



## Valuable Metrics for Successful Supplier Management

Stringent global trade and product safety regulations have been increasingly enforced, driving organizations to seek absolute visibility across the supply chain. In efforts to ensure product is delivered on time, on budget, and within compliance, organizations are placing greater emphasis on building stronger relationships with their suppliers. Supplier management, through the use of scorecards compiled with meaningful metrics, is becoming more necessary in order to increase relationships between buyer and supplier, improve supplier performance, and improve the customer's overall competitive market. By capturing the right data, encompassing the organization's quality and social standards, and extracting relevant data from a centralized repository, companies can utilize supplier scorecards to support better business decisions.

Compiling a list of essential performance metrics requires contribution from multiple groups across one's organization to ensure corporate standards for product quality, safety, and social requirements are properly attained. The elected metrics must be applicable across the entire vendor base; order accuracy, on-time delivery, quality, fill rate, and lead time variance are all prime examples. Each group within an organization works differently with their suppliers; sourcing teams collaborate on samples and costs, and negotiate orders; quality teams ensure product is meeting quality and safety standards; and the supply chain and logistics teams follow up on a number of items, such as ASN's, carton labels, and scheduled ship dates. Collectively, all teams work meticulously to achieve one unified goal: to deliver quality product on time and at the lowest possible cost.

Continually developing collaborative relationships with suppliers based on shared goals and successes will ultimately lead to a jointly-favorable business relationship between buyers and their vendors.





## Metrics for your Business-specific Supplier Scorecard

### 1. Price Variance

*Ordered price vs. invoiced price* – Compare the price on placed orders with the invoiced price to provide visibility into any potential variance. Tracking price variance helps to identify patterns of inaccurate invoicing practices and can alert the appropriate parties to resolve financial issues and avoid future instances.

### 2. Quantity Variance

*Quantity ordered vs. quantity received* – Vendors must be monitored for accuracy in delivery. Though it is commendable when a shipment arrives on time, if shipment quantity exceeds/falls short of the ordered quantity, retailers must take corrective actions to address the surplus, shortage, and/or any additional products that still remain undelivered. Communication from the vendor notifying the retailer of quantity variances is helpful; however, if frequented, the retailer must begin to assess the overall impact of inaccurate shipment quantities.

### 3. Percentage of On-time Delivery

*Sum of initial PO lines received on time vs. sum of initial line receipts* – On time delivery is crucial to retailers and brand owners selling seasonal and fast-fashion products. This metric is widely used and accepted given the numerous risks associated with ship windows that are not met. A retailer offering a 1 day sale on own-brand products can face false advertisement penalties if product is not available in store as advertised. Adversely, if holiday product misses a ship window, the retailer is faced with dated merchandise and painful markdowns.

### 4. Percentage of Failed Items

*Percentage of failed inspection items vs. total volume for a specified period* – Leave failures at the factory! Identify poor performance early in the supply chain by gaining visibility into failed product rates. The number of failed inspections directly reflects how a vendor is performing. If providing high-quality products to the consumer is a corporate initiative, it is important to understand where the failed items originated to improve factory processes or take corrective action with raw materials suppliers. Companies that implement multiple/ meaningful inspection points have increasingly better visibility into the cause of the failed product inspection.



#### BEST PRACTICE TIP

For high-risk product categories, such as Children's Toys and Clothing, consider adding Failed Sample Rate to the Vendor Scorecard for visibility into critical product safety and quality early in the supply chain.

### 5. General Conformity Certification Compliance Rate (GCC)

*On time delivery of accurate GCCs* – Information needed to complete a GCC form requires accurate data on importer, suppliers, and third-party inspection agencies. Specific CPSC product safety regulations must be detailed, certifying the product meets each testing standard, along with information regarding the date and location of inspection testing. All information regarding product manufacturing, including date and place of manufacturing,



must be accurate in order to avoid heavy fines and costly penalties. The consistency in which suppliers comply with these regulations must be measured, as this is a form to assure brand protection for the brand owner, and ultimate safety and quality for the consumer.

## 6. Returns Rate

*Number of product returns from an Order vs. all lines on the Order –*

Understanding a supplier's rate of returns provides insight into quality delivered and the frequency of defective items to leave the factory, which could aide to potentially uncover poor production practices. A high rate of returns can subject the vendor to more frequent factory audits and higher standards for product quality. Ultimately, the retailer or brand owner should set a marginal percentage expectation (e.g. +/- 3%) as a standard for vendors in order to reveal which vendors rarely incur returned merchandise, in comparison to those with frequent returns over the accepted 3%.



### BEST PRACTICE TIP

Some companies opt to measure returns based on dollar amount. Try dividing the cost of returned products by Cost of Goods Sold (COGS).

