What are The Best KPIs for Vendor Management?

Apple founder and tech pioneer Steve Jobs once said, “Great things in business are never done by one person. They’re done by a team of people.” For procurement professionals, the team they call on is built around not just staff, but a supply chain of vendors, all of whom have the potential to become valued allies in the pursuit of shared success.

The relationships you establish and develop with your suppliers can have a powerful impact on both your procurement function’s ability to build value for your company and your organization’s overall bottom line. By identifying, monitoring, and adjusting vendor management key performance indicators, or KPIs, you can develop a rich, data-driven approach to supplier management, focused on high value, low risk, and strategic sourcing.

The Importance of Vendor Management KPIs

Two of the most important ways in which procurement can support your company’s business operations are cost reductions and adding value. Both of these benefit immensely from continuous improvement, which in turn requires awareness of how well your procurement team is utilizing its supply chain and making positive adjustments as needed.

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These adjustments are part of a larger focus known as performance management. Driven by data, performance management relies on real-time, complete, and totally transparent access to important metrics like vendor performance to guide new policies and processes that reduce human error, unnecessary costs, and risk exposure across the supply chain and procurement as a whole.

Enter KPIs.

Vendor relationships are by definition transactional, but it’s not just about buying Widget X from Company Y. A clear idea of how well a given vendor fulfills their obligations while complying with your company’s legal, compliance, manufacturing, quality, and service level agreement requirements lets you quickly identify your best bets for a lean, mean supply chain—and who needs to be rehabilitated or shown the door.

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**Keeping Score with KPIs**

Evaluating vendors effectively is greatly simplified by using supplier scorecards. When clearly defined and well monitored, these scorecards allow you to communicate your expectations and evaluation methods to your vendors from day one. As a result, you quickly gain a comprehensive understanding of a vendor’s:

- Ability to fulfill orders on time
- Ability to fill orders accurately
- Ability to provide goods of adequate (preferably superior) quality
- Ability to comply with your company’s terms and conditions
- Ability to comply with legal, manufacturing, and safety requirements
- Pricing structure and potential changes to it
- Strategic opportunities (if any) available during contract negotiation
- Status as a valued, low-risk, or high-risk vendor

As you evaluate each supplier and communicate your performance review to their representatives, having hard data to back up your evaluation makes communication much more productive and helps shift the focus to improvement and away from perceived slights or arbitrary complaints.

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Let’s take a look at a few of the most commonly used vendor management KPIs, as applied to a sample vendor. Company Z supplies your company with raw materials for production, and has the potential to become a key supplier. Some of the KPIs you might use to evaluate Company Z include:

- **QUALITY**: Are the materials of the proper grade and value for use in production? How often is there an issue with inferior materials, or simply the wrong materials, being sent?
- **RISK ASSESSMENT**: Are the materials produced in compliance with all applicable laws? Are the materials ethically sourced to minimize risk of damage to reputation?
- **DELIVERY**: Do shipments arrive intact and on-time? Does the vendor have the capacity to scale for larger and emergency orders? How often are materials lost, delayed, or damaged?
- **COST SAVINGS**: How often does the vendor raise their prices? Can economies of scale be leveraged to optimize pricing for materials? Can contract management be employed to negotiate better terms on price or increased service quality?
- **CUSTOMER SERVICE**: If and when there’s a problem, how quickly and completely is it resolved? How effectively does the vendor communicate? How are complaints handled, including escalation as required?
- **EXPANSION AND INNOVATION**: Does the vendor follow continuous improvement processes in their own production? Does the vendor supply additional strategic value by suggesting new or different materials to reduce costs, improve quality, or expand features?

**NOTE**: Tracking any or all of these KPIs, and using supplier scorecards as part of a well-executed vendor management program, is both easier and more cost-effective using a centralized procurement application. Artificial intelligence and built-in automation connect and simplify every stage of the procurement process, including supplier management.

**Does Your Supply Chain Make the Grade?**

Effective supplier management doesn’t happen overnight—and it may not happen at all without the judicious use of KPIs. Engaging with your supply chain and taking the time to develop and implement the key performance indicators that matter most to the success of your business is essential, but it doesn’t have to be difficult.

Don’t be afraid to keep score—or harness the power of technology to ensure you’re being thorough and fair. Put your vendors to the test, and start building a strong, strategic supply chain that keeps costs low and value high.

**Find Out How**

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About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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