Supplier Performance and Scorecards for Indirect Spend

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Abstract. Creating a supplier performance program and scorecard can be difficult with indirect spend and service areas because many of the elements are not easily quantifiable. This session provides some tips on how to build a performance measurement program that is both fair and useful.

1) quick overview of the essential elements of a supplier performance program and scorecard that is tailored to indirect spend
2) concepts that can be used to capture the important service elements for many indirect spend areas
3) real examples that have been successful in various service areas including travel, reprographics, mail, consulting services and managed staffing
4) examples the attendee can take home of supplier scorecards that have been used in indirect spend areas

CAPS Research shows that indirect spend accounts for as much as 68% of the total dollar outlay a company makes. Yet, it is often the last area to be addressed in the areas of supplier performance and supplier scorecards. Much of indirect spend involves services such as consulting services, advertising, travel, facilities and fleet. These areas do not lend themselves to measurement as easily as those that make up the cost of goods sold. And yet, their impact can be just as great if not working properly. A non-functioning travel program can leave a sales force stranded; an inept consulting services program leaves a company absent the specialized knowledge that is required.

The essential elements for indirect spend and services are the same as for other performance programs: delivery, quality, cost savings per unit of measure, transaction cost, etc. These are quantifiable items. A comprehensive performance program however, uses a combination of binary questions, quantifiable results compared to targets and subjective information that cannot necessarily be put into a number. Subjective is okay. What is necessary is that the measures be agreed to in advance and that they be applied consistently.

QUANTIFIABLE MEASURES. Most indirect spend will have some areas that can be quantified, the metrics. A travel program might report the number of airline segments purchased during a given period; a mail program will count the number of pieces of mail delivered, an advertising program will track the number of media timeslots utilized. These figures provide SCOPE.

Scope is important because it provides the basis on which other measurements will occur. It is also the easiest to measure because it can be counted – number of staff extenders, average hourly rate by type, deliveries on time, number of cars/trucks serviced, etc. A mail program might deliver 300,000 pieces of interoffice mail each month over a 26-state area. These are

the easiest measurements to obtain. Next on the list of quantifiable measures are COST SAVINGS.

With cost savings, things start to get a little more creative. In addition to the "before and after" price being paid for a rental car, one might also track the reduction of the average hotel night cost since the online booking tool began restricting employees to preferred hotel properties. Cost avoidance of establishing a corporate travel and expense policy for consultants is a cost savings measure of a different slant; or the reallocation of reprographic assets might avoid the cost of bringing in additional units. The 300,000 pieces of mail might generate a cost savings of $0.025 per piece due to negotiation – generating $7,500 in savings. There are many types of cost savings.

SUBJECTIVE MEASURES. Subjective measures are the metrics that tend to baffle. They include those that address concerns such as price to market, customer service, compliance, use of technology, process enhancement, responsiveness, change management or quality improvement. Some examples:

Cost savings for an Oracle programmer will not occur year over year since the salary for the position is not likely to continue to head south. However, establish the criteria and mechanism to benchmark the going rate for an Oracle programmer in a given geographic area instead and target the supplier to come in at 8% less. That is a target that can be measured and hit year over year.

It may not be possible or desirable to force customers to use a new online booking tool for travel. It may be possible to track the travel reservations that are being made using the online booking tool by department or business unit to help understand what areas are not getting on board and address them directly.

In short, instead of looking at the broad question of service and performance, break the service or spend element down. The unit of measure may be dollars, pieces, units of time, or anything that is meaningful to the procurement professional, the supplier and/or the client.

To measure a suppliers performance in providing the best quality of contractor candidates, track how many resumes are coming in, how many are getting phone interviews, face-to-face interviews and placements. In addition to keeping the supplier focused on the quality and not the quantity of resumes, this type of data also provides ready-made feedback. The conversation with the supplier who is providing candidates but getting no initial interviews is likely to be very different than the one who gets initial interviews 80% of the time, face-to-face 50% of the time, but no placements. In either case, the supplier knows where they stand and what the need to work on, and procurement understands how the supplier ranks with their competitors.

In the overall performance program, the interoffice mail example might now look something like this on a scorecard:
Service description: 300,000 pieces of mail are delivered each month over a 26-state area.
Supplier generates continuous cost savings:
$7,500 in savings generated from a cost per piece reduction of $0.025 each negotiated in the last agreement.

Supplier provides consistent lead time:
Regular interoffice mail is delivered within three business days 99.2% of the time.
Supplier provides process improvements and reductions to total cost of ownership (TCO):
This reliable service has caused a 76% reduction in overnight packages between company locations, providing $42,000 in cost avoidance.

When developing a performance strategy and/or supplier scorecard, keep the following in mind:
1) Capture the scope of the service. No matter what you measure going forward, having a quantifiable snapshot of the activity will help.
2) Prioritize what is important and focus on that. Don't track something if you have no intention of doing anything with it.
3) Ensure your supplier understands why this is important to you and what the impact of poor performance is.
4) Make your supplier an active participant. They may already be tracking or be measured on something similar for another client. Make the most of the knowledge base.
5) Think about how the service element breaks down. Is it a binary question with one right answer and one wrong one? Is it quantifiable?
6) All elements are not created equal. Use weighting to obtain an overall score that represents what is most meaningful for you.
7) If using survey or feedback data, be sure the most likely participants are not going to be unhappy customers. If so, weight the data accordingly.
8) Test the data that is reported. Make sure it provides the service information that really is important to you.
9) Audit all data – quantifiable and subjective. Never assume you understand how data is being collected.
10) Don't be afraid to go back to the drawing board.

By keeping these points in mind one can develop a useful performance measurement program that provides more than just a spreadsheet. It will also strengthen the supplier relationship by providing consistent feedback.

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