

# **Supplier Relationship Management: Building a Vendor Scorecard Process**

**Shannon Wampler**

**Procurement & Supplier Diversity Services, University of Virginia**

**Kristin Floyd**

**Procurement & Supplier Diversity Services, University of Virginia**

**Jay Gallimore**

**Procurement & Supplier Diversity Services, University of Virginia**

## **Abstract**

*As an integral part of the evolution of procurement from transactional to collaborative and strategic, Supplier Relationship Management (SRM) uses a holistic approach to formalize and more effectively manage the procurement-vendor relationship throughout the life of a contract.*

*A key pillar of SRM is the vendor scorecard, or similar tools that are used to quantitatively measure, track, and improve upon contract performance. Scorecards are highly utilized in private sector procurement, but they seem to have had a delayed entrance into the public sector. Possible causes for this delay could be lack of resources, lack of best practices applicable to higher education, or lack of IT support to build truly strategic scorecards tracking performance trends over time.*

*In the process of implementing the University of Virginia's first mandatory strategically-sourced office supply contract it became clear that there needed to be a way for Procurement & Supplier Diversity Services to ensure excellent customer service, accurate pricing, next-level innovation, and follow-through from the vendor in order to gain crucial buy-in from University leadership. This led to the creation of a "Vendor Scorecard," which was formalized in the vendor's agreement, and provided an objective, metrics-based process to measure and track the vendor's performance over the life of the contract. The Scorecard also delivers a clearly-delineated workflow of either positive or negative consequences for the vendor depending on results in each category.*

*Although simple in design, the resulting Scorecard has a powerful effect on the relationship between the University and the vendor. It reduces the risk to the University that the vendor will stumble during the course of the contract, and creates the structure necessary for both parties to reward positive behaviors, or to discover and correct issues before they become serious.*

## **Introduction of the Organization**

The University of Virginia (the University) is distinctive among institutions of higher education. Founded by Thomas Jefferson in 1819, the University sustains the ideal of developing, through education, leaders who are well prepared to help shape the future of the nation. The University remains public, supported by the Commonwealth of Virginia, while also nourished by the strong support of its alumni. It is also selective; the students who come to the University have been chosen because they show exceptional promise. With nearly 15,000 undergraduate and 6,300 graduate students, the University provides a personalized and well-rounded education for all students.

The University offers 56 bachelor's degrees in 53 fields, 79 master's degrees in 63 fields, five educational specialist degrees, two first-professional degrees (law and medicine), and 54 doctoral degrees in 52 fields.

Procurement & Supplier Diversity Services (Procurement) manages the University's strategic sourcing initiative. With over \$3.2 million per year in annual spend with over 416 non-contract vendors, office supplies was identified as a commodity with high need for sourcing to be channeled to a single vendor in order to leverage the full volume of the University's purchasing power. The resulting contract includes best value pricing on the most commonly-used products, and highly competitive pricing on all other vendor offerings.

## **Statement of the Problem**

Prior to the implementation of this process, there was no clear way to monitor and improve upon vendor performance after executing the contract. Buyers met on a regular basis with only certain key vendors in order to discuss the prior period's spending, and, depending on the contract, vendors and buyers would make suggestions as to how to create efficiencies and improve service. However, there was no formal and standardized method to track problems, follow up on past recommended improvements, incentivize innovation, or penalize the vendor for mistakes. Most importantly, there was no sense of partnership being built – the few performance indicators measured were usually provided by the vendor, were not connected with the University's mission and strategic goals, and were of a tactical nature, dealing with metrics such as fill rates and delivery times.

In 2013, organizational excellence became one of the pillars of the University's newly-developed strategic plan, and with this commitment to “steward the University's resources to promote academic excellence and affordable access” came an increased focus on aligning strategic suppliers with the University's key goals and mission. The office supplies commodity was the first procurement to be identified as one optimal for strategic sourcing, but a way to measure and report upon performance was identified as necessary to the change management process in making the contract mandatory.

