Vendor Scorecard

Intended for advanced compliance programs

Vendor scorecards are used to track and measure vendor performance. They can vary from simple to complex and can contain as much or as little criteria as deemed effective to accomplishing an organization's goals. When used appropriately and consistently, vendor scorecards can strengthen relationships, improve costs and mitigate errors. Scorecards also provide an objective lens for measuring vendor performance.

Getting Started

Determine your vision for the ideal vendor relationship; then develop criteria to support your vision. The criteria you use to measure vendors should coincide with the values and goals that are important to your organization.

At a base level, a scorecard should include the following criteria:

- Delivery
- Compliance
- Quality
- Service
- Costs/Pricing

Additional categories may include:

- Finance And Accounting Accuracy
- Invoice Timeliness
- Payment Terms
- Strategic Capabilities
- Product Development
- Fill Rates
- Return Rates
- Lead Times
- Agreement/Contract
- Cost Savings Ideas/ Opportunities

Criteria used for measuring vendor performance may include but are not limited to:

Delivery

On-time delivery performance and lead times
Facilitates flexible delivery schedule
Provides proper and accurate delivery receipts
Identifies and marks packages correctly
Provides appropriate packing materials

Compliance

Complies with U.S. Customs & Border Protection requirements
Environmental Responsibility program in place
Social Responsibility program in place
Complies with specified requirements for product safety: FDA, CPSC, QCA, state regs, etc.

Strategic Capabilities

Business value proposition
Strong R &D team
Supplier financial health assessment
Vertically integrated supply chain capabilities
Vendor policies in place throughout supply chain
Keeps abreast of new product development

Quality

Issues, errors, mistakes
Aligned with certified testing lab
Internal, pre-ship inspection system in place

Service

Ability to provide real time inventory status
Communication of issues or concerns in a timely manner
Holds backorders and out of stock at a minimum
Advises of production status
Prompt and accurate on technical assistance
Promptly replaces rejected or defective product
Handles complaints properly
Invoices correctly
Issues credits promptly
Lowest cost option
Cost of goods compared to similar vendors
Communicates price increases in advance
Suggest cost reduction ideas

Metrics

There are myriad metrics that can be deployed for use with scorecards. The goal is to be specific and measurable. Well developed scorecards clearly define and communicate expectations and what constitutes good, bad, mediocre or acceptable performance.

If developing a manual scorecard, simpler is better. The more complex a scorecard, the more difficult it can be to manage. It is easy to add in too many categories and metrics when developing a new scorecard. Therefore, it is important to keep in mind the primary goals and objectives of the scorecard in order to stay focused on achieving your goals without creating additional work.

Cross-functional involvement from all affected departments across an organization is essential to the success of any scorecard program. Each department has unique needs, goals and objectives. For example, the accounting department will have a different set of criteria than the receiving department. Consider each department affected and weigh categories based upon the overall impact of operations and goals. Understanding the effect each department has on the organization and how a vendor impacts these departments individually will provide tremendous benefits for the organization as a whole.

Once the metrics are established, weighting them provides for the most accurate assessment of each category's impact on the overall business. Weighting should be based primarily on objective criteria to the extent it is possible. Some essential subjective criteria may be required, thus, proper weighting will account for the most accurate and fair assessment.

Weights are determined by the following: impact on the business relationship, impact on a business unit, impact on customers, contribution to organizational success, associated risks, impact on costs, etc. Category weighting pertains to specific categories and the impact the category has on an organization, while *criteria* weighting pertains to specific functions within a category.

An example of a weighted scale could be:

	RATING	BREAK DOWN	SCORE
COST (15%)			
Lowest Cost Option	**5**	**25%**	**1.25**
Negotiated Prices	**4**	**25%**	**1**
Continuous Cost Reduction Programs In Place	**7**	**50%**	**3.5**
SERVICE (15%)			
Response Time	**4**	**30%**	**1.2**
Follow Through	**5**	**40%**	**2**
Courteous & Professionalism	**10**	**30%**	**3**
DELIVERY (30%)			
Meets Scheduled Delivery Dates	**7**	**80%**	**5.6**
Rush Service	**10**	**20%**	**2**
QUALITY (30%)			
Meets Specifications Of Purchase Orders	**10**	**40%**	**4**
Decoration Meets Specifications	**9**	**40%**	**3.6**
Shipping Cartons Project Positive Image	**9**	**20%**	**1.8**
ACCOUNTING (10%)			
Invoice Accuracy	**8**	**70%**	**5.6**
Timeliness Of Invoices	**4**	**30%**	**1.2**

1	2	3	4	5	6	7	8	9	10
Poor		Fair		Good		Very Good			Excellent

Communication

The success of any scorecard program hinges on the sharing and reviewing of all results (positive and negative) with your vendor. This open communication will provide the most effective outcomes for all parties involved. Through open dialogue and tangible results, both parties can work together to establish corrective action plans and set future goals for the relationship.

Summary

Vendor scorecards provide enhanced visibility throughout a supply chain. The end result of a properly executed scorecard program provides insight into the true cost of a relationship, risk mitigation and opportunities for improved efficiencies and effectiveness of all operations.

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