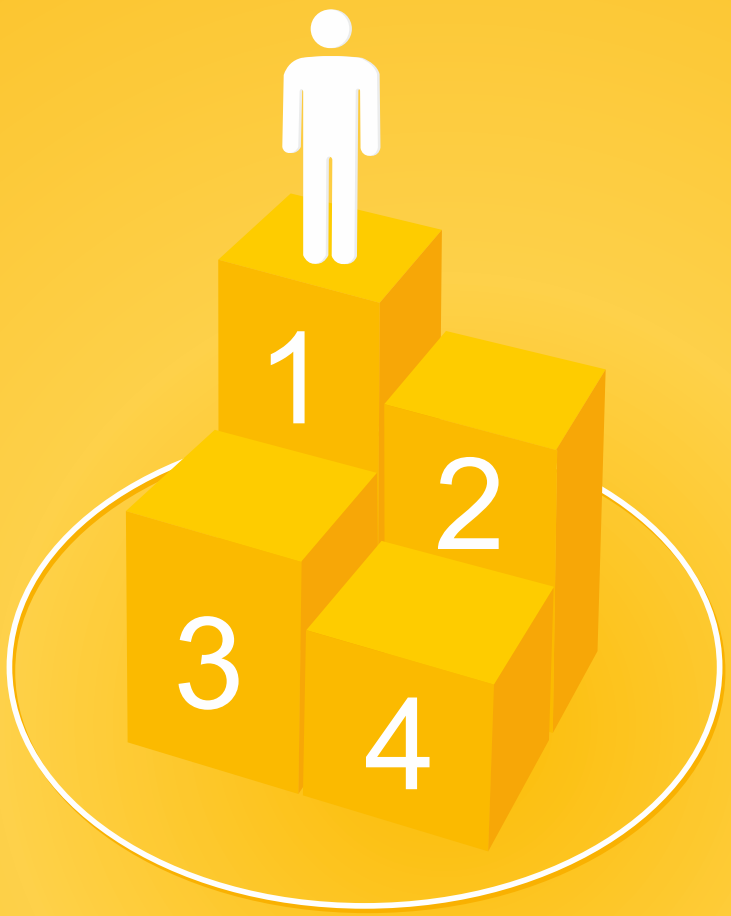
ZYCUS



Building blocks for improved supplier management

4 chapters for effective supplier management

Prologue

Large organizations have tiers of suppliers (which run into thousands) stretched across the globe.

Managing this large supplier base is an uphill task yet an absolute necessity if the organizations want to stay competitive. In a Hackett Group 2013 study, 64% of the responding organizations cite Supplier Relationship Management as 'major' or 'critical'.

With this eBook, we touch upon four important aspects of supplier management to help your organization successfully handle their supplier pool and ensure the most critical suppliers are sustained.

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Supplier Management: The Why, What & How of It

The Why, What and How of Supplier Management

Part 1 of the Procurement Performance Elevation Series

Why is supplier management gaining focus?

- According to a recent Hackett Group 2013 study, 64% of the responding organizations cite Supplier Relationship Management as 'major' or 'critical'. Another 56% of the organizations cite Reducing Supply Risk as 'major' or 'critical'
- In a study conducted by Zycus among procurement professionals, 81% of Europe-based organizations and 78% of Asia - based organizations have invested or are planning to invest in supplier management solutions

The above statistics highlight the growing significance of supplier management solutions in strategic procurement.

Recently Peter Smith, Managing Director, Spend Matters, UK / Europe in his white paper *Putting the Supplier at the Heart of Procurement Thinking* suggested that, "the time may have come for procurement executives and organizations to put Supplier Management at the heart of their strategy"

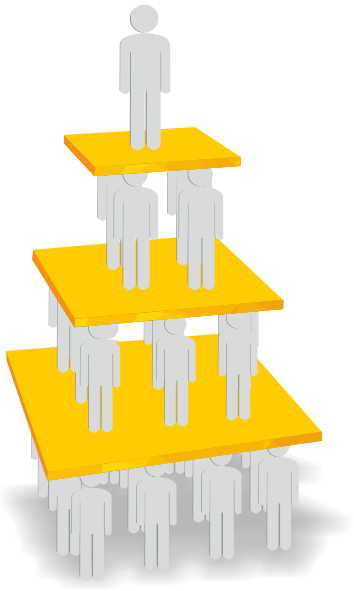
With the procurement world talking about the news over supplier failures (Read: Bangladesh factory collapse, Ikea's meatball scandal, etc.), supplier innovation, supplier relationship management, conflict minerals rule etc., it's hard to ignore the fact that suppliers ARE your organizations' partner in success or in crime. (Read: failure)

Managing supplier information manually or with home-grown tools is a resource-consuming process. Lack of information repository may result in duplication or loss of data. Additionally, lack of proper evaluation processes may result in working with incompetent suppliers, even when there are superior suppliers available.

Another facet to increasing focus on supplier management is to get your supplier's 'attention' or being the 'customer of choice' for your key suppliers. It's a two-way street, when an organization appreciates their supplier's role in their success and suppliers, in turn, value this partnership.

Today the market is flooded with supplier management tools. With features like supplier portal, templates, approval workflow, etc. these tools aim to make managing suppliers easier!

So what are the driving forces?



- **Management mandate**
  When a mandate has been passed by the organization's top management, all the current processes are revised to accommodate the change

- **Increasing scale of operation – thus need for new or more suppliers**
  An increase in scale of the organization's manufacturing operation results in higher demand for raw material input. This would mean expanding the supplier base, from local to global

- **Supplier data management**
  For any organization, data is of utmost importance. However, data or information, if not managed well, serves nothing but confusion. Organizations should have supplier data well - organized and centrally accessible.

  Manual methods, or using home-grown tools, may result in inefficiency when it comes to managing incumbent as well as new suppliers with regard to supplier evaluation, supplier payment etc. When bringing new suppliers on board, a series of official papers need to be collected and quality checks performed. For instance, checking if the supplier meets the organization`s quality mark requirements, or if the supplier is blacklisted, etc. Verifying such information manually poses problems to those organizations that are not using a good supplier management tool.

