

Evaluating Supplier Performance







Presented by: The Baking Industry Forum

Sunday, March 4th, 2007

Chicago

Introduction







The Importance of Customer Evaluation Systems

-  Why evaluation systems are important
 -  Current State of the Industry's Capital Expenditures
 -  Customer's thoughts
 -  Benchmarking and its benefits
 -  Sample benchmarking model
 -  Issues and Concerns
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Why Evaluation is important

Evaluations create an external perspective







They can answer -

-  How satisfied customers are
 -  How loyal they are to your products and services
 -  Measure mood - are they likely to switch
 -  Measure how well they are being served
 -  Offer insight into other possible opportunities
 -  What might be important to them
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Why Evaluation is important

Evaluations create an internal perspective

They offer insight -




-  What might satisfy or dissatisfy employees
 -  What factors might improve job performance
 -  How employees feel about coworkers
 -  How they might feel about workplace processes
 -  Offer insight into other possible opportunities
 -  What might be important to your employees
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Customer satisfaction has its rewards

2005 Global Logistics & Supply Chain Innovation Award Finalist

Kraft Foods Builds Supplier Relationship Management Bridge

Cornerstones of program -

-  Determining the optimal relationship
 -  Developing the optimal relationship
 -  Maintaining the optimal relationship
-

Customer satisfaction has its rewards

2005 Global Logistics & Supply Chain Innovation Award Finalist

Kraft Foods Builds Supplier Relationship
Management Bridge

Cornerstones of program -

 **Determining the optimal relationship**

 Developing the optimal relationship

 Maintaining the optimal relationship

Customer satisfaction has its rewards

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 **Maintaining the optimal relationship**

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United Technologies: Supplier Insight for Better Business Performance

Instituted Operational Transformational Leadership Advantages

-  Cost reductions
 -  Effective deployment of resources
 -  Risk mitigation
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US Baking Industry - 2006 Capital Investment Review

Sosland's Baking and Snack reports

“Promise of Prosperity... And the survey says...spending is up across the board. Midrange projects, and spending objectives are shifting back to product quality...”

Sosland Publishing, Baking & Snack, February, 2007

US Baking Industry - 2006 Capital Investment Review

Sosland's Baking and Snack reports

“Promise of Prosperity... In 2006,
Twice the number of companies indicated
spending in the \$1 million to \$20 million
range compared to 2005.”

Sosland Publishing, Baking & Snack, February, 2007

US Baking Industry - 2006 Capital Investment Review

Sosland's Baking and Snack reports

“Promise of Prosperity...In 2006,
19% of respondents reported projects
totaling \$10 million or more - nearly double
of 2005.”

Sosland Publishing, Baking & Snack, February, 2007

US Baking Industry - 2006 Capital Investment Review

Sosland's Baking and Snack reports

“Promise of Prosperity...In 2006,
Respondents reporting no capital spending
dropped for the third consecutive year -
4.2% compared to 17.2% in 2004.”

Sosland Publishing, Baking & Snack, February, 2007

US Baking Industry - 2006 Capital Investment Review

Sosland's Baking and Snack reports

“Dissatisfaction continues... Since 2001,

- A steady decrease in the percentage of respondents indicating overall satisfaction with capital projects -
- 81% report overall satisfaction - the lowest number in six years.”

Sosland Publishing, Baking & Snack, February, 2007

US Baking Industry - 2006 Capital Investment Review

Sosland's Baking and Snack reports

“Causes of dissatisfaction...

- 50% indicated “debugging” as main reason
- 33% attributed to cost overruns
- 27% lead time problems.”

Sosland Publishing, Baking & Snack, February, 2007

Customers thoughts...

“We’ve experienced debugging as a major factor as well. It’s not an ROI issue. It’s the money that it costs us to put in the new equipment and getting it to work as we need it...Too many suppliers are not working closely enough with customers to get equipment up and running...

Gary Brodsky, East Balt

Sosland Publishing, Baking & Snack, February, 2007

Customer thoughts...

“I would say it’s true that equipment performance at times does not meet our expectations. I believe this is tied to consolidation of equipment companies...
...Suppliers are delivering equipment, but it doesn’t work as intended... Service and personal touch are gone from the days when smaller companies understood their customers particular needs”.




