Abstract. When an organization focuses its resources on its suppliers’ performance, the results can be rewarding. One organization, FedEx, tells its story in this presentation about improving supply chain performance through its supplier scorecard program.

Objectives. The objectives of this presentation are to help the audience understand the importance of measuring a supplier’s performance and the key elements in successfully deploying a measurement system. In addition, the conference presentation will highlight the FedEx Supplier Scorecard and the company’s future Supply Chain Scorecard

Two Truths About Supply Base Performance.
TRUTH 1: The pressure to improve for FedEx, as well as all organizations, is continuous and intense.

Companies overwhelmingly recognize the need for continuous improvement in cycle time, cost, quality, and delivery performance. Performance improvement requirements have been a driving force behind the execution of many innovative purchasing strategies and activities.

Stringent customer requirements and increasingly competitive markets require performance improvement across all major categories. This has forced companies to make continuous improvement an integral part of their strategic procurement planning processes.

Continuous improvement expectations make purchasing's contribution crucial to long-term success. Purchasing and sourcing managers must develop strategies and approaches that link to and support corporate improvement targets.

TRUTH 2: Suppliers are key value chain participants--they affect a firm’s total performance.
Executive management's perception of supplier importance and of the purchasing or sourcing process toward achieving a firm’s strategic goals and objectives has continued to increase. The shift in supplier importance is a result of three factors that affect most industries: (1) the need to reduce the total cost of acquisition, (2) the increasing influence that suppliers have on the purchaser's ability to respond to end customers, and (3) an increased reliance on fewer suppliers. These factors have heightened the role and importance of suppliers.

CONSEQUENCE: Managing a world-class supply base is one of the most important activity of Procurement departments today.

Until the late 1990s many U.S. companies didn’t understand that the way they managed suppliers made a big difference in their overall performance. Buyers frequently offered only “one off” purchase orders, or at most, short-term contracts. This adversarial relationship worked for some commodities, but not in supply management. This changed when global competitors showed that collaborating with suppliers could lead to competitive market advantages. Now, companies are changing the way they manage their supply bases.

The old adage says, "You can't manage what you can't measure." The adage certainly applies to performance measurements, according to "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast," a joint research initiative from NAPM, the Center for Advanced Purchasing Studies
(CAPS), A.T. Kearney, Arizona State University, and Michigan State University. The study indicates that performance measurements are one of 18 key trends that will shape the supply management profession in coming years.

Three Key Elements.
1. Focus on real value-added results - with selective independent verification.

   Incorporate measures only when they don’t cost more for the measurement exercise than is gained through improved performance. The key is to understand that supplier performance is what most significantly drives total cost.

2. Determine and agree on what to measure – think about what makes sense, not just what can be measured.

   Most systems are designed to provide financial measures and not process performance measures. So companies use only those measures for which the data is readily available. To determine what to measure, consider the item you are buying, look for its most significant cost components and then identify ways in which the supplier's performance is driving those costs up or down.

3. Develop metrics that are understandable and few in number -- too many metrics can contribute to confusion and create paralysis.

   It is important that everyone easily understand your supplier performance measurement program. If you minimize the number of measurements you use, it will make your program easier to explain. Establish four to six performance measures and the formula you will use to indicate status for each measure by percentages or dollar amounts. The formula you use will ensure effective measuring.

FedEx Supplier Scorecard. FedEx supplier performance is measured through the use of web-based supplier scorecards. There are different scorecards used to evaluate products, services and fuel suppliers. A product supplier may be measured by on-time delivery, ability to reduce lead times, cost reduction, etc., as well as some product-specific goals. A service supplier may be measured on Customer Service responsiveness, Supervision of Personnel, Effectiveness of Quality Assurance Methods, etc. as well as some service-specific goals. All with weights on each goal to reflect its relative importance.

Measuring a supplier’s performance is important if you want to have the best suppliers. But remember: the best suppliers only want to deal with the best customers. To make sure it is the best customer, FedEx is also developing a web-based “reverse scorecard” that lets suppliers give constructive feedback to the company in order to strengthen customer/supplier relationships. Enhancements to this scorecard program will extend out to tier suppliers and inward to internal customers to provide a measurement of supply chain performance.

Conclusion. The aforementioned 1998 study, "The Future of Purchasing and Supply: A Five- and Ten-Year Forecast," by NAPM, the Center for Advanced Purchasing Studies (CAPS), A. T. Kearney, Arizona State University, and Michigan State University, offered the following two predictions on performance measurements that I believe are most important.

- Common performance measures will be tied to strategic business measures.
- Integrated information systems will facilitate the reporting and use of these measures.