## 7. Fill Rate

*Total items filled on first invoice for each Order divided by the total number of items on all Orders –* The goal for each vendor is to ship each order in its entirety. At times, situations may occur forcing a split shipment. Orders that are not shipped complete and on time negatively affect supply chain performance. In some cases, retailers will offer a 3-day buffer in which to receive the second shipment. Identifying patterns with vendors who continually miss the full quantity and "on-time" shipping window, can give retailers the upper hand in future negotiations.

## 8. Failed Factory Audit Rate

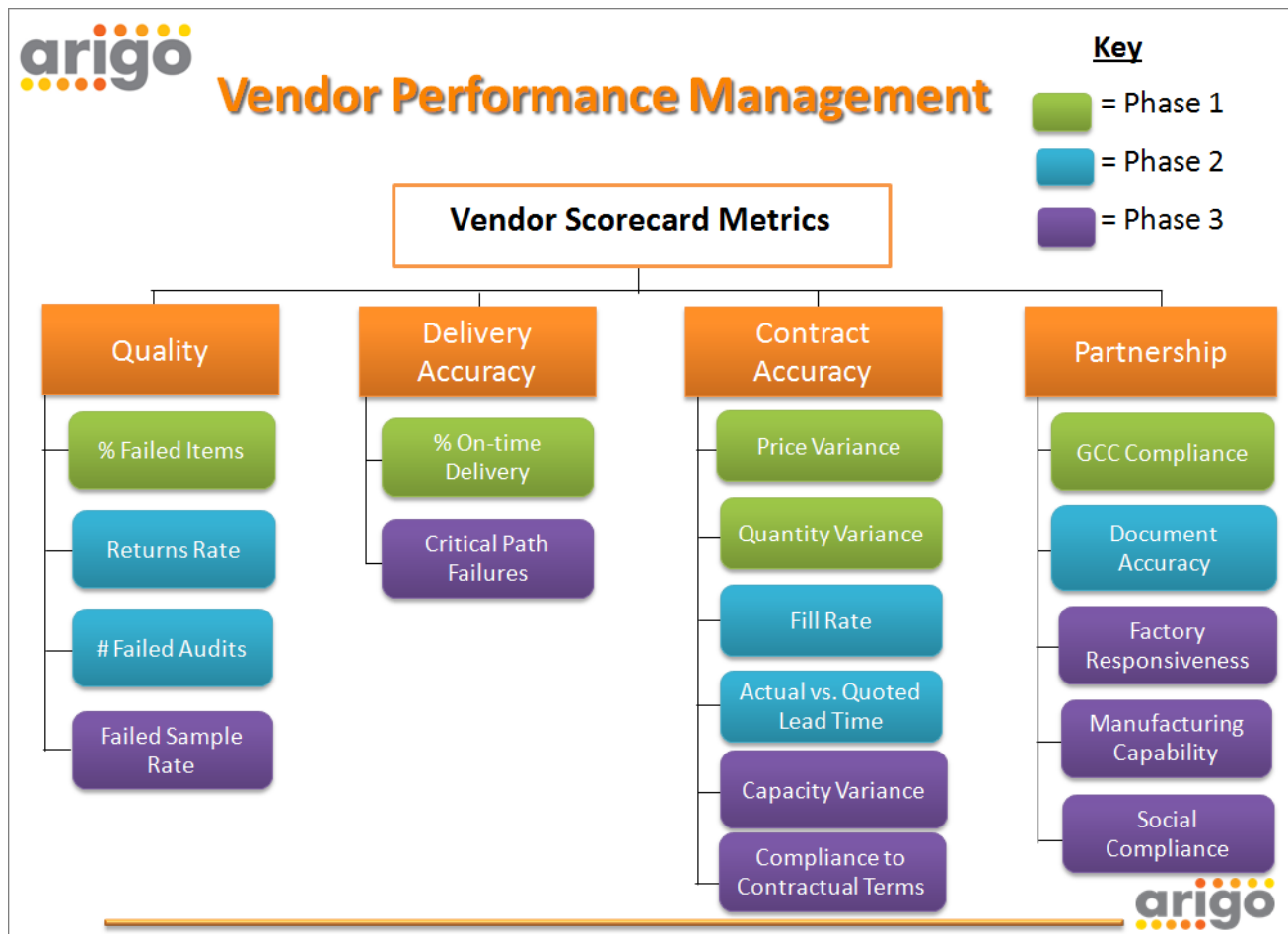
*Number of failed audits divided by total audits –* It is necessary to understand how often a vendor's factory fails audit and learn why the factory has not conformed to standards. If the pH balance in the water is slightly off, it can be considered a low-risk failure; however if the factory fails due to violation of a Child Labor Law, this becomes a high-risk situation calling for immediate attention to resolve the issue. Brand protection involves understanding the risk(s) and putting processes in place to give full visibility into all factory operations.

