FOUNDATION DIPLOMA IN PURCHASING AND SUPPLY

Measuring purchasing performance

UNIT CHARACTERISTICS
This unit is designed to help students to measure the effectiveness of the supply chain and its contribution to the competitiveness of the organisation.

By the end of this unit, students will be able to apply a range of measurement techniques in order to monitor the performance of suppliers at organisational, functional and individual levels, how they perform financially versus target, compliance to contract/specification, and potential risks that they may present. Students will also understand how the performance of purchasing departments and individual buyers can be measured and how targets for improvement can be formulated.

STATEMENTS OF PRACTICE
On completion of this unit students should be able to:
• Explain how measuring performance in supply chain activities fits into the overall management process of an organisation
• Evaluate the benefits of implementing a well-structured approach to measuring organisational, functional and individual performance
• Categorise types of performance measures that are available to supply chain managers
• Appraise measures that can be used to improve supplier performance
• Employ accounting techniques and ratios to measure supplier’s efficiency
• Evaluate targets as a means of improving the performance of the purchasing function and individual buyers.

LEARNING OBJECTIVES AND INDICATIVE CONTENT

1.0 MEASURING THE PERFORMANCE OF THE PURCHASING AND SUPPLY FUNCTION

1.1 Evaluate the role and importance of measuring performance:
• Its relationship to the organisation’s management decisionmaking process
• Its link to the organisation’s mission and strategic goals/objectives
• The contribution made to the process of continuous improvement and continuity of supply
• The importance of performance measurement for control purposes
• Its role in the purchasing management process
• The advantages and disadvantages of performance measurement for the purchasing function.

1.2 Explain the benefits of value-added solutions
• Savings resulting from improved performance
• Reducing inventory costs and administration
• Extending payment and warranty terms
• Using consignment stock
• Improving operational efficiency.

1.3 Identify and explain the information required to perform purchasing activities and how to measure purchasing performance
• Departmental versus strategic goals of the organisation
• Resource requirements
• Costing, pricing, inventory management
• Supplier/vendor information
• Product/service specifications.
1.4 Analyse the types and categories of key performance measures available to organisations including:
• Contributions to profitability - savings, service and inventory
• Basic workload control
• Infrastructure and competency.

1.5 Analyse and explain the methods that an organisation's purchasing and supply function can use to manage and reduce inventory costs
• Economy: achieving best value for money. Managing the cost of the supply operation
• Efficiency: use of appropriate inventory management systems/techniques.
• Effectiveness: level of service provided by the inventory function to its end users.

1.6 Analyse and explain how the use of information technology may help in the acquisition of purchase and supply performance data
• The use of appropriate management information systems to collect data for stock control and costs
• Databases for recording/storing supplier/vendor information
• Stock movement/monitoring systems, including point of sale data capture and delivery details
• Statistical database for quality monitoring purposes.

2.0 MEASURING THE PERFORMANCE OF THE SUPPLIER

2.1 Analyse key areas associated with supplier selection
• The key stages in the buying process
• The variables considered when making the purchasing decision.

2.2 Explain the importance of measuring a supplier's performance and distinguish from supplier appraisal
• Supplier appraisal: assessment of supplier capability to control quality, quantity and price
• Supplier performance: comparison against a standard, performance on previous orders and against other supplier’s performances.

2.3 Evaluate the impact of supplier performance on an organisation's quality and productivity
• Good suppliers allow an organisation to perform efficiently and effectively.
• Issue of right-first-time every-time.
• Lower costs of operation
• Poor suppliers adversely affect performance. Knock on effect of sub-standard goods and services, plus untimely deliveries all add cost to an organisation.

2.4 Analyse and explain a range of measures which may be used to develop sustained improvement of supplier performance:
• Carter’s model of performance measurement, the balanced scorecard (Kaplan and Norton 1996), Plan–Do–Check–Act (PDCA) cycle (Shewhart 1939, Deming 1986)
• Vendor rating calculations.

2.5 Evaluate the importance of close and frequent buyersupplier communication and of its importance for supplier performance
• Demand-supply chain relationships
• Inter-organisational partnering and long-term commitment
• Benefits relating to working together: cost reduction, joint product and service development, joint performance measurement and appraisal.

2.6 Employ appropriate financial and accounting tools to assess organisational efficiency
• Cash flow analysis
• Use of appropriate ratios – activity ratio, liquidity ratio, working capital – to assess organisational efficiency
• Identification of supplier fraud.
2.7 Analyse the use of performance measurement as a tool for supplier relationship development
- Measurement as a motivating factor for both parties
- Mutual opportunities to create understanding to improve performance
- Positive approach to relationship building and continuous improvement
- Identification of weaknesses and problems.

2.8 Analyse qualitative supplier performance measures
- Research and development activity
- Conformance to international industry standards and benchmarks
- Cultural adaptation.

2.9 Describe ways of measuring supplier achievement of service levels:
- Cost of initial purchasing measure
- On-going levels of performance in carrying out the service: quality, after-sales service, price, consistency of performance.

3.0 MEASURING THE PERFORMANCE OF THE BUYER

3.1 Define and explain the benefits of a well-managed and structured approach to measuring an individual’s performance including:
- Investors in People (IIP) guidelines and structure
- Performance against target assessments
- Planning for improvements
- Using personality profiling to ensure that purchasing staff are appropriate to their role.

3.2 Explain how appraisal and evaluation techniques can be employed to measure and improve performance:
- Periodic reviews
- Informal and formal appraisals.

3.3 Analyse and explain how individual components of a purchasing role link to the overall objectives of the organisation
- Contribution of individuals to an organisation’s profitability
- Management of basic workload
- Development of purchasing infrastructure.

3.4 Analyse and explain how an individual’s knowledge, expertise and skills can be developed to the benefit of both that individual and the organisation
- Individual benefits: level of responsibility, job satisfaction, career progression, skills development
- Organisational benefits: better-trained workforce
- Improved productivity and profitability
- Competitive advantages.

3.5 Evaluate and explain the use of a range of techniques to analyse the training needs of individual buyers:
- Job profiles
- Key objectives
- Performance measures
- Appraisals.

3.6 Explain how to measure individual performance against pre-set targets
- Cost reduction
- Profitability
- Productivity.
3.7 Compare the relative performance measures of the buyer with those of his/her respective suppliers

- Key measures of supplier performance: competency, commitment, capacity, control
- Key measures of buyer performance: skill and knowledge, plus contribution to an organisation’s goals and targets.