CIPS Positions on Practice

CIPS views, opinions and beliefs are stated throughout the document; however the broad practice statements which underpin the text are as follows:

- Performance monitoring of suppliers is a fundamental part of contract management.
- Relationship management is a key skill of purchasing and supply management professionals.
- Purchasing and supply management professionals should perceive performance monitoring as a two-way process and be open to feedback and suggestions for improvement from the supplier.
- Buyers and suppliers should, as appropriate, jointly measure combined performance towards joint goals.
- The monitoring of suppliers’ performance should be against that which is agreed in the contract and supporting documentation such as service levels and partnering agreements; and a key objective from the outset should be to aim for continual improvement.
- Effective purchasing and supply management involves determining the appropriate methods of managing the supply base - different solutions are appropriate for different situations - therefore CIPS cannot be prescriptive about the use of specific measures.
- Purchasing and supply management professionals should also monitor the performance of their main suppliers to ensure they remain familiar with their profiles in terms of e.g. growth, market share and financial performance.
- Purchasing and supply management professionals need not be those undertaking the performance monitoring of suppliers, or indeed the wider role of contract management; however they should be responsible for ensuring that those who are undertaking the role are properly trained and supported.

Performance Monitoring of Suppliers and it’s fit within Purchasing and Supply Management

For the purposes of this practice document - the term ‘suppliers’ includes contractors for works and services as well as supplies; the term ‘performance monitoring’ means measuring a supplier’s ability to comply with, and preferably exceed, their contractual obligations i.e. monitoring post contract. CIPS recognises this is sometimes referred to as ‘vendor rating’ especially where specific measures are used. It can also be argued that monitoring the performance of suppliers can be:

a) an aspect of supplier appraisal (i.e. the process of evaluating potential suppliers) and can be extended to supplier selection criteria during tendering; and
b) an aspect of the management of approved supplier lists.

CIPS believes that performance monitoring is a fundamental element within contract management and supplier development (the broader subject is covered in a separate CIPS practice document). Contract management includes activities of a buyer during a contract period to ensure that the seller fulfils all his obligations under the contract.

At the start of a contract there is inevitably a degree of risk and uncertainty for the parties involved. As the contract proceeds both parties learn from experience and the risk begins to diminish as the original contract assumptions come to be tested. For these reasons too it is important to hold regular review meetings where both parties ask how they can make the contract perform better. Hence the need for monitoring and measurement of performance against that agreed in the contract, its supporting service level descriptions and other documentation such as partnering agreements. These meetings should be two-way, with both parties learning from each other. Thus the buying organisation needs to seek the supplier’s comments as to how well they are carrying out their side of the contract; for example, to check whether all information is being provided on a timely basis.

It is vital that the buyer keeps managing the supplier and deals with problems as and when they arise. If a supplier begins to suffer financial strain in discharging his obligations then, commercial nature being what it is, the supplier will begin making behind-the-scenes cutbacks, irrespective of what may or may not be specified in the actual contract. The key is to address problems when they are still minor and therefore easier to resolve.

There are many contractual relationships with suppliers where it is more important to agree joint goals and jointly measure performance against these goals - rather than the buyer simply monitoring the supplier's performance. This requires transparency and a sharing, as appropriate, of business goals. This type of relationship allows for the supplier to monitor performance provided a suitable process of validation is in place.

Relationship management is part of the performance monitoring process. It is a key skill for the buyer and can be summarised as the proactive development of particular relationships with suppliers. A managed relationship is one in which both parties are sufficiently intimate that they each know how the other will react; the relationship is predictable.

The purpose of investing in a relationship with a supplier is to improve the supplier’s performance in fulfilling the needs of the buying organisation. CIPS has produced a separate practice document on this related subject.

Assessment of Supplier Performance

There are a number of key themes which might be used to assess supplier performance and which might be used as a yardstick for determining whether good practice is being
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achieved in specific situations. Some examples of such themes (together with their sub-categories) are as follows:

- Product Quality
- MTBF (Mean Time Between Failure)
- Percentage of incoming rejects (delivery accuracy)
- Warranty claims
- Service Quality (against agreed SLAs)
- Call-out time
- Customer service response time
- Performance against agreed delivery lead times
- Relationship/Account Management
- Accessibility and responsiveness of account management
- Commercial
- Costs are maintained or reduced

Whilst traditional 'hard' issue key performance indicators such as those above are obviously important it is advisable also to be aware of the so-called 'soft' issues so frequently encountered in other contexts. These include such considerations as ethical issues, professional relationships and cultural fit.

The measures, objectives and targets used in the monitoring of the supplier's performance must reflect those that were agreed when the contract was let. That is why it is important to specify a commitment to continuous improvement at the outset. It would be unfair to the supplier to suddenly introduce a range of measures after the contract had begun - however if such an introduction mid-term through the contract is unavoidable then it should be negotiated and agreed in a professional manner and not merely imposed on the supplier.

CIPS believes that suppliers should always be asked to continually improve their contract performance. However, incentives are required for the supplier to reflect improvement in costs or to give more for the same price. Competition and the possible loss of the business may well be an incentive but where the supplier is aware that there is little risk of that (in a genuine sole-source situation for instance) things may be very different.

There is arguably another reason for doing it - in that over time the market and the needs of the customer can change and this needs to be taken into account one example might be the closure of a distribution terminal because of the construction of a new road which means that an operation could be serviced from some other terminal.

