

VALUE CHAIN

GROUP

Supplier Evaluation: The Value Proposition

Presented by:

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Supplier Evaluation

What it is:

- The process of evaluating suppliers' business processes and practices and monitoring supplier performance for the purposes of reducing costs, mitigating risk and driving continuous improvement.

Supplier Evaluation

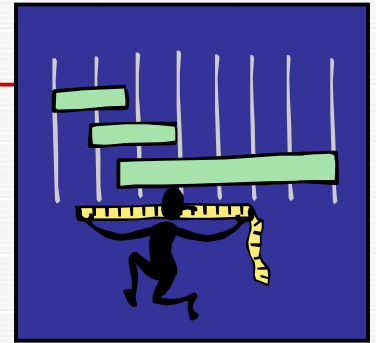
What it does:

- Helps companies focus resources on proactive, value-added activities instead of reacting to supplier performance-induced problems (i.e., defects, expediting, excess inventory, late deliveries to customers, work stoppages, reduction of market competitiveness, etc.)
- Helps firms find and remove hidden cost drivers

Supplier Performance Management Today

- ✓ **Most companies measure less than half of their suppliers and do not have the ability to measure them consistently**
- ✓ **Most companies are not satisfied with their ability to measure supplier performance**
- ✓ **Most companies are challenged by both developing meaningful metrics and turning them into actions that improve supplier performance**

SPM and Results



Best in Class

Top 20% of aggregate performance scorers

- 68% have programs in place, 32% for 3+ yrs
- 70% measure 51% or more of supply base

Demonstrate effectiveness across most common metrics:

- 69% experienced improvement in quality of goods and services
 - 62% in on-time delivery
 - 56% in price competitiveness
 - 56% in service capability and performance
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Middle 50% of aggregate performance scorers

- 60% have programs in place, 20% in place 3+ years
- 24% measure 51% or more of supply base

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- 50% experienced improvement in quality of goods and services
 - 53% in on-time delivery
 - 44% in price competitiveness
 - 40% in service capability and performance

Laggard: Bottom 30% of aggregate performance scorers

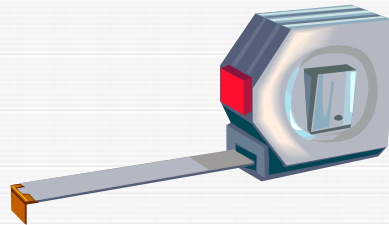
- 54% have programs in place, 16% in place 3+ years
- 5% measure 51% or more of supply base

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- 39% experienced improvement in quality of goods and services
 - 45% in on-time delivery
 - 38% in price competitiveness
 - 32% in service capability and performance

Source: AberdeenGroup, March 2007

Why Measure Supplier Performance?

Increase performance visibility



If you can't measure it, you
can't manage it.....

Corollary: Whatever you can easily measure you
are going to end up managing. Important to
measure the right things.

