in our opinion

Benchmarking suppliers

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THE TERM "BENCHMARKING" is frequently heard but rarely explained. Briefly, it involves comparing and contrasting the attributes and performance of different organizations. Usually, it is carried out using hard data: the type of questions that generate answers expressed either in numbers (e.g. relating to profit margins, cycle times, percentage defects, sales per employee or cost per unit of product) or that lead to a yes or no response (e.g. the presence or absence of a particular corporate governance mechanism). However, it is also possible to use more open-ended questions relating to business processes or more subjective measures of performance, such as how new products or services are developed, the process employed to meet a customer's order or respond to an enquiry.

There are four basic types of benchmarking. Internal benchmarking involves comparing similar functions in different business units within the same organization. It leads to a sharing of ideas, particularly the best practices developed within each branch of the organization. Unfortunately, internal benchmarking fosters an introverted approach to management. It pays no regard to what other firms are doing to out-perform their rivals.

Competitive benchmarking compares the performance of an organization against its direct external competitors. Industry or functional benchmarking is a related third form of benchmarking that compares performance against the performance of industry leaders that conduct similar types of business, whether or not they are direct competitors. It usually involves comparisons between firms that share some common technological and market characteristics and that concentrate on specific functions. Both of these approaches to benchmarking allow an organization to identify what it is doing well in comparison to its opposition.

However, the necessary information required for the process can be hard to obtain, although securities regulators sometimes offer a wealth of such information, through services such as EDGAR (in the US) and SEDAR in Canada. These can reveal sensitive facts such as the type of testing procedure employed in developing prototypes and bringing them to market; what percentage of the supplier's gross income is invested in research and development; along with vital financial information such as the supplier's debt to equity ratio, and the supplier's current inventory management system.

Generic or process benchmarking compares performance with respect to a process among unlike organizations. Within the procurement context, it has a particular application that can be of considerable value. It involves an investigation in supplier operations and their condition, and a comparison of the results so achieved. The critical objective of supplier benchmarking is to provide some measure of assessing long-term reliability. Benchmarking allows a customer to identify a supplier's profile and rank the risk that the supplier presents to the customer's operations. It reflects the fact that a customer is an entity that has a critical need that must be satisfied. The customer's expectations should drive the products, services and processes of its suppliers, including the time frame required to meet customer orders.

Like functional and competitive benchmarking, process benchmarking depends for its success upon the availability of information. However, much of the necessary information is readily available. A purchasing department usually can generate basic information relating to its suppliers, such as number and dollar value of purchases, the ordering departments purchasing from each supplier, the number of competitors for the contracts awarded to each supplier, the number of contracts awarded by various methods of procurement (e.g. tender, closed request for quotation). In addition, there is a good deal of public information about suppliers that can reveal a great deal about an organization's overall approach to customer service. Critical questions include: Is the supplier ISO certified? What trade associations have accredited the supplier? What is the average number of years of service of employees with the supplier? What is the average rate of employee turnover – of management turnover? What are the five largest customers of the supplier? How long has the supplier been in business? How do the prices quoted by the supplier compare against advertised market prices (a particularly useful bit of information for any customer which depends primarily upon the award of contracts through an open tender process)?

To be of value, such questions must be put to a significant number of suppliers, and the answers generated must be assembled consistently and systematically compiled. Once the information has been processed, it can provide a framework for further action. Suppliers who are seen to lack a customer focus can be asked to address that shortcoming. The results of the benchmarking exercise provide direction by giving suppliers a clear set of expectations and customer requirements

Supplier benchmarking is an integral part of a procurement strategy. The goal is to improve upon existing performance and to avoid any perceived risk of a future problem. Each benchmark should be tied to some critical need. Sufficient thought should be devoted to the questions asked so that useful information is generated. There should be a strong linkage to the customer's own quality control and strategic planning process. Finally, the benchmarking process should offer feedback to suppliers, so that they can improve their performance.

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