Any activities ought to be on a prioritised basis as the benefits realised need to be proportional to the degree of effort expended by both parties. Performance monitoring can be a time-consuming task and so the effort and methods should be proportionate to the value and importance of the contract. CIPS believes that effective purchasing and supply management involves determining the appropriate methods of managing the supply base - different solutions are appropriate for different situations e.g. although not always appropriate, supplier reduction programmes have helped in the management of the supply base and are particularly beneficial in respect of monitoring suppliers.

CIPS believes that a further purpose in undertaking performance monitoring is to provide an opportunity for the supplier to propose changes in the behaviour/approach of the buyer in order to enable them (the supplier) to improve their performance (there may be different solutions open to the buyer which could be value adding).

Monitoring the performance of suppliers is a key aspect of purchasing and supply management but one which can easily be under-resourced and neglected. When performance monitoring is undertaken post-contract, the purpose is twofold a) to ensure that the supplier is meeting the performance criteria e.g. service levels and quality, laid down in the contract and b) to identify room for improvement. The object of performance monitoring is to improve performance of all parties involved in the contract; it should not be seen as a way of attacking the supplier. Both parties have to perform and learn to measure each other and provide feedback.

Elements of Supplier Performance

In summary, there are three different aspects to the monitoring of supplier performance post-contract.

1. Gathering factual, and therefore objective, information about their performance such as lead-times from order, quality standards being met, pricing compliance and whatever else is laid out in the contract. This type of information can usually be obtained from IT systems within the organisation in the form of management information. With all of these aspects, it is good practice to be as consistent as possible in the approach to the performance monitoring.

2. Obtaining the experiences of the customers in respect of service, attitude and response rates for instance - which should be as objective as possible and reflect reality but, inevitably may in some cases be subjective. One way to collect information on performance is by individual interview against a defined set of questions. This can be face-to-face or on the phone but needs to be interactive so that the interviewer can explore the background when necessary. The purchasing and supply management function will have to assess the validity of any subjective remarks. Sometimes commitment is required from customers, such as engineers in the field, to keep records of their experiences of working with a supplier in order that objective factual data can be used. Another way is to undertake customer satisfaction surveys which can be quite short and distributed by email.

3. The supplier's experience of working with the buying organisation must be considered in the evaluation, as it might be the case that they are facing unnecessary obstacles or dealing with difficult people.

Assessing the Performance of Key Suppliers

Key suppliers of high value and high risk goods and services (outsourced service providers, for instance) demand close performance monitoring and this is where most resources should be employed. This might involve monthly meetings where performance is discussed, issues resolved and new targets set as appropriate. CIPS encourages purchasing and supply management professionals to hold feedback meetings with suppliers at their premises so enabling them to assess efficiency levels on the supplier's 'home ground'.

The situation may however be somewhat different for outsourced services such as cleaning or catering where the meeting should be held where it facilitates inspection of the problem areas - this approach also ensures that the outsourcing contractor's senior management is present at the site of delivery.
Suppliers providing goods and services on security/bottleneck type goods and services i.e. those which are relatively low value but of significant importance to the organisation - for whatever reason - need regular monitoring as, in some cases, supplier failure can bring a business significant financial loss or even failure. The final, and in many ways, the most straightforward significant category of spend is leverage i.e. high value/volume and low risk - the usual method of monitoring the performance of such suppliers is to hold quarterly meetings in which feedback from both parties is reviewed.

However, it is not just ‘term’ contracts that need monitoring; suppliers of capital equipment who provide maintenance services should also be monitored to ensure that their service is consistent with what was agreed at the outset - and indeed that the performance of the equipment meets the customer's expectations.

Responsibilities, Remedies and Results

As stated above, CIPS recommends the practice of ensuring that performance criteria are an explicit part of the contract so that both parties are fully aware of what is required of them post-award.

Although monitoring performance of suppliers should be directed and managed by the purchasing and supply management function, it need not necessarily be carried out by them. CIPS believes it to be of critical importance that whoever carries out performance monitoring (and especially the review meeting with suppliers) is properly trained and supported by the purchasing and supply management department. This is particularly important when the payment mechanism in the contractual arrangement is contingent on supplier performance. It should be borne in mind that it is the technical people, who may well not appreciate commercial nuances, who need to be encouraged to carry out the monitoring process.

In the event that a supplier consistently fails to meet the requirements of the contract - and does not respond to feedback or suggestions - then the remedies set out in the contract must be brought into play.

Since performance monitoring should lead to continual improvement from suppliers, most suppliers would expect a long-term business relationship with the client. This may involve contracts of several years duration, with options to extend for further periods if the supplier's performance is satisfactory.

A final point is that monitoring suppliers should not just be about their day-to-day performance as viewed by their trading partners, but also in their performance as a business. CIPS strongly encourages purchasing and supply management professionals to monitor the performance of their main suppliers for example, in terms of their growth, market share and financial standing in order that the buyer remains aware of the profile of his key suppliers. In the case of particularly key suppliers - regular meetings with their directors on strategy and future policy and prospects is important with perhaps purchasing and supply management professionals being present to provide a common thread. This however assumes the companies who are party to the contract are of similar size; the reality may be different so that the buyer in an SME for instance will almost certainly have a different perspective to that enjoyed by a global supplier.

Conclusion

Performance monitoring of suppliers is a key aspect of purchasing and supply management and one that requires a range of skills - in particular relationship management. It is the responsibility of the purchasing and supply management professional to negotiate and agree appropriate performance criteria at the time the contract is let and these measures, together with a commitment to continual improvement should be clear to all concerned. The level and frequency of performance monitoring is dependent on the value and criticality of the contract to the buying organisation; and it need not be the purchasing and supply management professionals that carry out this function or indeed the wider role of contract management. The important point is that those who carry out the function are properly trained and supported by professional purchasing and supply management.

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