Supplier Performance Ratings - Scorecards, Rankings, and Awarding Business

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Summary  
Akin to “No Man is an Island to himself”, Companies alone do not compete….Supply Chains Compete. Thus, who has the best Supply Chain has a sustainable strength (competitive advantage). To effectively manage a well performing Supply Chain, Leadership should utilize a Scorecard and Ranking approach that has a composite weighting scheme to provide a Balanced perspective. This can be used to award business based on evaluating overall past performance and promised (quoted) performance.

Both objective and subjective data must be collected and analyzed to determine if corrective action/improvements are needed. We perform Performance Reviews on our employees. Need to do the same with our Suppliers/Partners (at least the key/strategic/focus ones).

From the Supplier’s perspective, receiving feedback on their performance and being able to benchmark themselves with the other suppliers fosters a competitive rivalry to better satisfy the Voice of the Customer (VOC) in order to be awarded a larger portion of the Customer’s Total Available Market (TAM).

This paper covers an approach myself and others have facilitated at various companies during the last 20 years to provide feedback in the form of Supplier Scorecards, Rankings, and how to utilize it to award business and drive improvements. This paper shows an example of a Scorecard and Rankings Report. More extensive examples that include color coding and trend charts will be shared at the presentation.

Keywords  
Lean in an inclusive environment  
Voice of the Customer  
Balanced Supplier Scorecards  
Balanced Supplier Rankings  
Award Business on best perceived value  
Share in the pleasure and share in the pain

Introduction  
I have been engaged in supplier quality for 25 years in a variety of industries (i.e. Electronics, Aerospace, Defense, Telecommunications, Heavy Machining, and Entertainment). All of my
employers provided feedback to their suppliers in one form or another. Some recognized the need for formal periodic feedback on specific and overall performance to their strategic/key suppliers.

When the opportunities arose to develop and implement these supplier performance systems, I was part of a cross-functional team to facilitate this initiative which yielded desired improvements. The below examples are hybrids based on approaches used some of my employers and other Fortune 500 companies.

**Scorecard Development – see example and below notes**

- Lead in an inclusive environment by involving all key stakeholder groups within your company who provide support and/or are impacted by the suppliers to be rated. Examples of groups are Engineering, Purchasing, Receiving, Quality, Manufacturing, and Accounting. Have Management representatives from each of the Stakeholder Groups on the Team along with representation from the Suppliers.

- Develop a shared mindset on the vision, mission, and strategy. An example of a mission from a procurement perspective could be “The Right Parts, at the Right Time, at the Right Cost” (total cost – not just purchased price).

- Narrow your focus to rating the suppliers that are strategic/key to your company and determine how often they will be rated (i.e. quarterly). This will enable the Team to concentrate their efforts on the vital few.

- Similar to a Balanced Scorecard, determine the strategic Focus Areas and the associated Key Performance Indicators (KPIs). Note: The example ScoreCards shows this as Elements.
  - Examples of Focus Areas can be Quality, Delivery, Cost, etc.
  - Examples of KPIs for the Focus Areas such as Quality can be Material Acceptance, Responsiveness to Requests, etc.

- Assign a Composite Weighting Scheme to the Focus Areas and KPIs.

- Suggest adopting a possible overall total score of 100 points utilizing a Likert Scale with Ratings of 1-5 with a total weighting of 20 to keep the calculations simple.

- Rank the Focus Areas by importance first and determine how many points each Focus Area has. For example, if Quality is the most important Focus Area, then it should have more points than the other Areas.

- Upon agreeing on how many total possible points each Focus Area has (shown in the Element Subtotal section), divide the possible total points for each Area by the possible highest rating (i.e. 5) to determine the total weight factor for that Area. For example, if Quality had a total possible score of 60 points, then 60/5 = Weight Factor of 12. Or 30 points = WF of 6.

- Have the Team members distribute the weight factor amongst the KPIs within the Focus Areas they represent and determine how the ratings for the KPIs will be determined. It is important that they take ownership on this as they are communicating the relative importance of the individual KPIs which is the Voice of the Customer (VOC).