Value Proposition

Evaluate suppliers

+

Uncover hidden cost drivers & risks

+

Find quality & performance improvement opportunities

- = Develop the relationship
- = Reduce risks
- = Reduce supplier costs



Remove the Hidden Cost Drivers

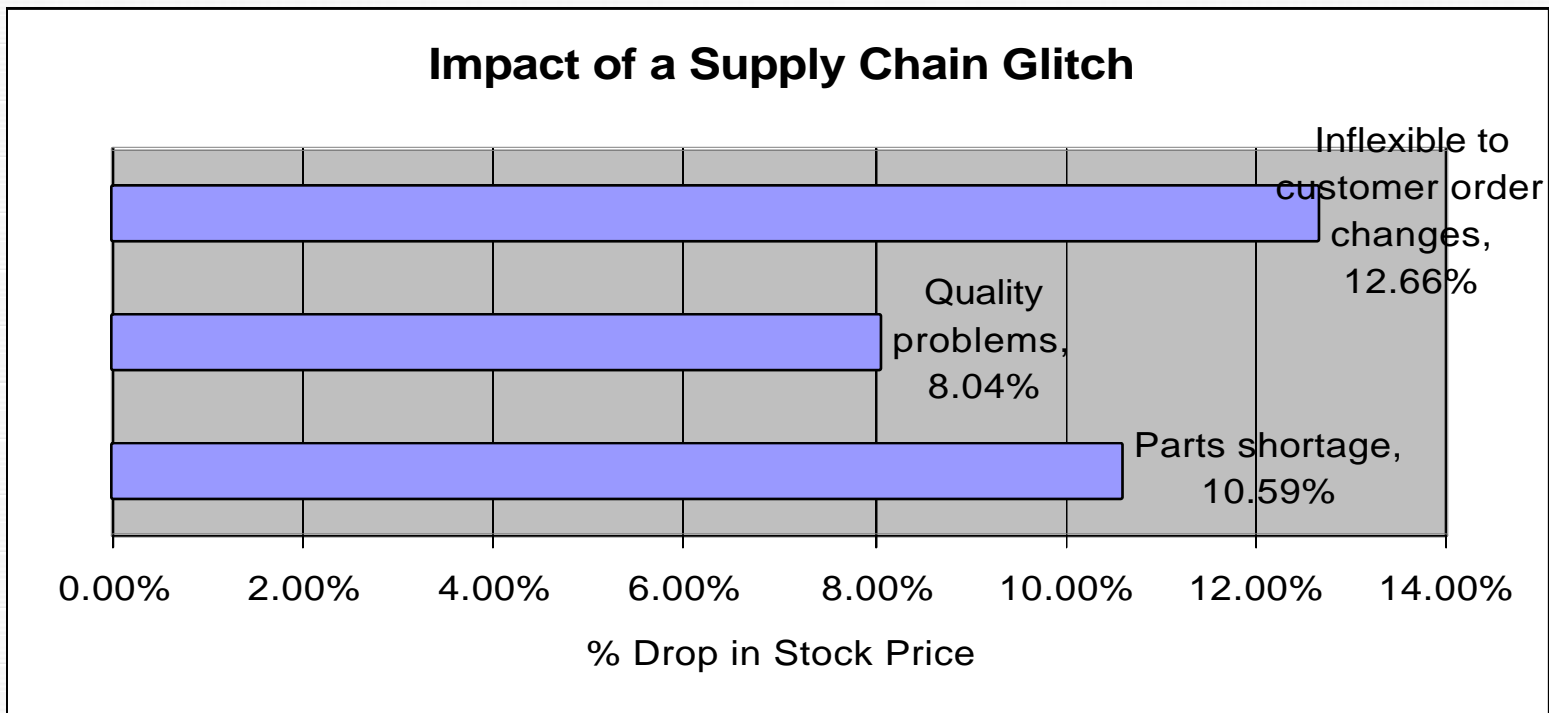
Customer complaints
Long purchasing lead times
IT system issues
Quotations errors
Shipping errors
Incoming inspection
Counting problems
Excess inventory
Shortages
Expediting



Call centers
Invoicing problems
Rejects
Warranty returns
Rework
Schedule changes
Order changes
Poor communications
Stocktaking
Moving
Lost time

Cost Drivers

- Money is hidden in inventories, time and inappropriate quality throughout the supply chain
- Examples of impact of a supply chain glitch on shareholder value in percent decrease in stock price*

