Using Supplier Score Cards To Improve Profitability

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During the past year, I have had the opportunity to visit several electrical distributors across the United States. Through discussions with owners and buyers on these trips, I have learned that each customer makes their purchasing decisions differently. Some companies delegate purchasing decisions to the local branch, while others centralize their purchasing. Whether the decision was made locally or from a central office, each buyer still had its own way of evaluating the purchase decision. Some buyers valued the lowest price, some valued relationship, and so on. For the purpose of this article, I have distilled the types into three categories:

1. No Score Card (Price, Price, and Price are all that matters)

2. Limited Score Card (Price, Discounts, and Rebates)

3. Complete Score Card (Overall Cost/Value Considered). The most successful companies seemed to be the ones where the buyer considered more factors than just the selling price.

Beware the High Cost of a Low Price

Russell is an example of the "No Score Card/ Price, Price, are Price is all that matters" buyer. He would listen to people discuss their value proposition, but at the end of the day he only cared about the price. Russell challenged me with the following: "I would love to give you more business but you are always high by 2 -3 percent." Given the competitive nature of the business that Cerro Wire is in, I inquired about the company's building wire suppliers. Russell was purchasing most of his wire from a small regional player. I asked Russell about the payment terms and rebate with this company and his response was that was handled by the owner. Fortunately, the owner was in the meeting and had an invoice and the program pulled for our discussion. This supplier offered Net 30-day terms and they did not have a rebate program established with them.Cerro Wire had 2 percent 10th Prox Net EOM with a 25th Cut-off and a 3 percent rebate.

Russell saw that Cerro Wire’s gross price was indeed 3 percent higher but the overall cost was 2.1 percent lower. Russell turned a little green when he realized that he lost his company $20,000 for every million purchased with the regional vendor. We also emphasized the value of lead-time, fill rate, product quality, product guarantees, and services. I showed them the difference on a million dollars that these items would have:

Lead-Time, Fill Rate, Product Quality & Guarantees have Value

Jack is an example of the "Limited Score Card, Price, Discounts and Rebates Considered" buyer. Jack consolidated the buying opportunity for his stores each month and presented it to his suppliers. After receiving the quotes, he would generate the projected order with each supplier's price, cash discount, and rebate to determine the net price. The lowest net price would always win. Jack had even reduced his suppliers down to two or three in each category. In our particular segment, Jack had narrowed it down to a non-domestic supplier and Cerro Wire. Jack had invited us to meet with him and some of his key managers to discuss Cerro Wire's programs and position.

After reviewing his company and their initiatives with us, the conversation turned to Cerro's performance in the last several buy opportunities. Cerro Wire had been close but higher, but higher than a non-domestic vendor. We inquired about lead-times, fill rates, product quality and guarantees. The non-domestic vendor shipment was being received about two weeks after ordering at about 90 percent complete with backorders taking up to a month to receive. Cerro Wire shipments were being received 4 days after ordering at 98 percent complete with back orders taking a week to complete.

We asked what impact this was having on inventory levels. Jack assured us that he monitored inventory very closely and it had not increased. One of the managers present said that was because they were picking up material from a non-preferred vendor at higher prices during the month when the non-domestic vendor was used. After further review, they realized that they had to make about 20 percent of the initial purchase as fill-in orders while waiting on the order. Without considering the expense of the cash flow, labor, and cost to pick up, they would have been better off paying an extra ½ percent.

We then inquired about the product quality, returns, and guarantees. Cerro Wire uses a Co-Extrusion process when manufacturing its products so that the Nylon and PVC are applied at basically the same time. This process produces a product that does not crack or horse collar when bent. Cerro also marks its wire with a True Sequential Footage mark and guarantees its accuracy. The non-domestic vendor did not do any of these things. As a result, it had poorer product quality and high returns. The customer had spent thousands of dollars a year in labor costs calling for RMAs, packing items for return, shipping, and then the costs to receive the replacement or process the credit memos with the non-domestic vendor. That's not to mention the intangible cost of irritating their customer with poor quality products.

A Complete Score Card Can Increase Profitability

Dave is an example of a buyer who has developed a complete score card to assist in his buying process. Dave measures vendor volume, initial fill rate, fill rate with second shipment, number of shipments to complete an order, average days to receive first shipment, average days to receive second shipment, average days to

receive final shipment, average shipments per order, average lines per P.O., average dollars per P.O., vendor uses EDI, percent of P.O. sent EDI, percent of lines sent EDI, total invoice volume, number of deductions (price, shortages, returns, etc.), total dollars deducted, average deductions, percent invoices adjusted, cost factor to process invoices, assistance with jobs. He sets a goal and acceptable levels. Then he measures those against a vendor. Based on the overall performance results, vendors are classified as Gold, Silver, or Bronze. This rating and score card are used in vendor meetings to help the vendor improve its performance, and rebate programs in order to be more comparable in total thus ensuring that the company is receiving the best overall cost on purchases. A sample vendor score card would look like the following:

The data from the score card can be fed into a comparison tool to properly evaluate the offers impact to the company.

Utilizing these types of report cards and comparison tools helped Dave put more science to the purchasing decision, which led to his company being more profitable than his competitors.

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