



## Performance of suppliers Policy

This document is about monitoring the performance of suppliers.

### Definition

For the purposes of this practice document the term 'suppliers' includes contractors or sub-contractors for works and services as well as goods. The term 'performance monitoring' means measuring, analysing and managing a supplier's ability to comply with, and preferably exceed, their contractual obligations.

It can also be argued that monitoring the performance of suppliers can be:

- a) an aspect of supplier appraisal when the incumbent supplier is competing for the renewal of an existing contract
- b) an aspect of the management of approved supplier lists
- c) an integral part of the contract management function

### Background

It is basic good practice to know that you are getting what you contracted for. This may be as simple as confirming on time delivery of goods that conform to specifications. However, with repeat business and/or more complex service requirements it makes sense to monitor performance against contract requirements over time.

At the start of a contract there is inevitably a degree of risk and uncertainty for the parties involved. As the contract proceeds, both parties learn from experience and the risk begins to diminish as the original contract assumptions come to be tested. However, it is easy to become complacent and let slipping standards go unnoticed; therefore, there is a need for monitoring and measurement of performance against that agreed in the contract, its supporting service level descriptions and other documentation such as partnering agreements.

### Explanation

Monitoring the performance of suppliers is a key aspect of supplier monitoring (P&SM), but one which can easily be under-resourced and neglected. When performance monitoring is undertaken post-contract, the purpose is twofold:

- a) to ensure that the supplier is meeting the performance criteria, e.g. service levels and quality, laid down in the contract
- b) to identify room for improvement

Interprint believes that it is important to hold regular review meetings where both parties seek to understand how they can make the contract perform better. Meetings between buyers and suppliers should be two-way, with both parties learning from each other; the buying organisation can often improve its own performance as a result of supplier feedback.

Interprint believes that it is vital that the buyer keeps managing the supplier and deals with problems as and when they arise. For example, if a supplier begins to suffer financial strain in discharging its obligations then (commercial nature being what it is) the supplier will begin making behind-the-scenes cutbacks irrespective of what may or may not be specified in the contract. The key is to address problems when they are still minor and therefore easier to resolve. Furthermore, early warning of a supplier in financial difficulty gives the buyer time to develop alternative supply solutions.

There are many contractual relationships with suppliers where it is more important to agree joint goals (and jointly measure performance against these goals) rather than the buyer simply monitoring the supplier's performance. This type of relationship allows the supplier to monitor its own performance provided a suitable process of validation is in place. P&SM professionals should also note that this process requires transparency and, where appropriate, the sharing of business goals.

The performance monitoring process is also part of supplier relationship management. The purpose of investing in a relationship with a supplier is to improve the supplier's performance in fulfilling the needs of the buying organisation.

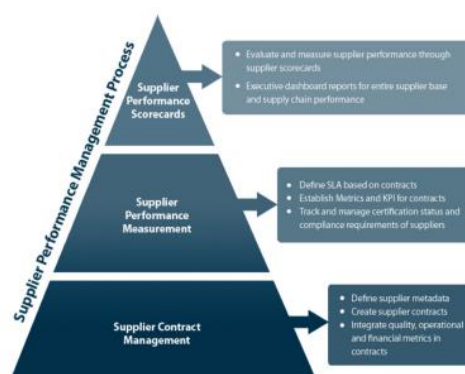
### Elements of supplier performance

There are three different aspects to the monitoring of supplier performance post-contract:

1. Gathering factual, and therefore objective, information about their performance such as lead-times from order, quality standards being met, pricing compliance and whatever else is laid out in the contract. This type of information can usually be obtained from management information. As with all of these aspects, it is good practice to be as consistent as possible in the approach to the performance monitoring.
2. Obtaining the experiences of the customers (for example, in respect of service, attitude and response rates). This should be as objective as possible, although in some cases it may, inevitably, be subjective. One way to collect information on performance is by individual interview against a defined set of questions. This can be face-to-face or on the phone but needs to be interactive so that the interviewer can explore the background when necessary. The P&SM function will have to assess the validity of any subjective remarks. Sometimes commitment is required from customers to keep records of their experiences of working with a supplier in order that objective factual data can be used. Another way is to undertake customer satisfaction surveys, which can be quite short and distributed by email.
3. The supplier's experience of working with the buying organisation must be considered in the evaluation, as it might be the case that they are facing unnecessary obstacles or dealing with difficult people.

### Assessment of supplier performance.

The diagram below shows the process and the tools that can be used at each level. Key performance indicators and service level agreements are both important elements of analysis and measurement and will be represented on the supplier performance scorecard.