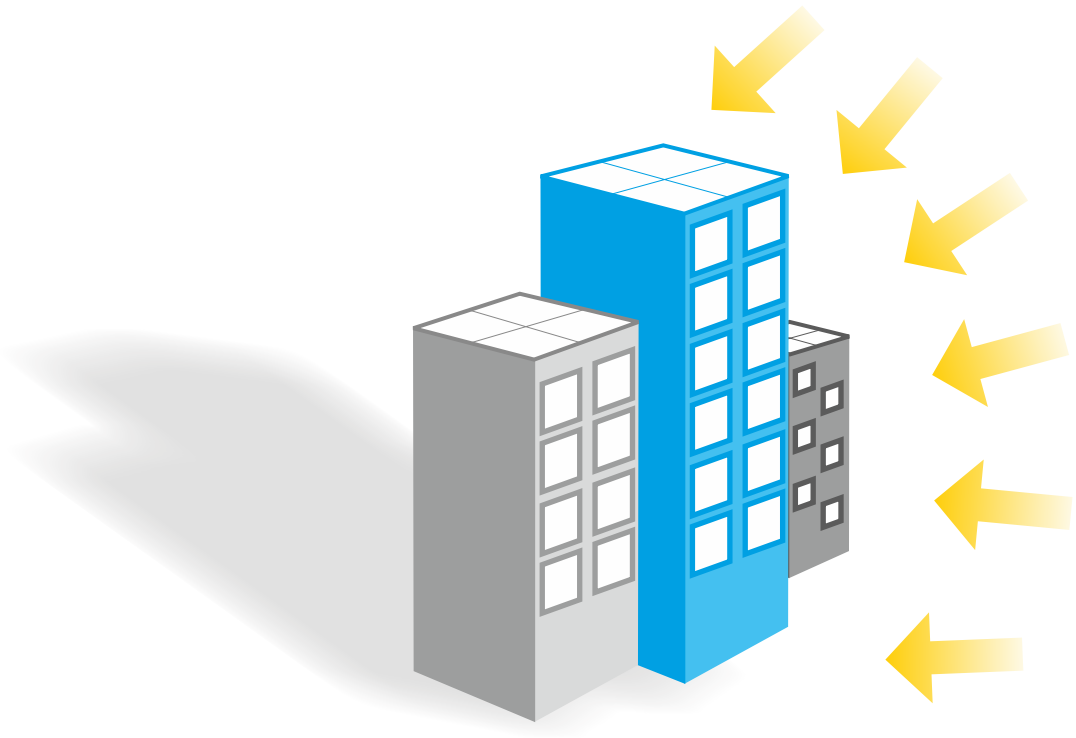
  Also, not all the supplier data are meant for every employee in the organization. Some of them are confidential and need to have access control. This is not possible if the supplier information is managed manually

- **Building sustainable supplier relations**
  No tools can replace the human element required for building good relations. However, technology can help identify key suppliers with whom the procurement executives can engage in not just negotiations over cost and quality, but also partner for innovative ideas. Supplier management tools also help organizations engineer supplier development programs that make suppliers feel valued

- **Industry trends**

  Technology is constantly evolving and organizations need to adapt to these changes. If the majority of competitors are implementing tools to manage suppliers, then the organization needs to consider it, too, lest they be left behind

Internal Forces



External Forces

- **Global supply chain**

  To take advantage of the cost difference in developing economies many organizations often source from these countries, thus extending the supplier base

- **Supply chain risk**

  When the supply chain is spread across the globe and has tiers of suppliers, the supply chain becomes more vulnerable to macro-economic scenarios and geo-political issues, and the probability of suppliers being caught in a scandal or a supplier`s factory being affected increases

- **Support during adverse times**

  When an organization has managed to maintain good relations with the suppliers, they can expect support in times of disaster (when their inventory has been destroyed, for instance) or enjoy preference over their competitors when for instance, the demand for their product soars

- **Industry standards**

  There are company-wide policies and then there are government regulations, such as FDA, Occupational Safety and Health Act etc., that organizations must ensure their suppliers are following and have the mandatory certifications

Benefits of supplier management automation

Let's now have a look at the benefits of implementing supplier management.

1. Large organizations have offices spread across the country and thus it's important that procurement execs have access to supplier information from any office. Modern supplier management tools have a centralized repository which facilitates quick and easy access to supplier details
2. Ability to track contract compliance to non-price parameters. For example, if the supplier has not submitted insurance certificates or quality certificates, then an alert is sent to the procurement execs
3. Time reduction for supplier profile maintenance
4. Well defined processes for qualifying and preparing suppliers for conducting transactions and participating in sourcing event
5. Supplier performance can be evaluated at a desired frequency with less time and effort. Data inputs can be captured and consolidated from many people and multiple systems
6. Ability to create development programs to support suppliers whose performance is not up to expectations
7. Detect potential supply risks. For instance, an alert would be sent out to the procurement execs if they are getting into a deal with a blacklisted supplier. Also, periodic supplier performance reviews help understand a supplier's failure of performing well regarding a particular parameter, such as delivery time or quality, etc.
8. Transparency and credibility of metrics and performance management processes

The spoke in the supplier management wheel – low user adoption rate

It is often observed that most of the procurement tools, in spite of offering advanced functionality, just remain an icon on a procurement executive's desktop as they continue to carry out their procurement-related tasks manually. **Complex user interface** is the main culprit a for low adoption rate. Today in the age of Google, eBay and Amazon, users are used to a smooth, intuitive interface. Anything other than that builds a wall against user acceptance. Whether training is provided during tool implementation, corporate culture etc. also have an impact on the technology adoption rate.

So how can organizations increase the procurement technology user adoption rate?

Ensure solutions with a user-friendly UI

More and more B2B solutions are modeling their tool UI on the lines of B2C websites like eBay, Facebook, Amazon etc. to make it more attractive and easier to use

Conduct focused training sessions

When a new system or solution is adopted by an organization it's necessary to ensure that its users get sufficient training. Also the roles of different employees using the solution will vary. Therefore, the training needs to be customized based on the roles of the stakeholders involved

Issue a mandate

Top management can formalize the process by issuing a mandate to use the solution for the given tasks

Market internally

Highlight the benefits of using a Supplier Management tool versus manual methods or home-grown tools, and emphasize the value gained by the users and the business benefit to senior management

Here are some implementation best practices for supplier management

- Management announcement – explaining the rationale behind the technology adoption
- Remember the 80/20 principle and identify the 20% of suppliers with whom 80% of business is done - Suppliers with whom you spend a lot of money and suppliers who have the most impact on your operations
- Identify KPIs and the process for measuring supplier performance and align KPIs with KRAs
- Identify the individuals who will participate in the evaluation of your suppliers

- Extensive collaboration between the organization'stechnical team and the tool provider to determine a robust integration approach
- Sign off on all deliverables, design documents before proceeding to the development phase
- Extensive technology-specific user training
- Continuous involvement of all stake holders at every step of the project

Let us understand the significance of supplier management with the help of a success story

A leading semi conductor manufacturer based in US with global production footprint faced the following difficulties.

Challenges:

- No standardization of performance measurement across the organization, every site has its own standard for measuring performance (even for the same category)
- Home-Grown System for performance measurement, the system is not agile to meet their changing requirements related to supplier performance
- Lack of centralized repository leading to data duplication
- Tool not easy to use and that leads to lower adoption of the supply scorecard program, but the program is an integral part of their Sustainable Supply chain initiatives

The Supplier Management Tool Advantage:

- Standardization of performance metrics across the organizations which allows effective supplier performance comparison across suppliers
- Increased adoption of the performance scorecard program, the number of survey respondents doubled after implementing the iPerform tool
- Agility to make changes to scorecards as business demand changes. This was not possible earlier
- Supplier data centrally accessible

Conclusion

Supplier management is fast gaining the attention of procurement leaders and thinkers. Suppliers are no longer "the one who provides materials" but are key strategic partners to organizations adding value to the company. With supply chains spread across countries, a correctly chosen tool offers a host of benefits and helps procurement to reach its goals faster and better.

