

How to Build More Successful Strategic Supplier Relationships

Incorporating “Performance & Value”
metrics in supplier scorecards



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Assessing performance in strategic supplier relationships

The impact of the current economic climate has forced many enterprises to more closely scrutinize costs, performance and risks in their supplier and indirect vendor relationships. As a result, many Chief Procurement Officers (CPOs), Chief Information Officers (CIOs) and Chief Marketing Officers (CMOs) now understand they must evolve their assessments techniques beyond Contract Compliance into the area of Supplier Development to improve performance and generate greater cost-efficiencies. Supplier Development is a vastly different exercise to Contract Management.



- Contract Management refers to a process of ensuring specific operational and event-based metrics meet the prescribed levels in the legal documentation (Contract, Statement of Works/ Service Level Agreements).
- Supplier Development involves widening the assessment focus to include advanced evaluation techniques and subsequent action planning. This involves a process to identify and measure the factors which drive better performance, improve cost efficiencies and reduce risk — thereby generating competitive advantage.

Supplier Development aims to implement management techniques that **continuously optimize long-term, strategic supplier relationships**. Strategic suppliers/vendors are defined as those that provide high value, high complexity goods or services — examples being IT, Marketing, Services, etc.

Assessing these relationships requires the involvement of senior level executives who must invest a degree of time, training, and resources to increase the value of these relationships to the enterprise.

Steps assessors must take to better evaluate strategic supplier relationships

1. Segment the entire supplier base into several strata based on enterprise need, size of spend, criticality of supply, etc.
2. Develop programs that are appropriate to each of those segments.
3. Apply tools which recognize the importance of the top tier representing the most strategic set of suppliers to the organization. While smaller in number, this segment comprises the more complex, higher value suppliers where measurement scorecards must evaluate the performance, value and risk within these relationships.

High value, high complexity and high-risk

The reason that contract compliance falls short as the sole means of evaluating strategic supplier relationships is it fails to take account of important intangibles like understanding, satisfaction, trust and proactivity. To develop strategic supplier relationships it is essential that there is a shared understanding on both sides of the relationship about goals and objectives, strengths and weakness, and the priorities ahead. Conventional programs fail to measure performance in these critical areas.

Effective supplier development programs, as well as measuring contract compliance, put in place frameworks to assess satisfaction and performance in key intangible areas. Typically this is achieved using survey-style scorecards and scoring from all team members. Important features of this process include:-

- The scorecards must reflect expectations in the relationship in terms of measuring the right things and having them appropriately prioritized. Indeed, the very development of these scorecards ensures that all stakeholders get on the same page, and the supplier knows exactly where the priorities lie;
- All participants in the process get an opportunity to contribute, so opinions from all levels and all areas are canvassed;
- Comments as well as scores can be collected so management can identify the reasons for either strengths or weaknesses;
- The performance of the client organisation can be assessed as well as that of the supplier.

On this last point – assessment of the client's performance – sophisticated client organizations these days have come to realize that problems in the relationship are just as likely to stem from weaknesses within as without.

The nature of managing successful strategic supplier relationships requires both client and supplier staff to collaborate on developing ideas that will ultimately grow into innovation and proactivity. It's not simply about the supplier delivering hard tangibles to the requirements of the client. By disregarding measurement of the qualitative component in the relationship, buyers lose the ability to gain a meaningful competitive advantage.

Performance & Value oriented metrics are those which help the buying organization develop and maintain a strategic advantage against their competitors.



Why traditional supplier management tools do not include performance & value

There are two primary reasons why traditional supplier relationship management solutions do not include performance & value metrics:

- **Limited Focus** — Traditional supplier assessment solutions emphasize contract compliance, focusing on tangible criteria such as pricing, response times, labor rates and delivery schedules to measure the relationship. Since these solutions focus on the collection and administration of operational data, rather than the views of people working on the business, they do not uncover key stakeholder perceptions. Without this, enterprises have an incomplete picture of their strategic supplier relationships, making the process of identifying and correcting performance impediments more difficult.
- **Inadequate Design** — Traditional supplier management tools are unable to provide detailed analytical information via a data-warehouse that would enable both clients and suppliers to effectively track relationship-oriented information, and how it changes over time. So, any problems associated with a strategic supplier relationship might continue unabated for some length of time before they can be identified and resolved.