There are a number of key factors which can be used to assess supplier performance and which can be used as a yardstick for determining whether good practice is being achieved in specific situations. Some examples of these 'hard' issue key performance indicators (together with their sub-categories) are:

- Product quality
- MTBF (Mean Time Between Failure)
- Percentage of incoming rejects (delivery accuracy)
- Warranty claims
- Service Quality (against agreed SLAs)
- Call-out time
- Customer service response time
- On time delivery performance against agreed delivery lead times
- Relationship/Account Management
- Accessibility and responsiveness of account management
- Costs are maintained or reduced

## **Monitoring the Performance of Suppliers**

### **Payment terms**

Good quality key performance indicators (KPIs) should be discrete, easily understood, and provide sufficient data to facilitate swift analysis of the current situation. The P&SM team should assess the relative importance of each KPI, assign numerical weighting and agree scoring guidance.

It is also advisable to be aware of the so-called 'soft' issues frequently encountered in other contexts. These include such considerations as ethical issues, sustainability issues, professional relationships, cultural fit and innovation.

Interprint believes that suppliers should always be asked to continually improve their contract performance. However, incentives are required for the supplier to reflect improvement in costs or to give more for the same price. Competition and the possible loss of the business may well be an incentive but where the supplier is aware that there is little risk of that (in a genuine sole-source situation for instance) things may be very different.

Performance monitoring can be a time-consuming task and so the effort and methods should be proportionate to the value and importance of the contract. Interprint believes that effective P&SM involves determining the appropriate methods of managing the supply base and different solutions are appropriate for different situations. For example, supplier rationalisation programmes have helped in the management of the supply base and have been particularly beneficial for monitoring suppliers, although these are not always appropriate.

The measures, objectives and targets used in monitoring the supplier's performance must reflect those that were agreed when the contract was let. That is why it is important to specify a commitment to continuous improvement at the outset. It is generally unfair to the supplier to suddenly introduce a range of measures after the contract has begun unless there is agreed contract variation framework that allows the introduction of such measures in order to meet the aspirations of the parties to the contract in terms of continuous improvement.

### **Assessing the performance of key suppliers**

Key suppliers of high value and high risk goods and services (outsourced service providers, for instance) require close performance and relationship monitoring and this are where most resources should be employed. This may well involve monthly meetings where performance is discussed,

issues resolved and new targets set as appropriate. Key supplier failure can bring significant losses to a business, and therefore it is important to ensure that the contract contains suitably robust exit clauses and contingency plans.

Interprint encourages P&SM professionals to hold feedback meetings with suppliers at the suppliers' premises, where appropriate, as this enables them to assess efficiency levels on the suppliers' 'home ground'. The situation may, however, be somewhat different for outsourced services, such as cleaning or catering where the meeting should be held where it facilitates inspection of the problem areas. This approach also ensures that the outsourcing contractor's senior management is present at the site of delivery.

### **Monitoring the Performance of Suppliers - Practice**

Performance monitoring is not suitable for all suppliers; however, it is good practice to include supplier measurement and monitoring in all contracts so that quality, price, delivery and service levels can be monitored to ensure contract performance and compliance.

### **Responsibilities, remedies and results**

As stated above, Interprint recommends the practice of ensuring that performance criteria are an explicit part of the contract so that both parties are fully aware of what is required of them post-award. In the event that a supplier consistently fails to meet the requirements of the contract (and does not respond to feedback or suggestions) then the remedies set out in the contract must be brought into play.

Since performance monitoring should lead to continual improvement from suppliers, most suppliers would expect a long-term business relationship with the client. This may involve contracts of several years duration, with options to extend for further periods, if the supplier's performance is satisfactory.

Although monitoring performance of suppliers will ideally be directed and managed by the P&SM function, it need not necessarily be carried out by them. In the event that the monitoring process is managed outside the P&SM function, it is essential to ensure the staff have sufficient authority and training to enable them to carry out their role effectively. However, Interprint believes it to be of critical importance that whoever carries out performance monitoring (and especially the review meeting with suppliers) has the correct skills and the full support of the P&SM function. This is particularly important when the payment mechanism in the contractual arrangement is contingent on supplier performance measures. It should be borne in mind that it is often the technical experts, who do not understand or appreciate the commercial nuances, and therefore they may need encouragement and support to carry out the monitoring process effectively.

Interprint strongly encourages P&SM professionals to monitor the performance of key suppliers in terms of their growth, market share and financial standing so that the buyer remains aware of the profile of important suppliers within their market sectors. In the case of particularly key suppliers it is advisable to hold regular meetings at both operational and strategic levels to support the relationships and explore future market opportunities.

### **Conclusion**

Monitoring the performance of suppliers is a key aspect of P&SM and one that requires a range of skills, in particular relationship management. It is the responsibility of the P&SM professional to negotiate and agree appropriate performance criteria at the time the contract is let and these measures, together with a commitment to continual improvement should be clear to all concerned.

The level and frequency of performance monitoring is dependent on the value and criticality of the contract to the buying organisation; it need not be the P&SM professionals that carry out this function or indeed the wider role of contract management, however the function should always be supported by the P&SM team.