Supplier Information Management & its Impact on Procurement

Information Management

> Information is a source of learning. But unless it is organized, processed, and available to the right people in a format for decision making, it is a burden, not a benefit.
> *-William Pollard*

Information Management is the Collection & Management of information. In business, information management is important for a wide variety of reasons. Perhaps the most important of all the reasons that are out there is the fact that information management keeps information organized and distributed in an efficient manner to employers and employees alike. "Information management" is an umbrella term that encompasses all the systems and processes within an organization for the creation and use of corporate information. Information management therefore encompasses people, process, technology & content.

The purpose of this article is very much in line with the quote. The focus here is to put forward the key role of Supplier Information in the procurement domain.

Supplier Information Management (SIM)

Supplier information is often distributed in different parts of the organization and finds importance in other departments apart from procurement. However a gap is seen as far as the interconnection of this data among the various departments. This gives rise to management issues at various levels be it operational, functional or at the strategic level.

Supplier Information Management allows an enterprise to aggregate, collect and maintain the information from all distributed systems within the organization, thus enabling a consolidated view of supplier data, process status and relationships. This arrangement especially benefits the Finance department (Account payable) and the sourcing professionals to find insights and opportunities. The insights on offer go a long way in risk assessment and managing supplier performance but of most importance is how it contributes towards developing a sustainable supply chain.

Supplier Information can be used in a variety of ways in the organization. Let us consider some of them:

- Information like company name, contacts, products and services can be used to communicate and collaborate with the suppliers
- Information of the nature of manufacturing methods employed, machinery and capacity available, certification, insurance documentation etc help in the assessment of suppliers in terms of their capabilities to meet existing and future demands
- Information about supplier performance in terms of delivery, service levels etc coupled with external intelligence in terms of financial scores, balance of trade, news & events help in determining the risk from a particular supplier

All the information for SIMplification can be classified as Communication, Competencies & Performance.

Efficient and effective supplier information management is central to understanding the supply chain risk, consolidating sources of supply, and thereby maximizing the return on a supply base which can in turn create tangible business benefits.

SIMplification of Business Functions

As discussed above information about suppliers is useful across organizations. Let us briefly delve upon SIM's role in various functional areas by first discussing in brief the problems faced by these departments/heads.

Procurement professionals often cite off-contract spending and lack of spend visibility as two of the main reasons for high operational costs in the supply chain. Rising operational costs are slowly gaining the attention of many in this field with sharp focus on ways to reduce operational costs. Supply chain executives have their concerns in terms of supply disruption and high supplier operational costs. On the other hand the finance department's main concern lies in preventing supply chain disruptions caused mainly due to delays in payments to the suppliers. The department also faces the problem of increasing operational costs mainly due to errors caused due to lack of synchronization between the procurement and the Accounts Payable departments.

SIMplification of Procurement Function

Issues	SIMplification	Benefit on Offer
Off contract spending	Centralized Supplier Information with information available to all concerned	•Better spend visibility •Reduced operational cost
Supply disruption	Continual supplier information updates concerned with financial risk scores etc.	•Quick sourcing decisions •Production loss prevented
Approval of vendors & updation of key vendor information	Centralized Supplier Information with information available to all concerned Continual supplier information updates	•Easy decision making •Reducing operational cost

How to successfully implement SIM?

Implementation of an idea is the biggest challenge an organization faces. One of the important reasons for this is that every organization is unique in its needs. Every organization needs to carve its own path towards implementing projects. Let's look at a framework which can be used during SIMplification of their departments.

> A good idea is about ten percent and implementation and hard work, and luck is 90 percent.
> *-Guy Kawasaki*

The implementation steps can be summarized as:
Thus to summarize the importance of Supplier Information Management -

- Ensures all supplier information is gathered, captured and updated in appropriate procurement and account payable systems.
- Processing payments in accordance with contract terms and realize the full savings.
- Meeting needs of products and services by matching to the preferred suppliers.
- Achieving better spend visibility.

Organize

Define the parameters that would be considered for supplier evaluation

Organizations get insights into information that needs to be collected from suppliers

Collect

Develop a portal where suppliers can feed their informations on regular basis

Key is to develop a user friendly portal to ensure supplier buy-in

Categorize

Assign commodity managers to monitor critical categories

Group suppliers based on priorities and type of purchases viz. strategic partners, preferable suppliers, general suppliers

Alert

Alert suppliers to update information on regular basis as decided by the organization/department Receive alerts for non-compliance by suppliers in terms of information updation

Integrate

Integrate supplier information with other tools like Supplier Performance Management, Accounts Payable, etc.

Enables the organization in managing key performance indicators & supplier scorecards.

Supplier Metrics: Measuring Supplier Performance

Get Competitive with Supplier Metrics

Until recently, Supplier Performance Management (SPM) had been notably missing from the array of technology solutions being developed for the procurement, sourcing and supply chain management functions.

Today, increasingly sophisticated and easy-to-use tools for building, automating, executing and expanding SPM systems are available, but the onus still falls to procurement and supply chain professionals to create effective metrics and processes for driving supplier performance in the directions they need it to move.

And, while the prospect of designing effective metrics and processes can seem daunting at first, it becomes less so when one begins to understand there is a life-cycle to supplier performance management. Nothing is etched in stone. Metrics and improvement targets can—and should—change over time. The only irrevocable mistake is failing to measure and manage supplier performance at all.

Stage 1: Define competitive framework

Lifecycle management for SPM begins, necessarily, with one question: How do we compete? The query forces procurement, sourcing and supply chain professionals to look past—even to reshape—their own narrower performance agendas, which typically comprise things like purchase price variance, cost savings or avoidance, reliable/on-time delivery, and consistent product and service quality. Focusing on how a company goes to market leads to metrics and processes for SPM that can make an enterprise more successful on the specific competitive terms set forth by its leadership.

So, for example, an enterprise that intends to win in the market on a combination of technology leadership, product features and style should generate very different supplier performance expectations and metrics than enterprises competing on things like low cost producer, legendary customer support, or high market share.

Likewise, companies that intend to compete by being best at product marketing will find different approaches to SPM– may measure and manage entirely different sets of suppliers– than companies that want to compete by being best at designing or building products.

If, over time, procurement and supply chain management cannot move supplier performance in ways that make the enterprise more competitive and successful, it may indicate the business has chosen the wrong competitive approach or is not fully committed to the approach it has articulated.