John Van Laar, Van Laar Associates, Inc.

Sosland Publishing, Baking & Snack, February, 2007



BIF Bakers Perspectives-

-  Jim Kline, George Weston Bakeries
 -  Barry Ware, United States Bakeries
 -  Barry Blackwell, Kroger
 -  Dermot O'Connor, Bimbo USA
 -  Dave Watson, Pepperidge Farm
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What is benchmarking ?










-  ...Performance comparison of organization business processes against an internal or external standard of recognized leaders. Most often the comparison is made against a similar process in another organization considered to be "world class."
 -  ...The process of setting benchmarks, which means identifying accurate historical data against a data set that can be compared now and in the future.
 -  ...The comparison of similar processes across organizations and industries to identify best practices, set improvement targets and measure progress. Benchmarking results may serve as potential targets for Balanced Scorecard measures.
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Benchmarking - Two perspectives

-  Only by understanding how your performance compares to others in the industry can you identify where improvement efforts will be beneficial
-  The only benchmarks that matter are your customer's expectations

Mike Ledyard, Supply Chain Visions











Ten Steps to Successful Benchmarking

-  Create your strategy
-  Determine critical processes
-  Develop process measures
-  Identify Key Performance Indicators
-  Collect Data
-  Research “Best in class”
-  Compare Performance Levels
-  Identify reasons for low performance
-  Identify action initiatives
-  Continuous improvement

Ledyard and Vitasek, “To Benchmark, Or Not, Is Not Really A Question,” CTSI Logistics Forum, Vol. 5, No 1, pp1-3

Ten Steps to Successful Benchmarking

Discussion Focus

-  Create your strategy
-  **Determine critical processes**
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Ten Steps to Successful Benchmarking

Determine Critical Processes

Question #1

Will behavior change if one is diligent in measuring it?

Question #2

Does the potential benefit from collecting such information exceed the cost of obtaining it?

Question #3

What should those process consist of that would be mutually beneficial across the industry

Ten Steps to Successful Benchmarking

Develop Processes Measures

Results Measurement vs Process Measurement

Results Measurement

- 📄 Tend to be function related
- 📄 Usually reviewing a part or component of a process
- 📄 Not dynamic or holistic
- 📄 Results can be substandard

Process Measurement

- 📄 Complete systems including customer
 - 📄 Cross functional in nature
 - 📄 Measure the whole process
 - 📄 Drive optimization
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Ten Steps to Successful Benchmarking

Identify Key Performance Indicators

What are the industry's key performance indicators regarding equipment purchasing and installation?

Ten Steps to Successful Benchmarking

Identify Key Performance Indicators

Possible Baking's KPI's

 Contract Initiation and Purchasing

 Engineering

 Installation

 Start Up

 Training and Support

Example of Applied Benchmarking



Possible Goals

- Establish a process of identifying and collecting industry performance data that could be used to support and enhance customer satisfaction which would lead to increased supplier and customer profitability.
 - Using such information, identify a set of industry best practices that could serve as benchmarking standards that would
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Example of Applied Benchmarking

Focusing on Key Performance Indicators

Measuring Expectations vs Actual Performance



Purchase Process - Initiation Phase



Engineering Stage



Installation Phase



Start Up

Example of Applied Benchmarking

Project Initiation Phase - Expectations

	<u>Not Important</u>	<u>Marginal</u>	<u>Neutral</u>	<u>Somewhat</u>	<u>Important</u>
Concept	1				
Delivery Schedule		2			
Previous Experience			3		
Price				4	
Reputation					5
System Performance					5
Expectation Factor					20

Example of Applied Benchmarking

Sample Project Score

Project Initiation Phase	1.5	<+.50>
Engineering	1.0	
Installation	.97	<-.30>
Start Up	1.13	<+.13>
Training and Service	.95	<-.50>

Total Project Score

5.5

Example of Applied Benchmarking





Company Score

equals the sum of all projects

Industry Benchmark

equals the average of all company scores

Issues and Concerns

-  Appropriate use of information
 -  Maintaining integrity
 -  Confidentiality of information
 -  Legal concerns
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Issues and concerns...

Questions and Comments