## 9. Lead Time Variance

*Actual vs. quoted lead time –* All vendors include an estimated lead time per order; however, a variance in the quoted lead time from the actual lead time can have a devastating impact on the supply chain. One of the best ways to reduce lead time in the supply chain is to develop collaborative relationships with suppliers. Working together to improve documentation processes and ensuring shipping labels are positioned correctly on each package, for example, can reduce lead time by 1-3 days. Again, for a retailer focused on selling seasonal goods, this positive impact on lead time and expected delivery dates can mean higher profits and minimal markdowns.

## 10. Document Accuracy

Sum of ASNs received with 100% accurate data vs. all ASNs received – An essential component of a vendor scorecard should include metrics concentrating on a vendor’s ability to report accurate data when needed. There are various documents exchanged between retailer, vendor, 3<sup>rd</sup> party inspection companies, Customs, 3PL’s, and more. There are also many regulations in place for foreign trade and product safety – tied with hefty penalties for those who do not conform. It is imperative to measure a vendor’s ability to deliver accurate documentation in a timely manner, and it is in the organization’s digression to decide which documents to measure for accuracy on a vendor scorecard. Documents for consideration include, but are not limited to, ISF 10+2, CPSIA, Labor Certificates, ASN’s, etc.



### Additional Advice for Retailers and Brand Owners

#### Weigh your Criteria

Metrics to be included in a vendor scorecard should be weighted in the overall measurement process. Consider appropriating higher weight to criteria that involve high-risk situations, versus lower weight for low-risk situations.



### Utilize Supplier Rating Services

Your company may be subscribing to a supplier rating service e.g. Panjiva, D&B, etc. You may want to include the current ratings and risk scores into your own analysis or cross-reference your trending results against what is publicly reported. These services also help in researching new vendor opportunities.

### Communicate Expectations and Review Performance

It is likely your company has authored documents outlining the suggested processes for vendors to follow in order to maintain compliance and collaborate efficiently. These documents provide Vendors with guidelines and an idea of what is expected. The same should be done when implementing a Vendor Scorecard. Review the scorecard criteria with your vendors, explaining what metrics will be measured and why the metrics are important. The metrics should reflect corporate goals, ethical sourcing, and social guidelines; it is essential for a Vendor to understand the role they play in the overall profitability of your brand – their overall performance and ability to comply with established guidelines will determine whether you choose to conduct business with them again.

Setting performance goals also means that disciplinary actions must be set forth and understood by both parties, in the event standards are not adhered to. Communicate, in writing, disciplinary actions that will take place for violation of labor laws, unsafe working conditions, product safety, etc., or for repeated unsatisfactory performance. Vendors must assume accountability for their services, as the retailer holds all accountability for customer satisfaction with the brand. Create a process flow for non-compliant vendors and share this process with them. Don't forget that a vendors ability to get on board with these changes may take time, thus, it is important, in the beginning of the program, to initiate what is expected from them in 30 days, 60 days, 90 days, etc.



#### BEST PRACTICE TIP

Define a schedule to review scoring results with your vendors.

Populating a vendor scorecard once a month is considered best practice for internal review and decision-making purposes. Set up a quarterly review with the vendor discussing strengths, areas needing improvement, and set goals for future performance.

*Communication is key!*

### Why Vendor Scorecards are Great

Executives love reports. The ability to provide one document representing the overall performance of a vendor and to use it as a tool for making informed business decisions is exactly what an executive wants to see. Furthermore, a vendor scorecard can provide insight into areas where:

- ▶ Margin is being highly affected
- ▶ Potential opportunities may arise for better negotiations
- ▶ Your company is wasting money
- ▶ Vendors provide the best overall value (on-time deliveries, quality, fill rates, etc.)

A vendor scorecard can also provide insight into opportunities for innovative products and processes with the vendors who consistently provide the highest quality service. Collaborating with



vendors and suppliers under shared, defined goals for mutual success is absolutely the best way to successfully improve margins, reduce lead times, and ensure brand protection.

### About Arigo

Arigo is the industry leading provider of Visibility, Intelligence, and Collaboration for retailers and brand owners supporting sourcing and global trade management, from pre-production through delivery. Arigo solutions provide robust functionality supporting milestone tracking, sourcing, costing, ordering, trading partner collaboration, and logistics, as well as full supplier and product quality assurance and compliance. Arigo solutions help businesses manage critical information across their organizations through an intuitive, one-stop Arigo Desktop, which provides access to all of the data, tools, and trade content needed to support global operations. For over a decade, Arigo has helped customers such as JCPenney, The Home Depot, Staples, RadioShack, Timberland, and many others build world-class, private label organizations. To learn more about Arigo's Suite of time-tested, best practice Sourcing and Global Trade Management solutions, please visit [www.arigo.com](http://www.arigo.com).