Creating an Effective Supplier Management System

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While many companies have harnessed some of the great Enterprise Resource Planning tools out there in search of a perfect supplier management system, few take the time to set up an effective supplier scorecard, to gauge efficiency in performance metrics.

As we will discuss, it is no longer enough to just create a lean supply chain. You must look further into supplier management and supplier performance to maximize value, reduce risks, and associated costs.

Creating an effective supplier management system involves more than cost cutting alone. Itâ€™s wider-reaching than simply effectively sourcing, and requires that you monitor and measure the performance of your suppliers.

A Global Supply Chain

We are doing business in a world that is increasingly reliant on a global supply chain, and supplier performance must be effectively calculated and evaluated for efficiency. Global trading options are certainly not getting any smaller, and with countries like China and Russia rapidly expanding their footprint in the free market economy, supplier performance and supplier management are reaching a critical point.

Organizations no longer have the luxury of looking at their suppliers as simply a cost; they must look to suppliers as a strategic aspect of their bottom line. Integrating supplier performance into strategic decision making makes it imperative to implement supplier management performance metrics.

Align Your Goals

Yet if it were that easy, tomorrow we could establish a strategic sourcing directive for the organization that would save millions of dollars. Effective supplier management can be simple to implement, but it will require that your goals are aligned with the organizationâ€™s efforts. Good business processes will have to be established to measure performance and effective communication with senior management will be needed in order to see success. While outsourcing requires a better grasp on supplier performance metrics, simply implementing policies to squeeze efficiency out of the supply chain will get you nowhere- without support.

Take A Step Back

Step back and take a look at your supplier management practices. Do you notice an increase in the complexity of managing your suppliers? Are you seeing an increased number of supply risks? These elements are indicative of the need for an increased focus on supply chain metrics. They show that you need an effective performance measurement system. Now that you have identified a need, itâ€™s essential that you share the concerns that you have with executive management in a way that aligns the goals of the organizations with the needs of the supply chain in supplier management and performance. You are much more likely to achieve a positive outcome if a business case is created for the firm on why supplier management is important to the organization and how improving performance will reduce costs and increase proficiency.

Once that support is gained, your next step is to implement your evaluation techniques. This can be done by using a questionnaire that you distribute to suppliers, or through surveys and existing

company data. Choose the best and most reliable method for the supplier management needs that you have. For example: if youâ€™re looking at on-time delivery and quality of products, the data that you collect should come from your own internal business systems, to ensure accuracy.

Measure, Monitor and Evaluate

Next, you can determine how the evaluation criteria relate to the characteristics you are measuring. Do the measurements relate to strategies and goals? Taking the example we discussed above regarding on-time delivery, you need to ensure that the supplier management method you choose uses leading and lagging indicators. This will allow you to show how proper delivery has affected business in the past, and how improvements will benefit future business.

As you implement this scorecard policy, helping to track supplier management, you will see an improvement in the acts of suppliers, simply by displaying your interest in their performance. The goal will be to maintain supplier performance by employing corrective actions, when it is found that supplier performance needs improvement.

While not every supplier will walk away having a perfect report card, you will have reliable quantitative measures of performance with which to gauge supplier management and improve your ROI. This supplier management system will give you the feedback you need to then implement a more effective program. Consider bringing on a consultant or a supply chain consortium that can help you to pre-screen and prequalify contractors for the qualifications you need them to have.

Particularly now that you have identified the issues that you have and what improvements need to be made, these outside resources will be more equipped to help you directly. Supplier performance management will allow you to reduce risks, lower costs and create a leaner system. Implementing these procedures will bring you one step closer to creating more efficient supply chain for the company as a whole.

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