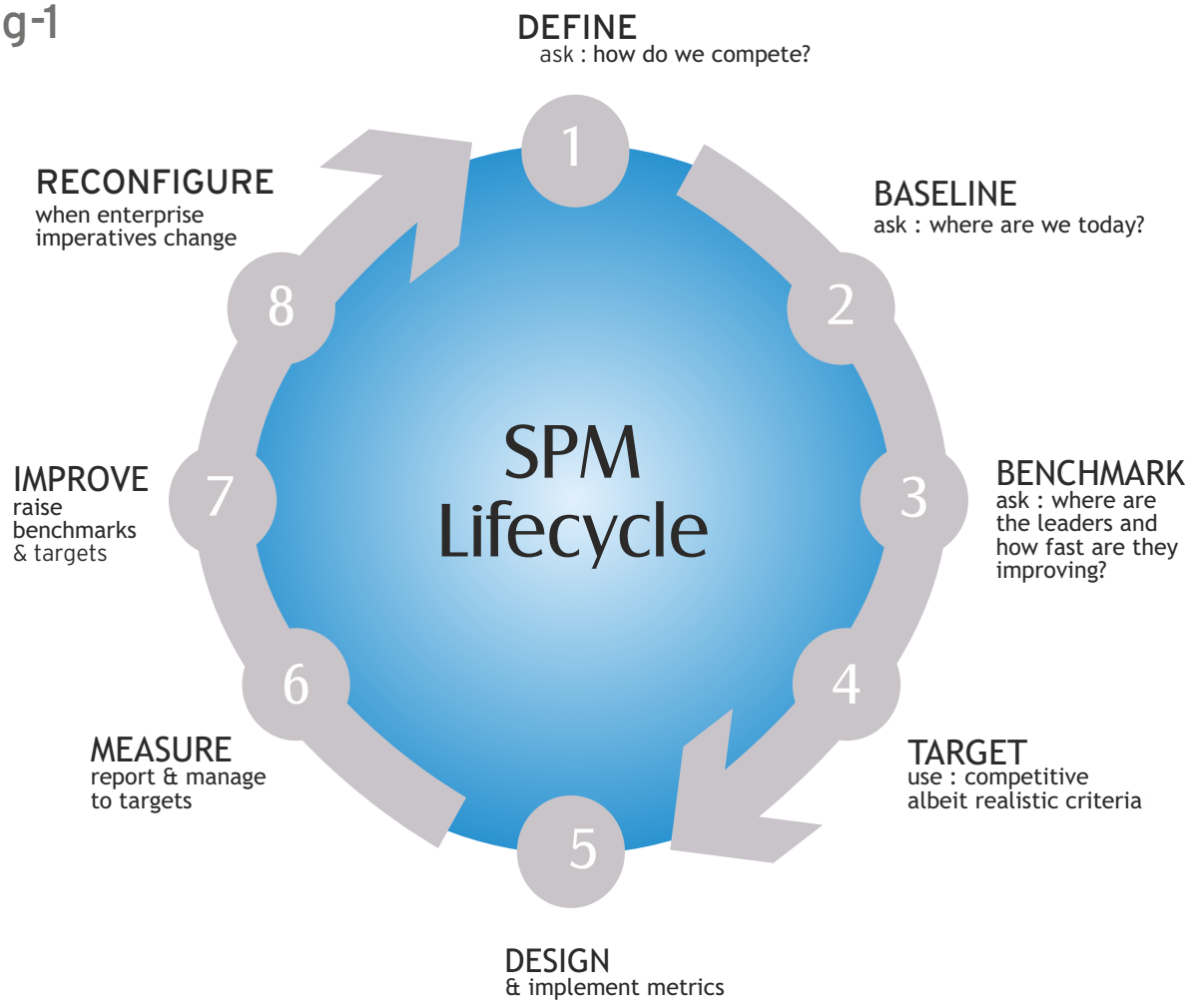
Stages 2/3: Baseline and benchmark

In Stage 2 of the SPM lifecycle, the enterprise establishes performance baselines –where are we today? This is followed closely by Stage 3 in which the enterprise undertakes competitive benchmarking–where are the market leaders and how rapidly are they improving? While a company may set a target of lowering its total bill of materials (BOM) cost by 10% in two years, its SPM efforts in that direction will be diminished, even canceled or negated, if it never succeeds at surpassing its competition, or, if its competitors improve at similar or more rapid rates.

Conducting SPM in a competitive vacuum runs the equally high risk of generating performance improvement targets that are much higher than they need to be. For instance, it would be extremely wasteful of both customer and supplier resources to pursue Six Sigma quality from suppliers in a market that would never demand such a high level of quality or durability. Examples include inexpensive plastic children's toys, footwear or clothing that would be quickly outgrown.

Aligning metrics with enterprise objectives

Fig-1



Competitive benchmarks might be difficult to obtain, especially at first. It's okay to delve into SPM without them. But they are the piece that confers true meaning to SPM, so should remain an ultimate goal and integral part of any SPM ecosystem. What is more, there are plenty of companies that succeed every day at gleaning competitive supplier performance information by,

- Investing in their own research and market intelligence operations,
- Ensuring they capture and structure latent competitive knowledge found within their enterprises (from their sales forces, for example), and
- Working with third-party information and service providers.
- When competitive benchmarks simply can not be obtained, alternatives are to:
- Give suppliers creative incentives to offer and deliver better performance vis-à-vis any competing customers they may serve,
- Look at different sets of benchmarks—for example, what is best-in-class?—as this information may exist outside the primary industry, be easier to access, and be worth studying from a process standpoint.

Stages 4/5: Target and design

Stages 4 and 5 in the SPM lifecycle involve setting aggressive - yet realistic — performance-improvement targets and designing/implementing metrics that systematically and consistently drive supplier performance toward the improvement targets. While competitive benchmarks make target setting easier, other factors come in to play as well. For example, performance improvement targets for suppliers need to be high enough to inspire creativity, innovation, out-of-the-box thinking, but not so high as to be unattainable within a reasonable time period, frustrating, or wasteful of suppliers' resources.

Metrics design and implementation is a critical piece of the SPM lifecycle. Key challenges include:

- Creating ideal metrics that are (a) comprehensive enough to drive to desired results without creating unintended behaviors and (b) simple enough to be easily and cost effectively executed and interpreted as a basis for action and decisionmaking,
- Finding easy, cost effective ways to acquire, struc - ture, store, and validate the data inputs required by the ideal metrics, and
- Creating meaningful connections between supplier, procurement/sourcing internal, and enterprise suc - cess metrics.

Procurement and supply chain management organizations have wrestled with these challenges for decades. The good news is that technology solutions are finally being engineered specifically to address these challenges and pain points, making it possible to create comprehensive - yet simple and cost effective - systems for supplier performance management.

Stages 6/ 7: Refine and improve

Stage 6 in the SPM lifecyle involves executing metrics, reporting, and actively managing to improvement tar - gets. Stage 7 is where the enterprise continually refines targets, benchmarks, and metrics in response both to what it learns through SPM and to external changes.

Performance targets need to be based firmly in reality but can and should trend upward over time with the objective of either obtaining or maintaining market leadership. If this year's goal for procurement is to move 60% of critical suppliers to a Level 1 performance ranking, then next year's goal might be to move 80% of suppliers there. The criteria and benchmarks by which suppliers achieve and maintain their Level 1 ranking should move up periodically as well.

Stage 8: Start over

Stage 8 in the SPM lifecycle is the complete recon - figuration of metrics if and when conditions within an enterprise or its market change substantially. For example, a change in corporate leadership might shift an enterprise's go-to-market strategy from technology innovator to market-share leader. While the ability to ramp production and distribution quickly following a product launch may have mattered little to the outgo - ing leadership, it would be a priority under the new regime. SPM metrics and systems need to be sufficiently flexible—and willing—to adapt to such changes.