- Present the Scorecard Template with Senior Management and the Suppliers to be rated if they have not already been involved in its development. Negotiate any desired changes and obtain approval from Management and acknowledgement from the Suppliers.
• Have the Team members provide ratings for the KPIs associated with their Focus Areas along with supporting data for the supplier which can be objective (preferred) or subjective for the period of performance.
• Multiple the Ratings with the allocated Weight Factor to determine the Score (points).
• Determine the Subtotal for each Focus Area
• Determine the Total Overall Score.
• Determine the Total Overall Rating which is the Total Earned Score/Total Weight Factor. For example, if the Total Earned Score was 80 points (out of 100 possible).
  \[
  \frac{80}{20} = 4 \\
  4 = \text{Above Average Rating based on the Likert Scale}
  \]
• Add Comments to support the Ratings
  o Have the Team members provide brief summary comments on how they established the ratings on the individual KPIs.
  o Provide constructive feedback (recognize and reinforce).
  o Comment if improvement has been made since the last review period.
  o Include it in the comments section next to the KPIs.
• Recommended – Adopt a descriptive label and color coding scheme for the Likert Ratings such as:
  o Rating of 1 = 0% – 39% (Unacceptable) – Red Background
  o Rating of 2 = 40% – 59% (Needs Improvement)- Tan Background
  o Rating of 3 = 60%-79% (Average) – Yellow Background
  o Rating of 4 = 80% – 89% (Above Average) – Green Background
  o Rating of 5 = 90% - 100%  (Excellent)- Blue Background
  Note: The examples in this article had the colors removed to comply with the QMD Conference Paper Submittal Guidelines. Use of the colors will help ensure that the Management of your company and your suppliers will visually focus on those areas that are doing well and those that are not. My presentation at the QMD will show color examples.
• Review the draft Scorecard(s) as a Team to achieve concurrence on the Ratings.
  o Each Team member needs to be prepared to present and support (defend) the Ratings and comments they provided.
  o It should not be the responsibility of the Facilitator (i.e. You – QA) to cover for the entire Team.

Supplier Rankings Development – see example and below notes
• If you have more than 1 (one) strategic/key Supplier for a type of product/service, you should rank them based on performance, share it within your company and with the ranked suppliers.
• The Rankings approach is very powerful as it provides Benchmarking information within your company and to your suppliers.
• Ideally, your better performing suppliers should be supplying a major portion of the awarded business.
  o If not, identify, elevate, and remove the constraints.
• Need to make any constraints very visible to Management and encourage them to explain internally and to the Suppliers why performance is not being awarded (if that is the case) and what actions are required.

• Sharing the rankings with your Suppliers provides them with Customer feedback that includes competitive Benchmarking information.
  o They can use this to assess their Strengths, Weaknesses, Opportunities, and Threats (SWOT Analysis) along with information on how much of the Total Available Market (TAM) was awarded to them.
  o This will foster a competitive rivalry and provide for a level playing field since the Rankings are based on the same Scorecard Template for that type of Supplier.

• If desired, you can remove the Suppliers’ names from the Rankings you distribute to the Suppliers. They can still determine which Ranking is theirs based on their own Scorecard and you should inform them of their Ranking. They probably know who their competitors are but will not know which competitor received which specific ranking. Either way, it is important that the Suppliers know how they compare to the competition.

Presenting the Scorecards and Rankings
• As stated earlier, obtain concurrence from the Leadership of the key stakeholder groups within your company on the developed Scorecards and Rankings for the rated Suppliers covering the period of performance.

• Schedule meetings with the rated suppliers. Senior Management representatives from the key stakeholder groups and Management representatives of the Supplier are to attend.

• Provide the Supplier a copy of their Scorecard, Ranking, and supporting data before the meeting so they can be prepared to discuss it.

• During the meeting, have either one Senior Management Representative present the information or have a Management Representative for each Focus Area present their portion.

• Encourage the Supplier’s Leadership to think of this customer satisfaction feedback for more than Corrective Action and Preventative Action (CAPA) purposes. They can use it for Benchmarking and providing input for SWOT Analysis. Tell them why their performance (success) is important for your success. Is a mutually beneficial relationship.

• Start at the top of the Score Card and cover each Focus Area and its KPIs.
  o Cover the Rating, the Weight Factor (relative importance), the Score, along with the comments.
  o Give recognition on improvements and high ratings.
  o Discuss areas that require the Supplier to provide a written plan of action to improve their performance.

• Allow the Suppliers to challenge the ratings only if they have supporting data.
  o If the dispute is on a subjective rating where data may be difficult to obtain, inform the Supplier that they need to work on correcting/improving the perceived performance with the parties reporting it.
  o If they have supporting data warranting a change, then agree to change the ratings and rankings as needed and redistribute as the final version.

• Discuss what lies ahead for the next review period including collaborating on what each party (customer and supplier) needs to do from a win-win perspective.
• Use the Scorecards and Rankings as input for evaluating bids and awarding business. Share with the Supplier how this is going to be used. This is a very powerful incentive (share in the pleasure or share in the pain). An example is shown below.

**Awarding Business**

• Ideally, business should be awarded to Suppliers that have the best proven capability to meet the Customer’s needs. Below is an approach to award business to Suppliers based on their past performance (actual performance) and quotations (promised performance).

