as the software used to support these processes. SRM best practices can facilitate your relationship with the supplier community by linking you to each of your suppliers. To do this well, it requires tactically aligning variations in processes between companies by using analysis, collaboration, and jointly developing action policies that fit all parties.

Practices implemented with SRM create a common frame of reference to support effective communication between the organization and its suppliers. Results include increased efficiency, better inventory management, and improved distribution. Part of the philosophy inherent to using SRM is the discipline of continuous improvement, which focuses on innovating ongoing improvements in business and operational processes.

### Shipment Tracking

It seems to be the nature of things that supplier shipments won't always meet their required or contractual delivery dates. Sometimes this is due to human error, while other times it's due to factors beyond our control within production, transportation, miscommunication of deliverables, as well as the unexpected events that can occur in international shipment and trade.

With the technology available today, most shipping companies have automated tracking systems that can quickly provide you with the status of practically anything that has been shipped. Most of you participating in this course have quite likely used some of those tracking systems, if not through your work in procurement, then perhaps when you ordered something personally online (such as a book, a gadget, or an item of clothing).

Late or damaged shipments are a problem for you as a procurement manager. Tracking shipments that go astray can take several days or even weeks. You have to make a decision about whether to re-order the products

immediately or whether you can afford to wait for something that may or may not arrive. This is where having an excellent relationships with your suppliers is important. If a shipment goes astray and you have a good relationship with your supplier, they are likely going to work with you very closely to recover that material. They may not be as willing or able to work closely with you if you have not fostered a trusting, collaborative relationship.

## Is the Contract Breached?

A breach of contract occurs when the supplier is unable or unwilling to fulfill the terms and conditions required by your contract. If a shipment of goods somehow does not conform to the contract, the supplier has the ability to either fix the situation in a reasonable amount of time or advise the purchaser that they are unable to do so.

Depending on the regulations where you operate, in some cases when the supplier has notified the purchaser that they are unable to deliver, the buyer has an option to cancel the contract under a principle called **anticipatory breach**. There should be safeguards in the contract that protect the purchaser from a supplier breach, and to protect the supplier in the event that the purchaser refuses to pay or delays payment beyond the terms of the contract.

## Expediting Orders

Expediting is all about speed; when you expedite an order, you typically contact the supplier to accelerate the delivery of your shipment. Expediting doesn't provide any additional value to the product or service; however, it does increase the cost. Expediting is a common strategy that is often used if production is late, customers are placing rush orders, or there are backorders to fulfill.

## Creating Good Working Relationships

There is a lot of common sense to developing good relationships, although in times of tension, common sense sometimes goes out the window. Fair and consistent communication can be all you need to develop that relationship, topped up with electronic communication and in-person meetings.

When you have strong relationships with your suppliers, they are far more likely to work with you by adjusting lead times when you need something sooner, dealing with returns, and providing you with feedback that you cannot get from anyone else. When your business and its people are respected, you'll also experience fewer disputes and conflict.

## Monitoring Supplier Performance

Your expectations of a supplier in terms of performance will be outlined clearly in the general terms and conditions of a contract when purchasing goods, and in a statement of work when purchasing services. They can also be listed in a separate addendum to the contract in what's called a **service level agreement** (SLA for short). The SLA will also outline metrics, which are sometimes also called **key performance indicators** (or KPI's).

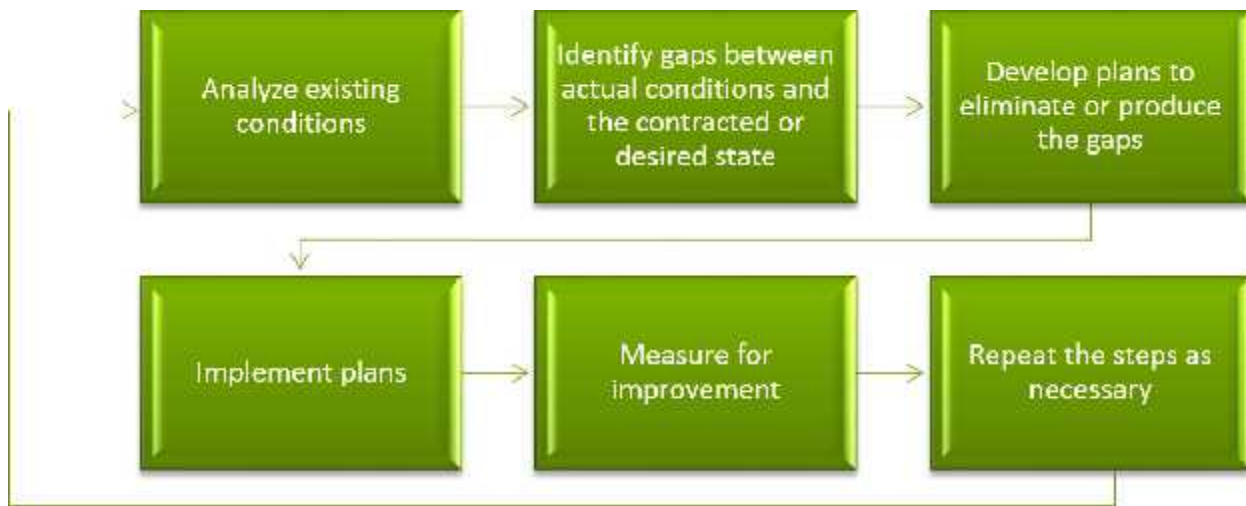
In many organizations, all supplier monitoring is automated through a software system. Through the duration of a contract, the purchaser will also monitor supplier activities, including methods such as:

- Management by exception (which uses an automated reporting system that alerts you when an exception to the required standard occurs)
- Input from internal users (which can be done through surveys or direct reporting, including interviews with users of whatever it is you're purchasing)

- Site visits (which are considered a normal practice, where purchasers will monitor activities directly at the supplier's facility to look for opportunities of added efficiency, quality improvement, and issue resolution)

## Developing Performance Improvements

The basic steps to continuous improvement, while they will vary slightly depending on your particular operation, include the following:



Note that the identification of performance gaps that have financial consequences, along with the establishment of a performance improvement plan, may not be identified in your contract or statement of work explicitly. However, as a procurement professional, remediating these gaps is most certainly an expectation of your job.

### Further Reading:

- ✓ Reinecke, Nicolas, Peter Spiller, Henrique Teixeira, and Drew Ungerman. 2014. *Procurement 20/20: Supply Entrepreneurship in a Changing World*. Wiley.
- ✓ Rogers, Stephen C. 2009. *The Supply-Based Advantage: How to Link Suppliers to Your Organization's Corporate Strategy*. AMACOM.
- ✓ Semanik, John, and Fred Sollish. 2012. *The Procurement and Supply Manager's Desk Reference (2nd Edition)*. Wiley.