Other shifts that should cause procurement and supply chain management professionals to revisit their SPM metrics and processes include:

- Advent of new competitors, especially when they come from different regions of the world that have never played before in a particular market,
- Technology innovation (in both primary and supplier markets), and
- Economic boom/bust and inflation/deflation cycles.

Even consumer and pop culture trends need to be watched closely. For example, might the growing consumer fondness for customizing cars and athletic footwear, comparing prices, or buying digital music and books over the internet spill into other industries and markets? How might that affect performance priorities and improvement efforts with suppliers? And can an enterprise get ahead of the curve—gain a competitive advantage—by redirecting SPM efforts sooner rather than later?

While it may not be necessary to rewrite supplier per - formance metrics right away, procurement and supply chain management organizations must always be look- ing ahead to understand what might need to change. They also need to be deploying flexible SPM processes and tools that easily accommodate changes and refine- ments throughout the SPM lifecycle.

Jumping in to SPM

Once one grasps the idea of SPM lifecycle management, it becomes easier to find a point of departure for creating the right set of SPM metrics, procedures, policies, and so forth for a given enterprise. Still, there is no getting around the inherent complexities of SPM. The following questions (and many more) will quickly arise:

- Who should be involved in the SPM process?
- How many suppliers should we measure? And which ones?
- How frequently should we measure?
- How can we cope with competing objectives and tradeoffs within our enterprise?
- How can we accommodate fundamental differences among spend categories, direct
- versus indirect, prod - ucts versus services, and so forth?
- How will we obtain consensus on what SPM metrics and improvement targets should be?
- How can we balance objective/subjective or quantitative/qualitative data inputs?
- How can we consistently obtain accurate inputs?
- How can we measure the return on investment in SPM (or at least ensure our efforts remain cost effective)?

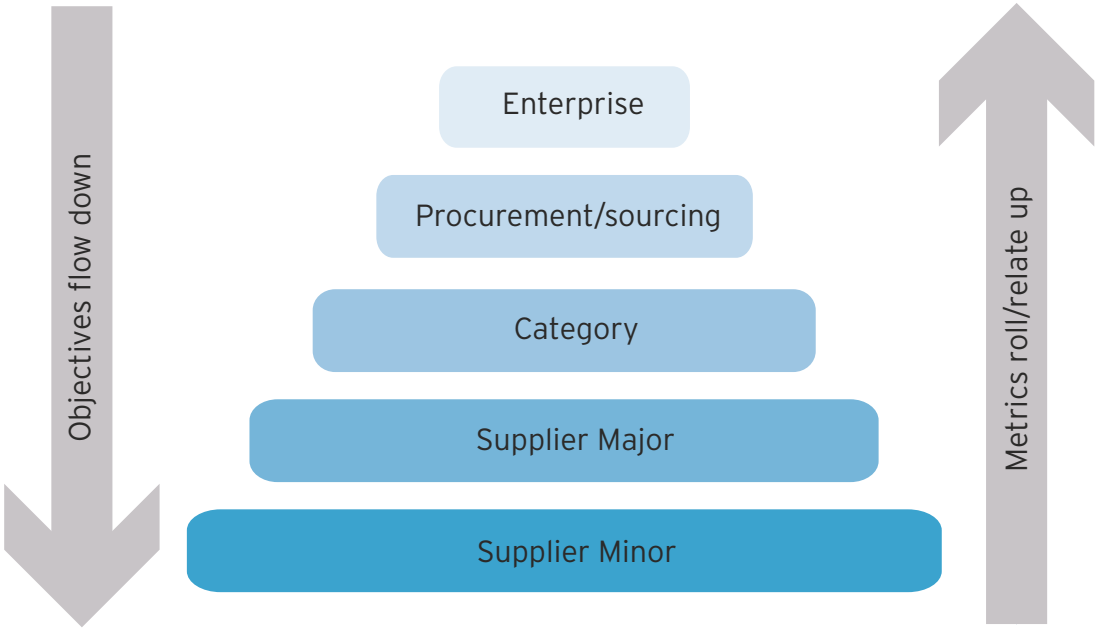
And, how can we account for supplier complexity (for example, parent-child relationships), different supplier sizes, and complexity in our supplier relation - ships (for example, the fact that some suppliers may also be our customers)?

While it is beyond the scope of this paper to address every complexity, we will make a start by looking at such longstanding SPM obstacles as: creating meaningful linkages between supplier, procurement and corporate objectives; measuring dissimilar suppliers; combining quantitative with qualitative data inputs, and finding systematic ways to continuously drive supplier perfor- mance to world-class levels.

Make SPM work for the enterprise

A popular approach for contending with SPM complex- ity is to devise hierarchical systems of objectives and metrics (see Fig-2). Each level in the hierarchy rolls up or at least relates meaningfully to the level above, ensuring that each metric implemented lower down in the hierarchy contributes clearly and systematically to realization of the top-level objectives. One way to make sure that meaningful relationships get codified in the SPM system is to borrow a software engineering ap- proach known as Goal-Question-Metric1 where:

Fig-2 : SPM hierachy of objectives/metrics



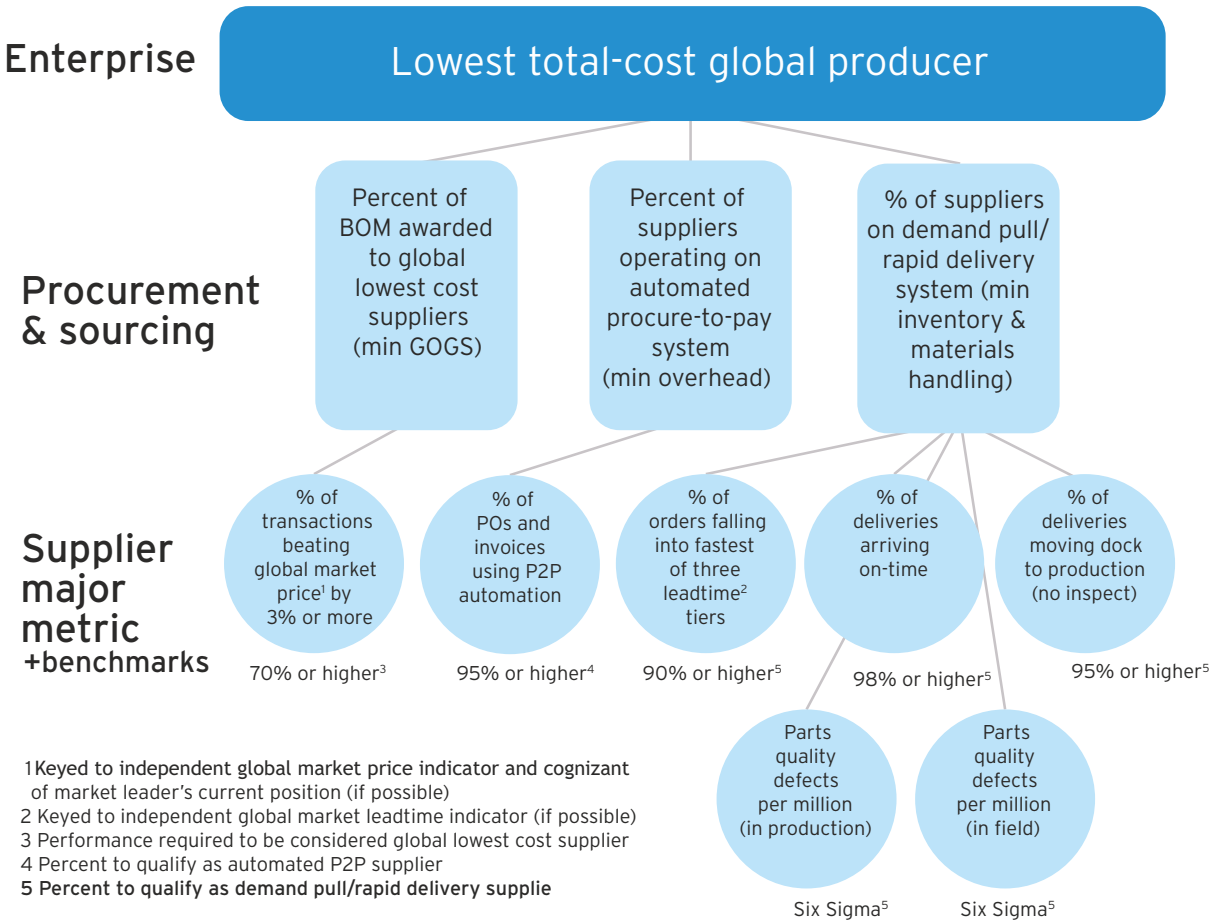
[1]Victor R. Basili, Gianluigi Caldiera, H. Dieter Rombach, The Goal Question Metric Approach

- Goal is conceptual, establishing the purposes of measures, objects or issues to be measured and the viewpoints from which the measures are to be taken,
- Questions are operational, breaking issues down to their base components and figuring out how to best achieve the goals, and
- Metrics are sets of data that answer each question quantitatively. The data can be either,
  - Objective if the question can be answered regardless of viewpoint (for example, was the delivery on time?), or
  - Subjective if viewpoint is considered relevant (for example, was the supplier responsive?)

Say, for instance, that a corporation's competitive objective for a particular product line is to become the lowest total-cost producer in the world and the enterprise is intent on measuring and managing performance among its critical direct materials suppliers. The resulting SPM hierarchy might look something like Fig-3.

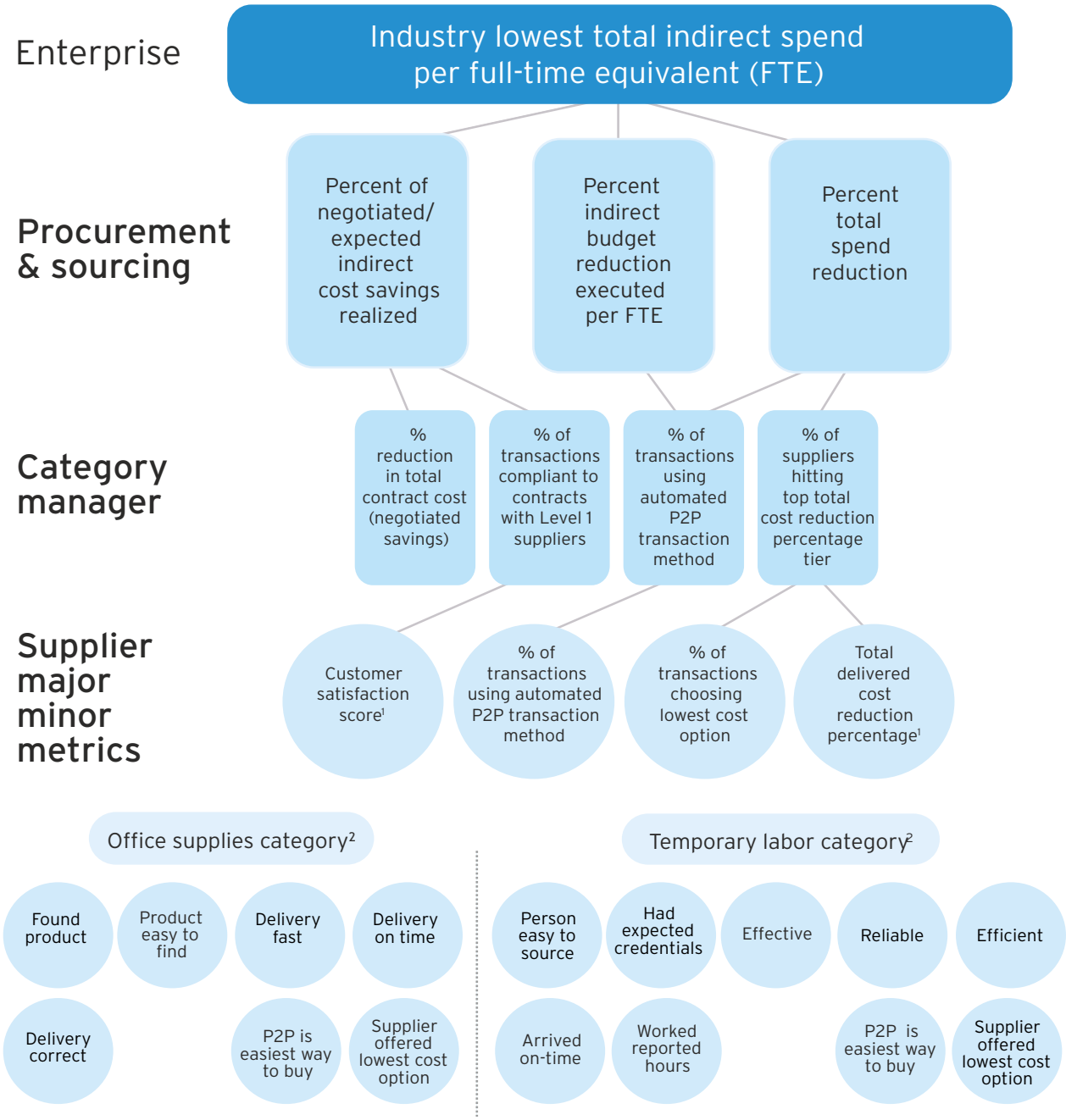
Addition of spend category-level and minor supplier metrics tiers to the hierarchy (Fig-4 on the next page) enables dissimilar indirect goods and services sup- pliers to be measured and managed within a single SPM system. It also makes room for more subjective data inputs, which may be seen as less accurate, and, therefore, less reliable for sourcing decision making. Minor metrics would be developed in collaboration with internal end users of goods and services and data inputs may be gathered using customer satisfaction surveys or similar. In the example, minor metrics could roll up to a major-level customer satisfaction score for the supplier and/or can be used to diagnose problems appearing at major metrics and spend category levels—for example, low customer satisfaction, poor contract compliance, poor compliance with preferred transaction methods, and so forth.