## Design

The scorecard development team within Procurement & Supplier Diversity Services consisted of the buyer for the office supplies RFP, the procurement analyst, and the web application developer. This team worked to design a scorecard and process with the goals that the scorecard metrics would be:

- Objective, for ease of scoring and in order to increase buy-in from the vendor;
- Easily measurable with minimal time input from the buyer and procurement analyst;
- Meaningful, so that both Procurement and the vendor would collaborate to meet the University's strategic goals;
- Flexible, so that future strategic procurements with different requirements could use the same format;
- Inclusive of corrective actions that provided necessary "teeth" to the scorecard without causing undue damage to the vendor's business;
- Able to be aggregated, so that both parties could spot trends occurring over the life of the contract.

With these goals in mind, the scorecard development team benchmarked scorecards in use in other procurement operations in both the private and public sectors. Most were complicated in design and structure, included metrics of convenience that were not meaningful to either party, and had no clear direction with respect to overarching goals the metrics were tied to.

After identifying, tweaking and improving upon characteristics of scorecards already in use by

other procurement operations, a Microsoft Excel version was drafted to test the mechanics of the scorecard. Each scorecard contains the following features:

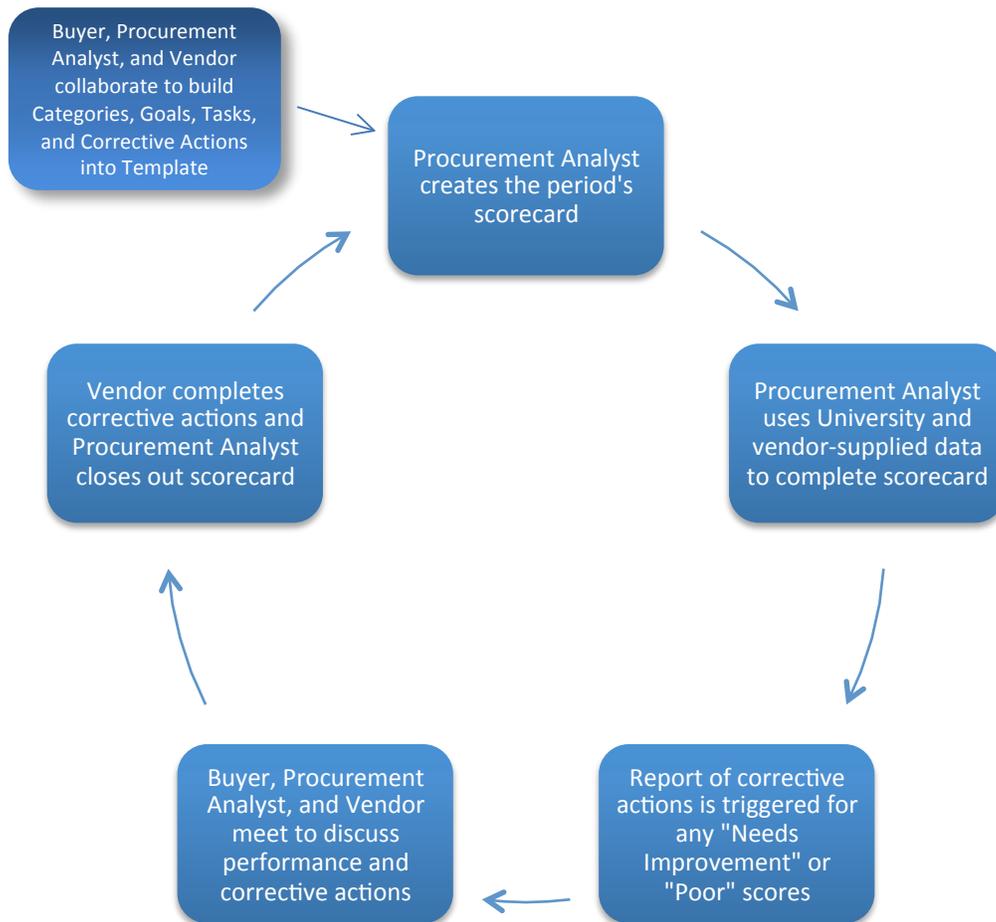
- Categories that are directly tied to strategic goals of the contract. In the case of office supplies, the categories are Customer Satisfaction, Functionality, Financial, and Innovation.
- Goals that measure certain areas of each category. For example, goals contained with the Financial category of the office supply scorecard are Price Audit, Cost Savings, and Follow Through.
- Tasks that measure specific actions or numbers pertaining to each goal. For example, tasks contained within the Financial category's Price Audit goal are "55% of total spend for biannual period is from Best Value list items," "Supplier provides self-audit report," and "Variance for Best Value pricing is 0%."
  - Scores are calculated based on answers to binary-structured Task questions for which the answers must be either "yes" or "no." Although challenging to develop and write the tasks, it results in an objective, transparent process. In the scoring calculation, a "yes" answer results in 1 point, and a "no" in 0 points.
- Corrective and positive actions associated with each goal. Scores are placed within a range where a score of 0-25% for a goal is "Poor," a score between 25% and 75% "Needs Improvement," and a score above 75% is "Excellent." For each goal, there is a stated corrective (or positive) action, triggered by the vendor's score for that goal, and a clearly defined workflow to carry out the action. For example, if the office supply vendor receives a "Poor" score on the Audit goal, the vendor is obligated to provide a "Refund of financial inaccuracies discovered plus 5%" as shown below:

Financial				
Category	Performance Score	Performance Score Scale (Weighted)		Corrective Action
6. Audit	● 26.7%	40%		Supplier to continue to document and provide data.
		≥26.7%		Supplier to provide audit documentation as requested by the University in a timely manner.
		<26.7%		Refund of financial inaccuracies discovered plus 10%.

This Excel spreadsheet version was functional, but existed independently, and therefore did not meet the team’s need to have data that could be tracked and trended over time. Furthermore, the programming ability did not exist in Excel to simplify the look of the mathematics behind the scoring, or to only show the corrective action associated with the actual score; this made the scorecard overly-complicated and difficult for the vendor to follow. These problems were solved with the assistance of Procurement’s web applications developer, who used the Excel spreadsheet’s functionality to create an Access database and entry form that provided a single-entry source to access and create all scorecards.

The following is an illustration of the final Vendor Scorecard Process:

### Vendor Scorecard Process



For the final scorecard process, the procurement analyst works with the buyer to create Categories, Goals, Tasks, and Corrective Actions, then creates a template in the Access database. All future scorecards for that vendor will be based on this template. At the beginning of each measurable scorecard period, the procurement analyst creates a scorecard from the template. At the end of each period, the procurement analyst uses University data and vendor-supplied data to check off a list of tasks that have been completed. The mathematics functions behind the scene to create a simple scorecard report with a trended final score:

### Supplier Scorecard

Supplier:



Previous Score: 55.00%  
Current Score: 85.00%

Legend	
<span style="color: red;">●</span>	Score is <= 25%
<span style="color: yellow;">●</span>	Score is > 25% and < 75%
<span style="color: green;">●</span>	Score is >= 75%

Category Description: Customer Satisfaction

Category Score: 88.89% ● Excellent

Goal	Score	Performance
Contact Summary Rating System	100%	<span style="color: green;">●</span> Excellent
Delivery Performance and Fill Rate	50%	<span style="color: yellow;">●</span> Needs Improvement
Notifications	100%	<span style="color: green;">●</span> Excellent
Responsiveness	100%	<span style="color: green;">●</span> Excellent

Triggered corrective actions for the vendor to complete, if applicable, are programmed to appear and are integrated into the report:

### Vendor Scorecard

Supplier: Nike USA, Inc.



Period: 4/1/2014 - 6/30/2014  
Current Score: 88.61% Previous Score: 76.61%

Legend	
<span style="color: red;">●</span>	Score is <= 15%
<span style="color: yellow;">●</span>	Score is > 15% and < 85%
<span style="color: green;">●</span>	Score is >= 85%

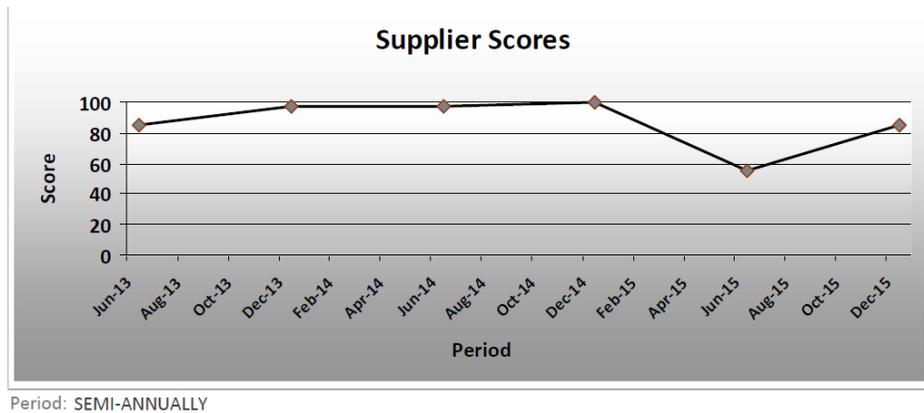
Category Description: Customer Satisfaction

