



Supplier Performance Improvement

By Dale H. Allardyce

Most manufacturers in today's challenging and complex global business environment understand how dependent their success is on the strategic and operational performance of their suppliers, but surprisingly, many have not taken the steps necessary to manage and optimize their supplier's performance, and hence, the value they receive.

As all manufacturers are painfully aware, poor supplier performance and supply disruptions create the potential for:

- Disruptions in their fulfillment of customer orders and commitments
- Lost customers or damaged customer relations
- Lost sales revenues and margins
- Poor product quality and/or rework
- Production plan and scheduling changes
- Increased lead times and cycle times
- Excess inventory and operational costs

The "Leaned-Out" Supply Chain

Many suppliers have "leaned out" their global Supply Chains, making them more rigid, fragile and unable or slow to respond to changes in demand or conditions, which can have an immediately negative impact on their performance and can create supply disruptions, quality issues and excess costs for manufacturers and their customers.

This "leaning" of the global supply chain is exacerbated by the fact that many manufacturers have not clearly defined and communicated performance goals, and the methodology and data for measuring performance to their suppliers. In addition, performance goals often don't support or link to the critical business objectives of customers, manufacturers and/or suppliers, and are often dictated rather than collaboratively negotiated. The procurement and supplier management functions and associated resources in many manufacturers are merely negotiating prices, placing orders and managing supply disruptions. Unfortunately, however, poor supplier performance and disruptions usually cost more than the periodic negotiated price reductions save. Many manufacturers are buried by, and more focused on correcting the immediate problems at hand rather than eliminating the root causes creating those problems. Customers are experiencing disruptions, delays and poor quality as a result of both poor supplier and manufacturer performance.

Challenges

In today's fast paced and hectic business environment, many manufacturers rely on highly reactive organizational approaches to resolve supplier performance and supply disruption issues.

Many manage suppliers tactically and as a result, do not have an explicit supplier performance management and improvement strategy and plan. In order to maximize supplier performance, manufacturers must evolve beyond this reactive approach and adopt a strategic, proactive and targeted approach to improving supplier performance and preventing costly disruptions.

So what are some of the major challenges you will incur on your journey to improving supplier performance? To determine the challenges your organization will face and your ability to effectively address them, you need to begin by asking yourself the following questions:

Supplier Performance Goals

- Do your supplier performance goals support and/or link to your critical business objectives?
- Have the right performance goals been established in order to maximize on-time performance and quality, while minimizing waste, cost and cycle time?
- Have you clearly defined and communicated to suppliers your expectations, performance goals and the methodology and data for measuring their performance?
- Are performance goals communicated and understood within your own organization?
- Are supplier performance goals dictated to, or collaboratively negotiated with your suppliers?
- Do the goals motivate and guide behavior – within your organization and your supplier's organization?

Metrics and Measurements

- Does your organization have a defined ongoing approach to identify under-performing suppliers and what areas of performance are below goal and require correction?
- Do you have the right data and metrics in place to identify and manage critical supplier performance issues on a real time (or close to real time) basis versus a monthly rearview mirror basis?
- Do your employees understand their goals and metrics - are they committed to achieving them?
- Do your suppliers understand their goals and metrics - are they committed to achieving them?
- Is your supplier performance data actionable – is it timely, complete, reliable and accurate?
- Is performance measured and preventative/corrective action taken on a timely basis?
- Are you capable of forecasting or predicting critical supplier performance based on performance trends, deviations and variability in order to project and prevent degradation/disruption?

Root Cause Analysis and Corrective Action

- Do you have data-driven root cause identification and analysis methodologies in place for corrective action plan development?

- Do you possess the capability to determine why a supplier’s performance is below goal based on data and root cause analysis in order to determine specific improvement opportunities?
- Do you know who the appropriate subject matter experts and stakeholders are who must be engaged and participate in supplier performance improvement to ensure success?

You will only be effective in driving supplier performance improvement by addressing each of these questions and transforming supplier performance and disruption management into a systematic, repeatable process that can be monitored, evaluated and further improved.

Supplier Performance Improvement Process

An effective Supplier Performance Improvement Process minimizes variability and risks by developing a strategic, predictive and preventative approach that reduces impact through a structured process of identifying results and trends in supplier performance on a timely basis in order to assess risks and deteriorating performance as soon as they occur so immediate corrective action can be taken. The major benefits and business impact are summarized below.

Supplier Performance Improvement Program			
	Performance Targeted Outcomes	Why it is Important?	Business Impacts
Performance Improvement Processes	Clearly defined performance metrics, targets and measurement methodology -----	Enables mutual performance assessment and collaborative issue resolution -----	Speeds problem recognition and resolution -----
	Measure, manage and improve supplier performance results -----	Focused continuous improvement drives results -----	Makes performance improvement and disruption case management into a systematic, repeatable process that can be monitored, evaluated and further improved
	Monitor and mitigate adverse supply performance trends -----	Enables quick detection of root cause and corrective action -----	
	Standardize supplier evaluation ratings -----	Enables supplier rewards system of supplier incentives -----	
	Rank suppliers objectively	Partner - Fix - Replace	

Implementing a Supplier Performance Improvement Process is a transformational change that will take time to plan, test, refine, implement and effectively execute. It is not a program – it is an ongoing process that must be embedded into the culture of your organization. So get started now because you’re potentially already behind your competitors!