Fig-3 : A direct materials example



1 Keyed to independent global market price indicator and cognizant of market leader's current position (if possible)
2 Keyed to independent global market leadtime indicator (if possible)
3 Performance required to be considered global lowest cost supplier
4 Percent to qualify as automated P2P supplier
5 Percent to qualify as demand pull/rapid delivery supplie

Fig-4 : An indirect goods & services example



1 Mapping to one of three benchmark performance levels: Level 1=preferred/lowest cost, Level 2=approved, Level 3=not approved
2 Defined jointly by sourcing/procurement and end users and captured via customer surveys.

Scoring, ranking, and rating suppliers

Relating suppliers' raw performance data to both scores and scoring benchmarks enables procurement and supply chain organizations to view supplier performance across spend categories and the entire supply base in ways that can inform future sourcing and procurement decisions.

Fig-5 : A supplier scoring and rating example

Supplier Number	1	2	3	4	5	6	7	8	9	10
Transaction 1	2	2	1	-2	2	2	0	-2	-2	0
Transaction 2	2	2	1	1	2	1	0	-2	-2	0
Transaction 3	2	-2	1	-2	2	1	0	-1	-2	0
Transaction 4	1	0	1	2	2	1	0	-1	1	
Transaction 5	1	1	1	0	2	1	0	-1	1	
Transaction 6	0		1	1	2	0	0	0	1	
Transaction 7	-1		1	1	2	0		0	1	
Transaction 8	0		0	0	0	0			1	
Transaction 9	-1		1		0	0			1	
Transaction 10	1		1		0	0				
Total points	7	3	9	1	14	6	0	-7	0	0
Number of qualifying transactions	10	5	10	8	10	10	6	7	9	3
Perfect possible score	20	10	20	16	20	20	12	14	18	6
Percent of perfect possible score achieved	35%	30%	27%	6%	70%	30%	0%	-50%	0%	0%

Global benchmark market price = 7¢/each in minimum lot sizes of 100K items. Scoring: 3%+ below market price = +2, 0-3% below market price = +1, at market price = 0, 0-3% above market price = -1, 3%-plus above market price = -2. Supplier performance benchmarks: Global lowest cost = 70%+ of perfect possible score, global lower cost = 1-69% of perfect possible score, global average cost = 0% of perfect possible score, global higher cost = -(1-69%) of perfect possible score, global highest cost = -(70%+) of perfect possible score.

Going back to the example in Fig-3, where one of the procurement and supply chain metrics is 'percent of BOM awarded to global lowest cost suppliers,' what follows is a simplified example of how this might be executed using scoring and benchmarks. The example makes an idealistic assumption that the benchmarks can be derived using competitive intelligence to understand both what is possible or likely to achieve in the current marketplace and what it would take from a performance perspective to assume a market leadership position. The resulting supplier ranking and proposed set of actions might look something like this:

Rank	Supplier No.	Rating	Action
1	5	Lowest cost	Increase awards
2	1	Lower cost	Keep/negotiate
3	2	Lower cost	Keep/negotiate
4	6	Lower cost	Keep/negotiate
5	3	Lower cost	Keep/negotiate
6	4	Lower cost	Rationalize
7	7	Lower cost	Rationalize
8	9	Avg cost	Rationalize
9	10	Avg cost	Rationalize
10	8	Higher cost	Rationalize

By adjusting scoring parameters and benchmarks over time, the sourcing and supply chain teams can drive systematically to higher levels of performance at realis - tic rates. So, for example, assume the baseline exercise finds global lowest cost performance to be at an overall score of 21% or 33 points out of a possible perfect score of 156 across 10 suppliers and 78 transactions. Based on competitive intelligence, the organization may set its initial benchmark to a target of 70% (points scored out of possible perfect points). Once that goal is achieved consistently—and depending on how competitive bench - marks and/or markets move—the group may decide to revise its scoring parameters; now suppliers must beat market by 5% rather than 3%. Or, it might raise the sup- plier's benchmark target from 70% to 80%. Either way, suppliers and procurement would need to work harder to achieve the top level of performance, making certain that the enterprise moves purposefully to its goal of being global lowest cost producer

Balancing scorecards

Of course, overemphasis on a single metric such as global lowest cost supplier could easily lead other im - portant supplier performance parameters—like product quality—to go haywire. Weighting metrics to create balanced scorecards for suppliers is a popular approach that has gotten substantially easier now that dedicated technology solutions for SPM are moving the process out of electronic spreadsheets and into rich platforms where weighting can be created, evaluated and refined throughout the SPM lifecycle and in response to learning and knowledge acquired in the SPM process.

Still, the burden of actually setting weights that are correct for a given enterprise must always fall to a person or team of people and, therefore, should be approached carefully and in context of open and robust debate among all of the various stakeholders who will be affected by the SPM system.

Several other questions to consider in the design of any SPM metrics/systems include:

- Can we organize SPM data into time series (daily, weekly, monthly, quarterly, or annual reporting) so we can monitor trends and spot emerging risks?
- What processes are needed to ensure accurate data collection, data validation, and dispute resolution should suppliers disagree with our findings? Can we include suppliers in these processes?
- How will we communicate to the enterprise and to our suppliers about the SPM system? What incentives will there be for robust and thorough participation?
- Are we prepared to act in response to the SPM data we will generate? And what processes will we put into place to help suppliers find and fix root causes for performance problems or failures to improve? (Hint: If you can not be prepared to fix a problem, it is prob - ably not worth measuring).

Start small, keep it simple

While technology tools make it much easier to deploy rigorous systems for supplier performance manage- ment, there is no getting around the fact that SPM is complicated and requires skills that may not be readily available in procurement and supply chain organiza - tions today. Nonetheless, consider two possible reasons that one cannot easily find examples of truly success- ful SPM systems today: either they do not exist or the people who have them are reluctant to relinquish their competitive advantage by sharing what they know. Either way, the opportunity to achieve competitive advantage through SPM is ripe for the picking. Embrace the SPM lifecycle. Understand that you don't need to be perfect. You don't need to get it all done on the first try. Start small. Keep it simple. Focus on the areas that matter most. Solicit healthy debate about what you are doing and how you are doing it. Study, evaluate, and evolve from there!

4

Reaching Supplier Management Excellence

Introduction

A good supplier relation is one of the key parameters to achieve supply chain excellence as almost every company is dependent on their suppliers. Suppliers have a direct impact on an organization's product/service quality, competitiveness and also product innovation. For majority of the organizations, selecting a supplier is a strategic step which would not only generate cost efficiency but also help the company grow.

A good liaison between the buyer and supplier improves collaboration, thus increasing the efficiency and productivity for the organization when it comes to managing the supply chain. It would also offer benefits like:

- Avoiding costly & potentially devastating supply disruption
- Reducing risk towards scenarios like; defects / environmental problem/ safety issues etc.
- Implementing corrective actions before the problem becomes a big headache or hits the bottom line

This e-book will cover the 3 stages for effective supplier management

FOUNDATIONS OF AN EFFECTIVE SUPPLIER RELATIONSHIP

Understand The Value Proposition Of Your Stakeholders

Value propositions differ for internal & external stakeholders. For instance, internal stakeholders focus on price savings through preferred supplier contract compliance whereas external stakeholders focus on building relationships that create business value. Internal stakeholders prefer rigid contracts as opposed to flexible contracts preferred by external stakeholders.