Trust and collaboration — two key ingredients to supplier development success

Two important ingredients in great supplier relationships are trust and collaboration. Recent research has demonstrated that greater trust leads to better performance, through greater disclosure, collaboration, alignment and mutual innovation — all of which provide a significant competitive advantage. Therefore, enabling greater trust in strategic supplier relationships becomes essential to achieve key business goals

While typically not part of a formal performance evaluation process, supplier managers should ask questions to measure the levels of trust, alignment and collaboration in their strategic supplier relationships. Such questions might include the following:

- How are our suppliers meeting our needs and expectations?
- Are they working collaboratively with us to meet our business goals?
- Are they innovating, designing new products and services to meet our current and future business requirements?
- Are they re-engineering their business systems to maximize efficiency?
- Do they understand our market and strategic business plan?
- Are their key executives pro-active, responsive and accessible?
- Are they responding to market dynamics in the way that we need them to?
- Do they seek to optimize our costs, treating our money like their own?
- Are we seeing continuous improvement of quality year on year?

Traditional supplier management solutions do not provide a formal way to deploy performance & value metrics — both qualitative and quantitative.

Growing greater trust in strategic supplier relationships is essential to achieve key business goals. Recent empirical research has established that greater trust in supplier relations leads directly to better client financial performance.

(Hanke, CPO Agenda , 2008)

Key characteristics of a successful supplier development solution

There are several features that executives should look for in a solution to enable a performance & value assessment approach:

- **Accurate assessment & scoring methodology** — an ideal solution must combine both qualitative feedback and quantitative data — and offer various means to analyze and report on that information. The process should produce an accurate overall score for each supplier which can be compared with other suppliers and tracked over time.

Assessment of the client's performance as well as that of the supplier. To state the obvious, the client sets the goals and parameters in the relationship, so it's essential that the client acts competently, responsibly and optimally.

- **Significant technological horsepower** — to improve supplier relationships, clients and suppliers alike must share information and jointly collaborate on effective result oriented strategies. This process involves generating a highly tailored and relevant assessment framework, collecting data from the right people, and then distributing shared reports to the participating parties, in order to facilitate necessary changes. This complex task requires a significant amount of technological horsepower and simple survey tools typically don't have the required functionality to address this.

- **Rapid feedback** — conducting performance assessments can be extremely frustrating for client stakeholders and suppliers, especially if they have to wait an extended period of time before they receive aggregate reports. Therefore, the ideal supplier development solution should provide a process to rapidly collect and distribute clientsupplier feedback. By closing any delay between data capture and reporting, suppliers can be engaged more quickly to improve the working partnership.

- **Flexible design** — the ideal supplier relationship management solution should have a flexible application design. This allows stakeholder to retrieve the exact information they need, in a format most useful to them and at a time when the information is most needed, in order to facilitate effective decision making for the greatest impact. In short, the solution must utilize sophisticated data warehouse technology which allows clients flexibility in the scorecard design, data capture, analysis and reporting stages.

The ideal supplier performance & relationship management solution should feature a sophisticated database to offer clients speed and flexibility in scorecard design , data capture, analysis and reporting.



Businesses must incorporate new tools to shift the focus from purely operational data to performance & value oriented information that will build greater trust and affinity between clients and suppliers.

Case Study of a Supplier Development Solution

The following case study shows how a supplier development tool is being used to evaluate the performance & value in the relationships of a global company with a key category of strategic suppliers:

In an effort to increase performance and optimize expenditures, “Enterprise X” (not their real name) decided to focus its attention specifically on improving the effectiveness of the bottom 20% of its high value, strategic supplier segment.

To accomplish this task, it turned to a supplier development solution to identify and optimize the relationships with their strategic suppliers that had critical working relationships with their various business divisions.