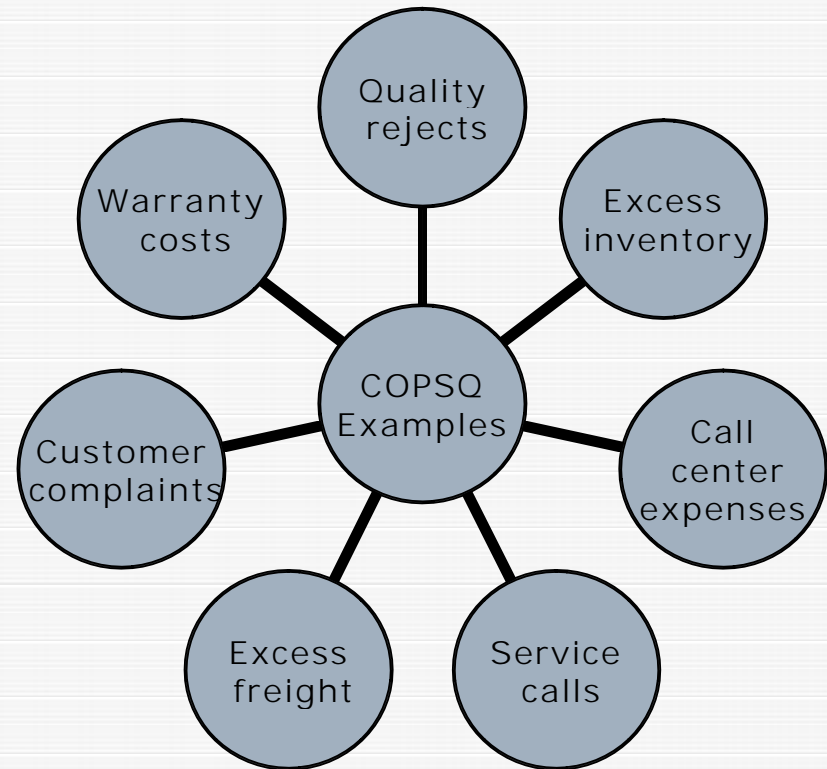


* "Quantifying the Impact of Supply Chain Glitches on Shareholder Value," by Prof. Vinod Singhal of Georgia Tech, 2003

Supplier Evaluation ROI

Rules of thumb for reducing the cost of poor supplier quality (COPSQ):

- COPQ= 10-25% of sales
- COPSQ: ranges from 25% to 70% COPQ



Significant financial and operational impact of reducing COPSQ

Alignment is key

Procurement to
Corporate alignment:

- Corporate goals & strategies
- Procurement strategies
- Performance expectations