Having understood the value proposition, the next important step for the CPO/head of the procurement is to address the concerns of the stakeholder surrounding the key value propositions.

Gauge The Ecosystem

This involves keeping a tab on how the changes in the ecosystem will impact the key commodities that you source including the competitors.

This requires having a strong system for collecting market intelligence to track commodity prices. For instance, if the price of the commodity falls, the organization can then demand the commodity from the supplier at new reduced price.

Conduct Scenario Planning For Impact Assessment

This is to gauge the impact of macro-economic scenarios on the organization's supply chain & sourcing strategies.

Conducting scenario planning is simple for predictable events and market fluctuations.

Establish theoretical scenario planning to combat risks emanating from events that cannot be predicted viz. pandemic threat, cyber attack, natural disasters etc.

Looking For Suppliers

Finding a suitable competitive supplier is fundamental to the success of a sourcing strategy. An effective supplier discovery process helps to find a new supplier which increases a company's sourcing leverage and gives an opportunity to evaluate different suppliers across markets / geographies based on their capabilities. Companies can refer to supplier registry or external networks to scout for suppliers. However this can be very tedious and time consuming. Modern sourcing tools can be used to engage with suppliers early through supplier portal. This helps in saving time and finding relevant suppliers faster.

Screening The Suppliers

The sourcing team should be cautious of unscrupulous suppliers entering the supply chain and providing substandard raw materials.

Screening the suppliers ensures supply quality and cost assurance.

Sourcing teams should have a predetermined screening process that every supplier should go through.

Companies can have a questionnaire to judge the suppliers. The questions can vary depending upon the project requirements.

Assign weightage and score ranges to each question depending on the project need and complexity.

Selecting The Best Supplier

It is imperative for companies to select the right suppliers who not only provide items/ services at a competitive cost but also possesses the ability to reduce the impact of economic uncertainties on the supply chain.

The shortlisted suppliers after the qualifying round can be evaluated on different parameters or scenarios like choosing a supplier from a particular geographic location or working with minority suppliers.

All stakeholders should be involved in the supplier selection process to ensure transparency and make evaluation process more objective.

Build Relational Contracts

Author contracts by accommodating supplier views - this gives supplier a sense of ownership. This coupled with a transparent process helps build a relationship of trust between the buyer and the supplier.

Building relational contracts can help sourcing managers to plan for emergencies and uncertainties. A good relationship with the supplier ensures supplier support at times of adversities.

Explore options in the contracting process keeping in mind the emerging risks.

Bringing The Supplier Onboard

Finalized suppliers should be equipped with the necessary knowledge and behavior to become a part of the company's supply chain.

Investing in a supplier portal makes the onboarding process simple and less time consuming, wherein the suppliers can upload required documents and buyer can keep a track of the same.

For detailed reading you can download the whitepapers:

- Creating Agile Supply chains: The Role of Technology
- 5 Steps for Effective Supply Chain Management

IMPLEMENT SUPPLIER INFORMATION MANAGEMENT

Organize

Define the parameters that would be considered for supplier evaluation.

Get insights into information that needs to be collected from suppliers by evaluating the industry benchmarks or what information the competitors are collecting.

Collect

Develop a portal where suppliers can feed their information on regular basis.

Key is to develop a user friendly portal to ensure supplier buy-in.

Investing in supplier portal makes it easy for the buyers to keep a track of information submitted by the suppliers.

Categorize

Assign commodity managers to monitor critical categories.

Group suppliers based on priorities and type of purchases viz. strategic partners, preferable suppliers, general suppliers etc.

Alert

Alert suppliers to update information on regular basis as decided by the organization/ department.

Receive alerts for noncompliance by suppliers in terms of information updates to take appropriate action.

Integrate

Integrate supplier information with other tools like Supplier Performance Management, Accounts Payable, etc.

Enable the organization in managing key performance indicators & supplier scorecards.

For detailed reading you can download the whitepaper:

- Procurement Simplified with Supplier Information Management

Supplier Performance & Expectation Management

Define a Competitive Framework

Focus on the objectives that the organization aims to achieve by answering the question "How do we compete?"

Reshape the routine performance agendas like purchase price variance, cost savings or avoidance, reliable/ on-time delivery etc. to the ones more aligned to the organization's competitive goal.

For instance, an enterprise that intends to win in the market on a combination of technology leadership, product features and style should generate very different supplier performance expectations and metrics than enterprises competing on things like low cost producer, legendary customer support, or high market share.

Baseline & Benchmark

Establish performance baselines - where are we today? And competitive benchmarks - where are the market leaders and how rapidly are they improving?

Achieve the competitive benchmarks by giving suppliers creative incentives to offer and deliver better performance visà- vis any competing customers they may serve, investing in research and market intelligence operations etc.

Target & Design

Set aggressive yet realistic performance-improvement targets and design/implement metrics that systematically and consistently drive supplier performance toward the improvement targets.

Use competitive benchmarks to set the targets. However, it is important to consider factors like performance improvement targets, that need to be high enough to inspire creativity, innovation but not so high as to be unattainable within a reasonable time period.

Design metrics that are (a) comprehensive enough to drive to desired results without creating unintended behaviors and (b) simple enough to be easily and cost effectively executed and interpreted as a basis for action and decision making.

Refine & Improve

Reporting and actively managing metrics to improve targets.

The organizations should continually refine targets, benchmarks, and metrics in response to what it learns through Supplier Performance Management and through external changes.

Performance targets need to be realistic but at the same time should trend upward over time with the objective of either obtaining or maintaining market leadership.

Supplier Development

There is no one defined way for supplier development. Those suppliers who do not meet the targets should be given support in terms of knowledge, finance, and process improvement capabilities to make them more efficient.

Supplier development programs when executed correctly can help the organization to improve supplier performance, product/ service quality, reduce cost and attain higher value addition from the suppliers.

Start Over

Complete reconfiguration of metrics if and when conditions within an enterprise or its market change substantially. For example, a change in corporate leadership, advent of new competitors, economic boom/bust, technology innovation, change in customer preference etc. It may not be necessary to rewrite supplier performance metrics right away. Organizations must always be looking ahead to understand what might need to change. Adopt flexible processes and tools that easily accommodate changes and refinements.

For detailed reading you can download the whitepaper:

- Get Competitive with Supplier Metrics - Aligning Performance Improvement Drivers with Enterprise Objective

About Zycus

Zycus is a leading global provider of complete Source-to-Pay suite of procurement performance solutions. Our comprehensive product portfolio includes applications for both the strategic and the operational aspects of procurement - eProcurement, eInvoicing, Spend Analysis, eSourcing, Contract Management, Supplier Management and Financial Savings Management. Our spirit of innovation and our passion to help procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotives, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.

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