The enterprise’s mid-level managers collected feedback using scorecards for each strategic supplier within their assigned sub-category. The scorecards included information on each supplier’s ability to meet stated business objectives, as well as performance & value feedback collected from both business and supplier personnel regarding the status of their working relationships. The supplier development scorecards combined raw business data (including sales, supplier financials and business objectives) with performance and value related information such as:

- Rating scores from both internal and supplier employees regarding their perception of their working relationships.
- Those suppliers that had re-engineered their business systems in the past year to meet the company’s needs and the results that were achieved.
- The suppliers that had demonstrated the highest and lowest level of performance relative to their projects.
- Specific contributions made by each supplier in meeting their quality objectives during the past year.
- Financial stewardship, both in optimizing costs and improving efficiencies.

On request, scorecards from each mid-level manager were aggregated into a single sortable report that provided the executive team with the ability to rank their suppliers. This allowed their senior management team to determine those that required review, those that

required a concrete action plan to improve their performance and also the high performers that deserved recognition. The bottom 20% of suppliers (those having the lowest scores), that are unable to improve their performance scores and incorporate the recommended improvements were targeted for non-renewal of their contracts.



Concluding summary

The competitive nature of today's environment requires procurement executives to reorient their thinking regarding their strategic supplier relationships. A critical element of supplier assessments involves measuring the way people work with each other, including their perceptions of the performance & value within the relationship. Without this information, enterprises cannot conduct complete and accurate assessments of the value that their strategic suppliers contribute to the business.

Unfortunately, traditional supplier contract management solutions don't provide the capabilities needed to focus on performance & value. Businesses must incorporate these new tools to extend the focus from purely operational data to performance & value-based information in order to improve their assessment processes and build greater trust and collaboration between clients and suppliers. Once the new processes are established, enhanced supplier relationships will have a greater role in reducing costs, improving performance and meeting strategic business objectives.

Gartner Research found there are many pitfalls in building an effective supplier development program targeting strategic providers.

For example:

- The vast majority of the supplier base is not truly strategic to your organization.
- A critical success factor in maximizing supplier value is moving away from transactional, event-based behavior and toward long-term relationship management.
- Understanding your supplier drivers & motivations is key to building a better relationship.
- Supplier Development managers must carefully draft communication around issues to ensure a constructive dialogue.

Further, they recommended Supplier Development programs should:

- Present a balanced view of your suppliers within the organization, as well as in communications to the supplier — not just focusing on the negatives.
- Carefully distinguish between suppliers that purely constitute a high spend and those that have true strategic value to the organization.

Source : Avoiding the Most Common Pitfalls in Strategic Vendor Management , William R. Snyder, Gartner 10 Dec 2007

About Decideware

Decideware offers a suite of on-demand business applications designed to improve strategic supplier relationships, including a specialization in Advertising Agency & Strategic Supplier Relationship Development. In many cases Decideware takes existing processes and makes them faster, more efficient and easier to use for larger enterprise-level organizations via a web-based delivery.

The Decideware Relationship Optimizer is a purpose-built, on-demand SaaS-based (Software as a Service) software application which helps CPOs, CMOs and CIOs better evaluate and manage their strategic supplier relationships. Relationship Optimizer offers enterprise clients the unique capacity to incorporate the performance and value component in supplier performance assessments in addition to more traditional quantitative oriented metrics. For vendor management executives who desire exceptional data to support their supplier development programs, Relationship Optimizer provides timely, useful and valuable information.

In March 2008, Decideware was named as one of the Gartner “Cool Vendors in Procurement and Finance”, recognizing Decideware’s innovation in providing enterprises with a superior tool to better manage their high-value, strategic supplier segment.

“Decideware was named in the Supply & Demand Chain Executive 100 for 2008 and 2009. Richard Benyon was also named in the Supply & Demand Chain Executive Pros To Know in 2009.”

For further information about Decideware, see www.decideware.com or contact: Richard Benyon at rbenyon@decideware.com, Derek Groom at dgroom@decideware.com or sales@decideware.com.



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