

Measuring sourcing performance: What's the mystery?



David Jacoby

Getting performance out of sourcing truly is a matter of life or death for most companies. It's strategic for any low-cost business and for any firm that claims supply chain management as a core competency. It provides robust financial leverage. Between 45% and 65% of most companies' revenues come from purchased materials and services. This large slice of the cost structure is a juicy target for P&L and stock-price enhancement for public companies. Smart maintenance and third-party services sourcing can remove assets from the books, increasing the ROA of asset-intensive companies. And strategic sourcing shortens cash-to-cash cycle time.

It's a critical path. Supply delays cause hiccups in production. Quality problems waste inspection man-hours, or worse, cause delays and shutdowns. Supplier quality problems in product development slow the product introduction process, thereby risking market share and early adopter benefits.

So why don't many companies measure sourcing performance? Today, years after advanced methods of cost measurement and control have been introduced and the benefits of supply chain management have been unanimously touted by practitioners and academics alike, many companies still cannot objectively measure their sourcing performance, mostly due to fragmented systems and data, and sometimes due to organizational ambiguity of the procurement organization.

A large number of ERP and e-procurement investments have yet to deliver clean data in some companies. Some of these companies are finalizing their implementations but until they do, they are still short of reliable data for spend analysis, contract compliance, budgeting and variance analysis, supplier performance monitoring and qualification, and overall measurement of sourcing performance.

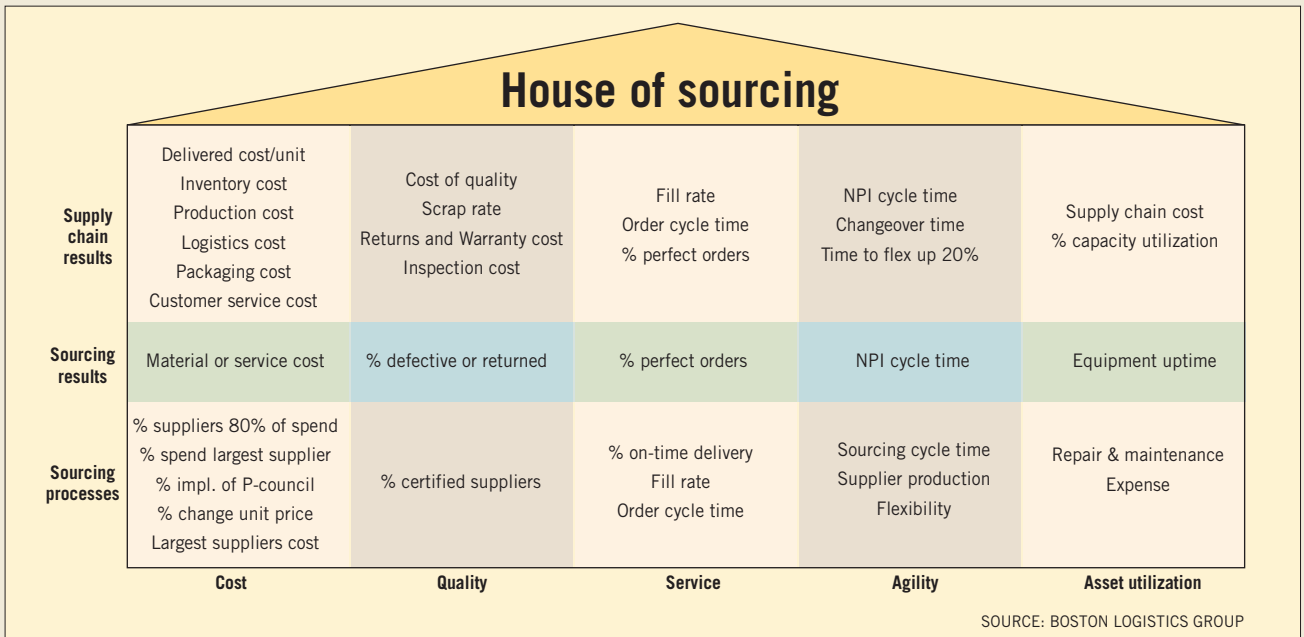
Key sourcing metrics support successful supply chain performance, and each key supply chain metric has a sourcing counterpart.

"Process" metrics tell you if you're doing the right things to achieve results, and "results" metrics tell you if you're achieving the results. The figure on this page shows a "house of sourcing" with key process and results metrics in five areas: cost, quality, service, agility, and asset utilization.

To make sure its "house" is well-built, a procurement organization should:

- Clearly define each metric so people in your company understand what's being measured.
- Tailor the metrics if necessary.
- Establish baseline values for each metric.
- Benchmark your company against an appropriate standard, such as those collected in benchmarking studies.
- Set target values.
- Post results in a highly visible place to encourage discussion and continuous improvement.

David Jacoby is president of Boston Logistics Group in Wellesley, Mass. He can be reached at djacoby@bostonlogistics.com



This chart illustrates metrics in five key areas that form the foundation to the "house of sourcing."