Category Score: 77.78% ● Needs Improvement

Goal	Score	Performance
Contact Summary Rating System	100%	<span style="color: green;">●</span> Excellent
Delivery Performance and Fill Rate	50%	<span style="color: yellow;">●</span> Needs Improvement
<b>Supplier to identify ways to improve delivery performance and fill rate before next review.</b>		
Notifications	50%	<span style="color: yellow;">●</span> Needs Improvement
<b>Supplier to identify new method for notification of customers.</b>		
Responsiveness	100%	<span style="color: green;">●</span> Excellent



The buyer, procurement analyst, and vendor meet to discuss the results, and to agree upon a timeframe for any corrective actions to be completed. These corrective actions are “held” on a checklist to be completed by the time the next scorecard is issued, which ensures thorough follow-through. Once the scorecard is complete in the system, it is archived in .pdf form and its data is aggregated with previous scorecard data for that vendor in order to form a trended picture:



#### Key Design Points:

- Employee input into the design involved three staff members. The ongoing scorecard process will involve two: the buyer and the procurement analyst with minimal time resources required.
- Hard costs of implementation were zero as existing software and systems were used.
- The scorecard should be integrated into any applicable vendor contract in order to formalize the process.

## **Implementation**

The vendor scorecards are intended to be a regular, continuous part of the supplier management process, so the majority of the time to implement was spent on the initial design of the system and process. Because the scorecard template system was built to store and track multiple vendor scorecards, scorecards for existing strategic vendors and templates for new strategic vendors will take much less time to implement, with the majority of time being spent in thoughtful metric development. A small amount of time will be devoted on an ongoing basis to running data to complete each scorecard, and to the quarterly, semi-annual, or bi-annual business review meetings between the institution and the vendor.

Other factors that will affect implementation time include whether or not the contract and/or vendor relationship has existed at the institution previously. If not, the metric development process could take additional time as the buyer must carefully consider what issues could possibly arise and how to proactively develop metrics to monitor and prevent those issues from occurring.

## **Benefits**

The benefits of this tool to the University are mostly qualitative, as its primary aim is to maintain and increase service levels (Note: The University has implemented the vendor scorecard, but the first bi-annual business review with the office supply vendor will occur in January 2015.):

### Relationship

- Winning new clients is very costly, so the ultimate aim for any vendor is to create an on-going business relationship based on mutual respect. Because the scorecard provides a mechanism for expectations to be clearly communicated in a proactive rather than reactive way, the vendor will become more comfortable in its position at the University, and will, in turn, provide better pricing and service in order to maintain that position in the years to come.

### Financial

- The scorecard will ensure that the vendor maintains accurate pricing by providing a contract-based mechanism to penalize the vendor for any inaccuracies. If any inaccuracies are found, corrective actions will be triggered, including a mandatory 5% one-time pricing discount for all University users.

### Managerial

- Procurement & Supplier Diversity Services knew that a single-source contract would provide the best incentive for a vendor to provide the best possible pricing; however,

University leadership worried about the potential service issues related to a single-source mandate. The vendor scorecard mitigates this risk by providing a way to encourage a high level of service and to show a fact-based detail of that service.

### Process

- The vendor scorecard represents a great improvement in the supplier relationship management process. Where previously, even if Procurement & Supplier Diversity Services had identified minor issues with a vendor that had the potential to become more serious, there were multiple hurdles to clear: there was no pre-defined way to approach the vendor with the issue, there was no contractually-mandated method to clear up the issue, and there was no tool to ensure that all issues were resolved in a timely manner. Of course, there were multiple ways in which these matters were previously handled, but with the scorecard there is a careful, defined, tracking method in place that ensures a higher level of success for both the vendor and the institution.