
Resilience

A journal of strategy and risk



Measuring supplier performance can protect your business and your reputation

Mitzi Campbell

Measuring supplier performance can protect your business and your reputation

By Mitzi Campbell

Last year I posted some thoughts about [why managing your most critical suppliers requires a strategic approach](#). Looking beyond cost to include all the ways suppliers can affect your business is key to achieving supply chain resilience.

Now you need to put a system in place that measures and monitors those supplier risks and opportunities. But where do you start? Some risks are difficult to measure. And developing and deploying a robust supplier relationship management system can overwhelm even the most sophisticated procurement team.

I like supplier performance scorecards. They're easy to use and understand. At the end of the process, each supplier is given a score – a clear indicator of how they're doing over time and in comparison to your other suppliers.

While scorecards can be used across your entire supply chain, focus on your strategic suppliers – where performance and continuous improvement will create the most value. You can't ignore the rest of your supply chain, but one way to prioritize your time and resources is customized and proactive management of your strategic suppliers.

Once you've narrowed in on who to measure, it's time to focus on what to measure. Start off with basic data about financials and operations and then build specific metrics for each strategic supplier. Early warning signs like management changes and litigation will surface before the impacts are seen on a supplier's balance sheet. For example, during the 2008-10 financial crisis, supplier bankruptcies became a real threat to business operations. Some companies monitored the financial health of their suppliers by looking beyond the latest quarterly reports, analyzing their performance over a longer period and comparing it to industry averages. They were then able to extend critical support such as extended payment terms to their most strategic suppliers in need.¹

Look to your supplier contracts for operational metrics to include in scorecards. Data around fulfillment, customer satisfaction and continuous improvement will build a picture of your suppliers' ability to deliver on expectations. And looking at these issues collectively over time will highlight operational issues that you might miss otherwise.

Your suppliers may be using shipping lines, for instance, that have recently tried to save on the price of fuel by travelling at lower speeds and increasing the length of transit.² For companies that depend on timely delivery (think perishable items), such delays are costly. Diving deep into suppliers' – and sub-suppliers' – operations and performance is worth the effort.

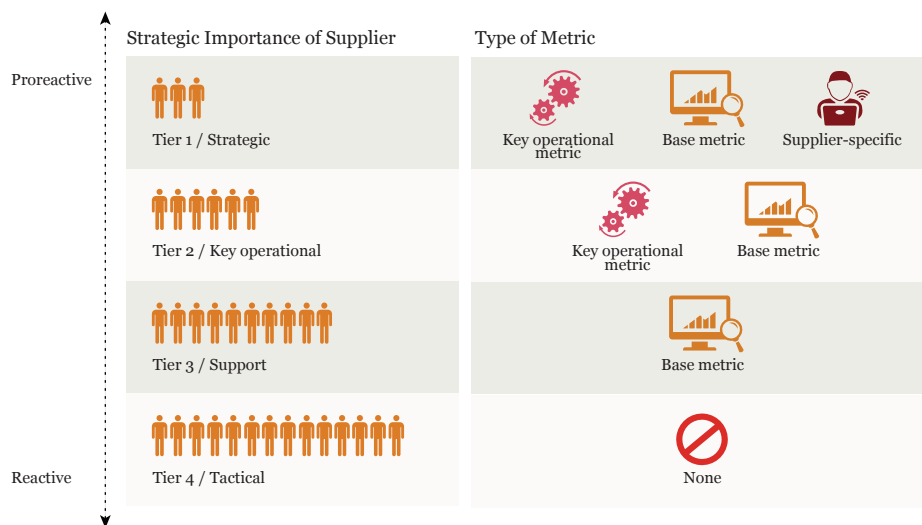
Using scorecards regularly has the potential to build and protect the integrity of your supply chain – balancing operational objectives with social, environmental, and ultimately, reputational risks. Over time, you'll have enough familiarity and information about your strategic suppliers to be able to see warning signs before they impact your business and your reputation. Using scorecards consistently in this way can transform your supplier relationship management system into a predictive rather than a reactive one. By looking at all the aspects that make a good supplier you'll build stronger, more resilient operations and may even prevent crises before they happen.

¹ PwC: 10 Minutes on strategic supply chain management, September 2013

² Wsj.com, Gregory Millman, "Logistics outsourcing amplifies supply chain risk: Self-defense tips" 24th November 2014
<http://blogs.wsj.com/riskandcompliance/2014/11/24/logistics-outsourcing-amplifies-supply-chain-risk-self-defense-tips/?KEYWORDS=supply+chain>

How to measure your suppliers' performance

Scorecards work across supply chains, but prioritize time and attention on your most strategic suppliers. Your select few strategic suppliers require the most sophisticated measures. The effort is well worth it. It protects your business.



The current Ebola outbreak in West Africa underscores why this is so important. Consider those in the mining industry who are trying to balance employee well being with maintaining operations that provide much-needed livelihoods in the region. Companies are providing training, personal protective equipment, and medical supplies to workers as well as running public awareness campaigns.³ By continually monitoring supplier risks, companies can be responsive to issues like epidemics that affect not just employees and suppliers but entire communities.

Keep in mind that supplier scorecards are most effective when they're part of an internal process that cuts across functions and departments. Good supplier relationship management isn't just the responsibility of the procurement team. Legal, risk management, finance, compliance and business units all need to have a seat at the table. Different perspectives will round out your supplier performance metrics and drive accountability for supply chain management up, down and across your company.

Do you measure supplier performance?

³ Business Insurance. Kenealy, B. & Zolkos, R. Worst-ever Ebola outbreak disrupts global supply chains. August 17, 2014 <http://www.businessinsurance.com/article/20140817/NEWS06/140819885>

Author Bio



**Mitzi Campbell,
Director,
PwC US – Advisory**

Mitzi Campbell is a director with PwC's U.S. Consulting practice. A seasoned strategic sourcing practitioner, Mitzi has more than 20 years of professional experience helping global clients improve their procurement capabilities in areas such as costs, efficiency, risk management, organisational design and vendor management.

Mitzi's broad category experience includes contract manufacturing, electronics, IT, telecom, professional services, machined parts, packaging, equipment, medical devices, facilities management, stainless steel, transportation, plastics and commodities.

She earned a Bachelor of Business Administration from Angelo State University.

Resilience

Resilience: A journal of strategy and risk

Publishers

Dennis Chesley
Global Risk Consulting Leader
PwC US

Miles Everson
US Advisory Leader
PwC US

Juan Pujadas
Vice Chairman, Global Advisory Services
PricewaterhouseCoopers International Ltd.

Executive Editors

Robert G. Eccles
Professor of Management Practice
Harvard Business School

Christopher Michaelson
Director, Strategy and Risk Institute, PwC Global Advisory
Associate Professor, University of St. Thomas Opus College of Business

Managing Editor

Shannon Schreibman
+1 (646) 471 1102
shannon.schreibman@us.pwc.com
PwC US

Author

Mitzi Campbell
Director
mitzi.campbell@us.pwc.com
PwC US – Advisory

Special thanks to the following parties for their production and editorial assistance:

Joe Buccina, Lisa Cockette, Tracy Fulham, Deepali Srivastava, Julie Szydlowski and Gautam Verma

<http://www.pwc.com/resilience>

© 2014 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.