• Collaborate with Purchasing and Accounting to develop a model for evaluating quotations from Ranked Suppliers which factors in past performance. If your information systems do not capture all of the costs of poor quality from the supplier to determine the Total Costs of Procurement, you can implement this formula to predict it.

  \[
  \text{Perceived Cost} = \frac{\text{Quoted Price}}{\text{Past Performance}}
  \]

• Past performance is a good predictor of future performance. Use the Supplier’s earned overall performance Score as a Percentage in decimals for the last period (or rolling 4 period average) in evaluating quotations from the Supplier during the next review period.

• Below is an example of why Supplier A would be awarded the order based on best perceived value.

• Supplier C has the lowest quoted price but their past performance can result in a higher perceived total cost.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quoted Price</strong></td>
<td>$100</td>
<td>$100</td>
<td>$90</td>
</tr>
<tr>
<td><strong>Past Performance</strong></td>
<td>100 (1.00)</td>
<td>90 (.90)</td>
<td>80 (.80)</td>
</tr>
<tr>
<td><strong>Perceived Cost</strong></td>
<td>$100/1.00 = $100</td>
<td>$100/.90 = $111.11</td>
<td>$90/.80 = $112.50</td>
</tr>
</tbody>
</table>

• This provides the Supplier with an incentive to win business by sustaining or improving their performance to provide the best perceived value.

• If the Supplier does not want to compete based on performance, they will only be able to compete by lowering their prices (cutting into their profit margins). For Supplier C to beat Supplier A, their quoted price would have been lower than $80. This should provide them with an incentive to perform or eventually become disqualified. Share in the Pleasure and/or Share in the Pain.

**Conclusion**

• Maintain a Constancy of Purpose
  - Start or revamp your existing system
  - Perform the reviews on a periodic basis (i.e. quarterly)

• Over time, it should show improvement trends and tell a story.

• Examples of Supplier Performance Trend Charts will be shared at the presentation session.

Example of a Scorecard Form and Rankings Form are attached to the following pages.
## Supplier Rating Score Card

### Supplier:

### Assessment Period:

### Rating Element / Perspective | Rating | Weight | Score | Comments
--- | --- | --- | --- | ---
**Quality Performance**
- Material Acceptance  
  (Conformance to requirements specified on Purchase Orders, Drawings, and associated Standards/Specifications) | X 7.0 |  |  | 
- Responsiveness to Issues  
  (Timeliness & Effectiveness of Corrective Actions) | X 4.0 |  |  | 

(55 points max) **Subtotal**

**Cost and Service Performance**
- Price Competitiveness & Value Added | X 1.0 |  |  | 
- On-Time Delivery | X 3.0 |  |  | 
- Lead Time & Cycle Time | X 1.0 |  |  | 
- Ease of Doing Business  
  (i.e. Requesting Quotes, Placing Orders, Tracking Status, Flexibility, Response to Changes & other Requests) | X 1.0 |  |  | 
- Accuracy & Timeliness of Paperwork/Data  
  (i.e. Quotes, Packing Slips, Invoices) | X 1.0 |  |  | 

(35 points max) **Subtotal**

**Supplier Capability**
- Production Capability | X 1.0 |  |  | 
- Infrastructure  
  (i.e. Quality, Manuf, Admin, Systems, Culture) | X 1.0 |  |  | 

(10 points max) **Subtotal**

(100 points max) **Total Earned Score**  

**Overall Rating**

### QA Concurrence | Purchasing Concurrence | Production Control Concurrence
--- | --- | ---
1 = Unacceptable | 0-35% | 0-30%
2 = Needs Improvement | 40-59% | 35-69%
3 = Average | 60-79% | 70-89%
4 = Above Average | 80-89% | 90-100%
5 = Excellent | 90-100% | | 

*Note: Colors were removed to comply with QMD Conference Paper Submittal Guidelines. Add colors (Red, Tan, Yellow, Green, and Blue) to the Scale and Scores.*
### SUPPLIER PERFORMANCE RATINGS – RANKING

**Supplier Type:**

**Assessment Period:**

<table>
<thead>
<tr>
<th>RATING ELEMENT / PERSPECTIVE</th>
<th>Maximum Points</th>
<th>Supplier A</th>
<th>Supplier B</th>
<th>Supplier C</th>
<th>Supplier D</th>
<th>Supplier E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quality Performance</strong></td>
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<td><strong>Cost and Service Performance</strong></td>
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<td>• Lead Time</td>
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<td>• Ease of Doing Business</td>
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<tr>
<td>• Accuracy &amp; Timeliness of Paperwork</td>
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<tr>
<td><strong>Supplier Capability</strong></td>
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<tr>
<td>• Production Capability</td>
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<tr>
<td>• Infrastructure</td>
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<tr>
<td><strong>Totals</strong></td>
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</tr>
</tbody>
</table>

% Business

$ Volume

# Parts

# Deliveries

# Different Parts

### QA Concurrence

<table>
<thead>
<tr>
<th>Ratings Scale</th>
<th>1 = Unacceptable 0-39%</th>
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