

The Keys to Implementing Dual Buyer-Supplier Scorecards Successfully

A Wide Range of Best Practices is Needed to Make it Work, Experts Say

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While a growing number of companies use scorecards of increasing sophistication to measure supplier performance, that too often lets internal procurement managers off the hook.

So say **Brian Slobodow** of Neways Inc., **Omer Abdullah** of The Smart Cube, and **William Babuschak** of Johnson & Johnson. In a recent article in MIT's Sloan Management Review. They promote the idea of two-way scorecards that provide accountability and improve performance by linking supplier and buyer metrics.

In a nutshell, a two-way scorecard involves linking the performance of the supplier to the buyer's own performance evaluation, creating a "mutual accountability map." For example, a supplier's service level might be linked to the accuracy of the forecast provided by the buyer.

Source: MIT's Sloan Management Review

Johnson & Johnson's began putting the approach into place starting in 2003, achieving what it says have been very strong results. Similar programs have been implemented at Toyota, Home Depot, and Neways, among others.

The authors list 10 key practices for making two-way scorecarding work:

1. **Rely on Senior Leadership:** As usual, senior exec support is key. Senior leadership must publicly acknowledge the problems with the existing approach, and emphasize internal accountability as being just as critical as supplier performance.

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2. **Choose the Best Managers:** Pick top performers from inside the company to lead the effort, and insist suppliers do the same on their end.

3. **Focus on Critical Items:** Don't diffuse the effort by spending time on items with marginal cost or supply chain importance. Focus on items that have the biggest impact on customers.

4. **Use on Strategic Suppliers:** This approach only works with suppliers for which there is a long-term commitment.

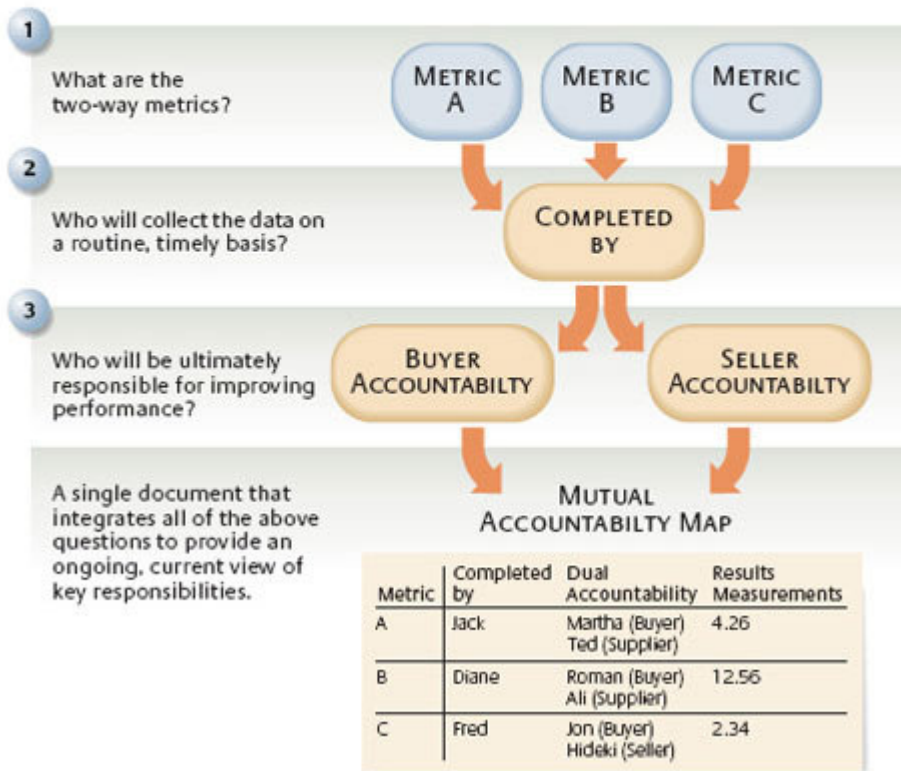
5. **Broaden the Involvement:** Supply management touches a lot more than just the procurement function of course. J&J used cross functional kick-off meetings for the two-way scorecarding launch with each new supplier in the program.

6. **Be Practical:** Aim for "best fit" accuracy in the metrics, not perfection. If too much manual data scrubbing/effort is required, it's probably time to

The Keys to Implementing Dual Buyer-Supplier Scorecards Successfully (Con't)

Specifying Individual Tasks With a Mutual Accountability Map

Johnson & Johnson Group of Consumer Companies uses a Mutual Accountability Map to maintain a clear and ongoing view of individual responsibilities among both buyer and seller employees.



Source: MIT Sloan Management Review

rethink the metric.

7. Engage the Supplier: Decisions about the dual scorecards need to be made in collaboration with the supplier, in the design phase.

8. Communicate the Value: Be sure to clearly identify how the program is helping both sides and communicate those results effectively.

9. Recognize Performance: Rewards and recognition go along way – and can help recruit

potential new suppliers into the program.

10. Allow for Evolution: No one gets it right up-front. Continuous improvement is also possible – J&J has evolved to Six Sigma-based statistical process control to flag any variances early.

“For many corporations, the dual accountability concept – whether evinced through the Two-way Scorecard or another method – can serve as a tangible means of revitalizing those unfulfilling supplier marriages,” the authors conclude.