Supplier Segmentation and Prioritization

In order to initiate a Supplier Performance Improvement Process, you should first segment your suppliers into three categories - those you have determined to be strategic, critical and commodity. Next, segment your strategic and critical suppliers based on risk and value in order

to prioritize your efforts on those suppliers that provide a high level of value to your organization or pose a significant risk if performance expectations and goals are not achieved. Supplier value includes factors such as annual dollar purchases, number of products supplied, unique capabilities and products, number of finished products impacted by the supplier and number of manufacturing facilities impacted by the supplier. Risk includes factors such as number of sole sourced products, availability of alternative suppliers, number of facilities capable of manufacturing each product, geographic location of production facilities and the supplier's financial strength and health.

Model and Analyze

You are now ready to analyze your strategic and critical supplier's performance in order to prioritize the return on your Supplier Performance Improvement Process investment. It is not important to analyze every detail of a supplier's performance or to model and analyze every supplier. Review summary measures of the metrics on a plant, division or company-wide basis for strategic and critical suppliers such as:

- Supplier lead-times and the degree of variability
- Supplier order fulfillment cycle-times and the degree of variability
- Supplier on-time-shipment and the degree of variability
- Supplier on-time-delivery and the degree of variability
- Past due orders and the range of past due order aging
- Days-of-inventory on-hand (raw materials, WIP, finished goods)
- Quality and cost of poor quality for the past four to eight quarters
- Supplier value and risk

You have now identified improvement opportunities and typically, there are many. The best way to classify and prioritize opportunities is to analyze and model the impact of process improvements to measurable performance advantages related to speed (cycle times), lead-times, on-time delivery, reduced variability, quality, costs and inventory levels.

Supplier Performance Improvement Pilot Programs

Once strategic and critical suppliers requiring performance improvement have been identified and prioritized, scope and plan a select small group of high value high risk suppliers for performance improvement test pilot programs. Transformation is harder than analysis, and selecting the right test pilot programs can make all the difference in developing and testing your supplier performance process improvements. Find opportunities to develop and test the performance improvement processes where the management teams are either early adopters or are desperate for performance improvements. Find opportunities that are big enough to matter but also relatively stand-alone so that implementation does not get bogged down by organizational complexity. Finally, and most importantly, obtain senior leadership's commitment and support to develop and implement a best-practice supplier performance improvement

capability. The organization needs to see and hear that the changes being made are considerable and important to the company.

You are now ready to form supplier improvement pilot teams, conduct root cause analysis, and develop and test corrective action plans. The DMAIC process provides a standardized approach for each of your pilot teams to follow in developing, testing, refining and implementing your Supplier Performance Improvement Process. A typical DMAIC approach is as follows:

Define

1. Identify pilot team leads and membership, and kick-off each team
2. Assign analytics and support for each pilot team
3. Clearly define the business problem(s), project scope, goal(s), timelines and resources required
4. Clearly define the targeted and non-targeted performance metrics and improvement goal for each targeted metric

Measure

5. Establish a performance baseline for each pilot supplier and targeted performance metric and evaluate baseline performance versus established goals
 - a. Establish/confirm pilot improvement goal(s) for each performance metric
 - b. Identify performance gap for each performance metric
6. Confirm performance metrics and sub metrics such as On-Time-Shipping (Late, Early, No ASNs) and On-Time-Delivery (Late, Early) where appropriate for inclusion

Analyze

7. Conduct preliminary root cause analysis to determine probable cause(s) for further in-depth analysis
8. Identify and engage the pilot supplier, sites/facilities and functional areas, subject matter experts and stakeholders required for in-depth root cause analysis and corrective action
9. Conduct in-depth root cause analysis to confirm or deny preliminary root cause analysis and identify "noise" versus true root cause(s)
 - a. Analyze probable root causes to confirm or deny
 - b. Identify and develop additional analytics required for root cause determination
 - c. Identify true deficiency root cause(s) for each performance metric

Improve

10. Develop a corrective action plan and timeline for each targeted performance metric and assign accountability
11. Execute a corrective action plan(s) for each performance metric
12. Identify and remove barriers and constraints and appraise the other pilot teams
13. Revise and refine supplier performance improvement processes where required
14. Share lessons learned with the other pilot teams

15. Monitor results, resolve outstanding implementation issues and take additional action where required to drive improvement results

Control

16. Monitor results over time to ensure improvement sustainability for each performance metric

Conclusion

You are now ready to take the learnings from each of the pilots to finalize and implement your Supplier Performance Improvement Process. As stated earlier, this is a transformational change that will take time to plan, test, refine, implement and effectively execute. It is not a program – it is an ongoing process that must be embedded into the culture of your organization. Senior leadership must be committed and support the development and implementation of a best-practice supplier performance improvement capability. The organization needs to see and hear that the changes being made are considerable and important to the company. The major benefits and business impact to your company and your customers are worth the journey!