

HEALTH CARE – PROFIT IMPROVEMENT

Measuring Supplier Performance

It's often hard to tell just how 'good' a supplier is.

Supplier Performance Overview

Most successful organizations have inward focused metrics in place to measure key variables and monitor financial results. However, many fail to look outward to suppliers who play a critical role in an organizations performance. Late deliveries, missing products, and quality issues from suppliers are just a few of many issues that can arise and have monumental effects on day to day operations of an organization and create long term turmoil with customers. Not only can customer relationships and contracts be tested or tarnished, but costly fines and penalties can be levied against organizations if suppliers fail to meet obligations.

Supplier Development Program

The ever changing business environment of today requires organizations to utilize the most effective resources and suppliers to remain competitive. In an effort to remain competitive, more and more organizations are implementing supplier development programs to not only maintain a reliable supply network, but strengthen supplier relationships and capabilities. Much like every organization, suppliers are being challenged to continuously improve through knowledge transfer, synergy alignment, and cost cutting initiatives. Firms typically focus on key suppliers as the relationships are already established and a mutually beneficial long term focus is adopted. However, the supplier development program does not ensure improved performance if the supplier is not committed to the buying organization. Therefore, collaborative communication, agreement, and regular follow-up on key metrics are critical to continuously improving a supplier's performance and obtaining buy-in.

Supply Management Performance Metrics – Guidelines

The supplier performance metrics should be customized for each supplier. The specific measurements and frequency of follow-up should be communicated and agreed upon between the buying organization and supplier. Clear and direct measures quantify supplier performance at the time work is performed, completed, or delivered.

Knowledge Base Article

When compiling the performance metrics for each supplier, there are a number of guidelines that should be reviewed to ensure suppliers are continuously challenged to improve on all aspects of their business.

- Metrics need to be designed for a point in time.
 - Every supplier has areas that should be addressed and improved at a point in time.
- Measures should address all supplier areas.
 - Financial health, Operational performance, Technology, and Internal practices and policies.
- Measures must change frequently.
 - To promote continuous improvement in all areas, metrics must consistently challenge the supplier to improve in all aspects of the business.
- Senior Leadership buy-in and validation of the specific metrics ensures credibility and agreement when measuring overall supplier performance.

In addition to implementing a supplier development program, it is important for organizations to benchmark suppliers against industry leaders to truly gauge their effectiveness and overall performance. Best practice information is readily available and organizations are increasingly challenging their suppliers to improve versus their competition.

Implementation & Follow-Up

One of the biggest challenges organizations face is the implementation of the program and follow-up with suppliers. A collaboratively designed and communicated supplier development program will encounter significantly less hurdles during implementation than one that is forced upon the supplier. Additionally, follow-up on performance results throughout the initial phases will be collegial in nature as the metrics were previously and jointly decided and agreed upon.

Conclusion

As organizations continue to challenge for continuous improvement, they will continue to focus both internally and increasingly outwardly on key suppliers who play an integral role in their success. As such, supplier development programs will continue to evolve in importance and complexity and become a powerful tool in organizations continued success. ✨