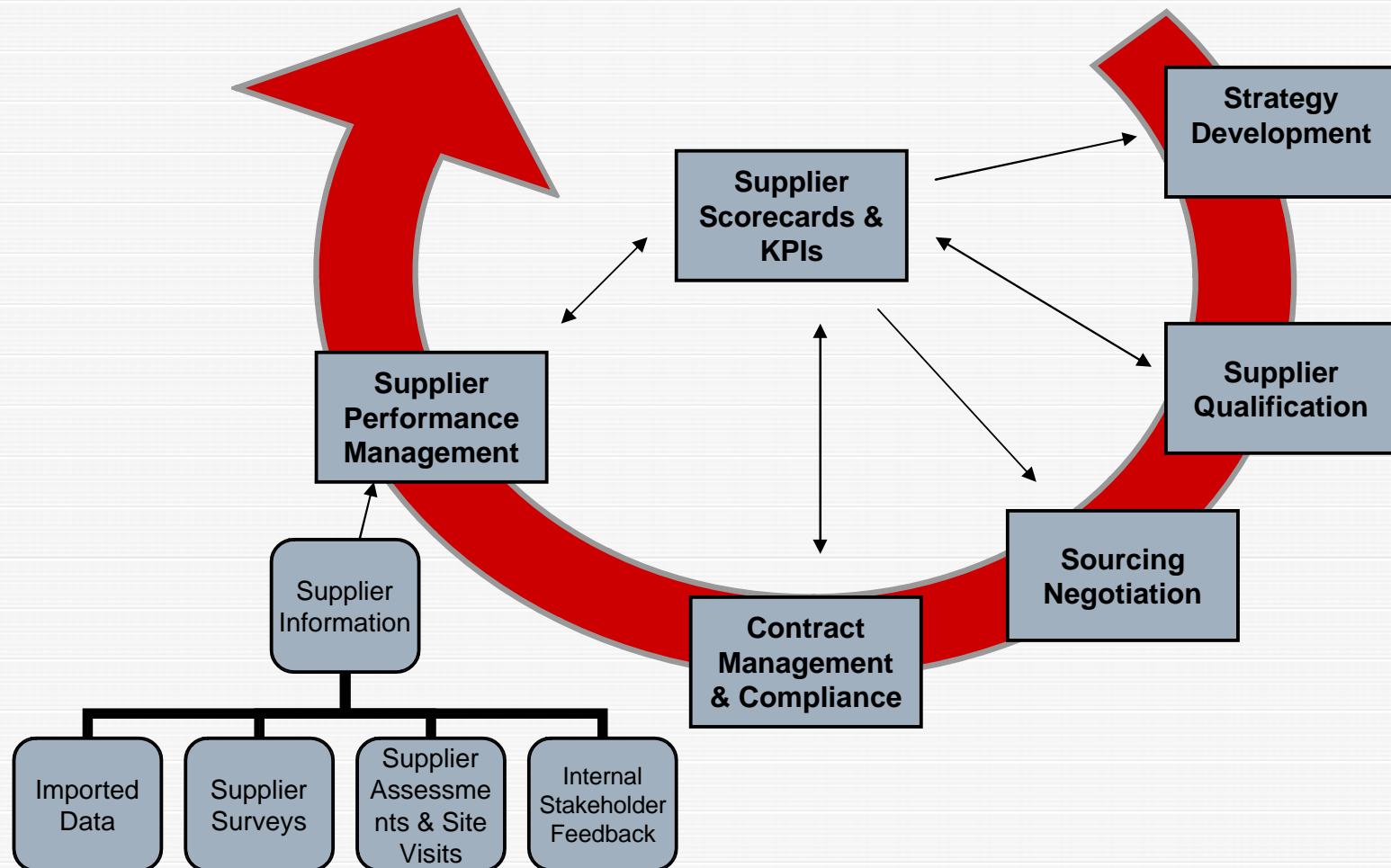


Customer/Supplier
alignment:

- Value of the relationship
- Business ethics
- Standards of excellence
- Commitment to continuous improvement

Alignment necessary for management support and measurable results

Use Supplier Performance Data Throughout the Procurement Lifecycle



Performance Improvement

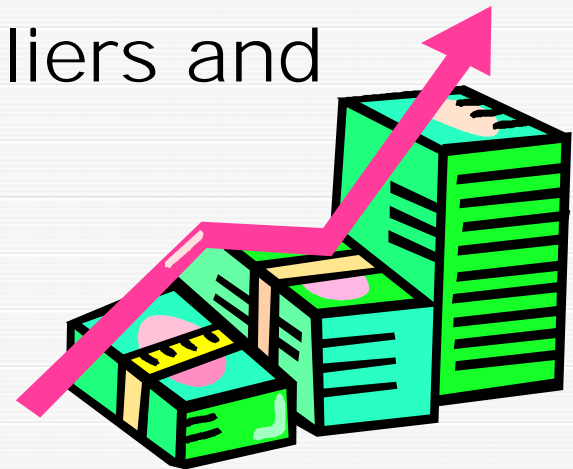
- Best practices companies invest in supplier development resources
- World class companies measure ROI on those resources
- Simply measuring performance results in improvement
- Get full value and reduce risks by turning performance metrics into performance improvement
- Use incentives and rewards

Barriers to success

- Measure low-impact or less important items
- Measurement without action
- Little or no feedback on performance to suppliers
- Performance expectations not communicated to suppliers
- Too many resources cleansing data and arguing about data integrity
- Value not captured or communicated to management

6 Key Success Factors

1. Management buy in & support
2. Alignment with company and organizational goals and objectives
3. A good process in place
4. Communications: with suppliers and within your organization
5. Actions
6. Measurable results





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