



Supplier Approval and Performance Monitoring

INTRODUCTION

The purpose of supplier performance monitoring is to ensure that all legal and contractual arrangements are met in accordance with any agreed standard, specification, contract or order. The purpose of approval may be to include a supplier on the Approved Supplier List as having acceptable conditions of supply.

The extent of monitoring the supplier is determined by the risk of the product or service being supplied, the history and background of the supplier and also the nature of the product.

Performance monitoring evaluates the quality of the product or service together with the supplier's ability to supply consistently. It assists in contributing to effective risk management, builds relationships, assesses a supplier's capability, improves supplier performance and provides feedback to the supplier. Some certification schemes such as ISO 9000, ISO 22000 and the British Retail Consortium (BRC) scheme require approval and ongoing supplier monitoring as part of their standards. This can provide a framework for a consistent approach to supplier approval. Recent food fraud incidents such as the discovery of horsemeat in meat products highlight the need for effective and robust supplier controls.

WHAT IS SUPPLIER PERFORMANCE MONITORING?

Supplier performance monitoring requires that:

- **The purchaser regularly checks that all contractual arrangements are met**
- **Goods are inspected to ensure they are within specification**
- **Any problems are identified and responded to effectively**
- **All reviews are documented**

APPROACHES

Suppliers need to be aware from the very start of a business relationship that their performance will be assessed and evaluated. As with any standard, they need to be advised how they will be measured, to what standard and who will have access to the information. The mechanism for any dispute needs to be clearly defined in advance to ensure smooth operation.

Monitoring activities may include any of the following criteria:

- **delivery and lead times**
- **minimum order quantities**
- **proactive approach of the supplier**
- **deliveries of correct items and quantities on time**
- **flexibility of service**
- **level of breakages or damages**
- **efficiency of administration services**
- **price and level of discounts**
- **manner in which price changes are introduced**
- **financial stability of the company**
- **technical support and knowledge of staff**
- **presence of quality management systems e.g. ISO 9000**
- **presence of food industry third party certification schemes e.g. BRC**
- **product quality and conformance to specification**
- **level of documentation (availability of certificates of analysis)**

It can be seen that supplier monitoring can include both technical and commercial criteria.

SETTING KEY PERFORMANCE INDICATORS

The purchaser needs to decide on which criteria are important to be achieved and which ones are critical to the quality, safety or legality of the product. These may be decided through the application of the HACCP principles.

Key Performance Indicators (KPIs) can then be developed to measure the supplier's actual performance over a given defined period. These KPIs must be included in the contract or purchase order, such as delivery date or time,



quantity, grade of material, level of contaminants, and nature of material and must be agreed with the supplier at the beginning of supply. They may then make up the basis for an order, contract or specification against which both parties can agree. These reference values can be reviewed regularly with the supplier as they provide objective evidence of performance, which has been previously agreed as realistic.

Levels of complaints attributable for the supplier can be an important method of evaluation of performance outside of the KPIs as they may indicate a lack of control in parameters not previously thought of as critical.

Whatever is agreed, supplier performance targets must be:

- **Deliverable**
- **Measurable**
- **Relevant**
- **Achievable (i.e. within the supplier's control)**

The characteristics of a good KPI are that all aspects are included; they are clear, written in plain, simple language and can be measured in a cost effective manner. Photographic standards may be utilized where text is not sufficient.

Benchmarking against other suppliers, using criteria such as price or service levels, is another possible tool, but there may be problems with confidentiality.

For the ongoing success of a business partnership, it is also important to know about the financial security of the supplier and the scope of developing the business. Placing a large order with one supplier may overwhelm their system if they are fully stretched at capacity. The supplier may also tie up too much capital in finished product and be unable to purchase materials and services required. Inputs from all aspects of the purchaser's business such as purchasing, technical, goods inwards and accounts should be consulted when defining performance indicators and carrying out a review or audit. Suppliers who provide good products, but always supply late or without the necessary paperwork, may be as unsuitable as one with poor quality supply.

CONTRACT REVIEWS AND AUDITS

Regular meetings with suppliers are important in order to develop the business and personal relationship and also to deliver the monitoring information gained. The information is only useful if the supplier has an opportunity to act on it. All suppliers must be given the opportunity to improve or to provide alternative solutions before a more serious action such as de-listing can be used. These reviews can be included in other meetings such as contract reviews, price negotiations or audits.

A pre-contract audit is important when the supplier is unknown. A base level of information is needed in order to determine the KPIs and set the specification or amend the hazard analysis for the material. This level of information can be gained by a technical inspection or audit or by a buyer's visit, if correctly briefed.

Spot checks and inspections may be necessary to ensure that the goods that are delivered do conform to the contract standard. Spot checks can be a powerful tool, but should not be overused, where business relationships are based on a level of trust and mutual commitment. If spot checks are to be carried out these too must be covered by the contract.

Effective performance monitoring should provide the contract manager with a timely warning if the supplier is having difficulty in meeting the criteria of the specification or the agreed performance standards. Prompt action must be taken in order that a potential problem can be prevented from escalating into a more serious problem or dispute, such as exceeding the limit for a CCP (Critical Control Point in the Company's HACCP).

All meetings must be recorded for future reference as these records may be used when a contract is due for renewal or a new order placed. The evidence that the records provide may be used to justify a refusal in price increase, a price decrease or de-listing of a supplier.

DEALING WITH POOR PERFORMANCE

Suppliers must be made aware of any shortcomings in their performance as soon as they occur. For most performance problems, particularly serious or

recurrent problems, suppliers should be given a formal warning that their current level of performance is not satisfactory, an explanation of why this is the case and the details of what changes are needed in order to meet the performance expectations. This allows the supplier to take any necessary actions to bring the problem back under control. Having pre-agreed KPIs will make this easier as the limits and actions have been previously negotiated.

The supplier should be informed that a termination of the contract may be considered and must be made fully aware of the changes they need to make if they wish to avoid having goods returned. Legal advice may need to be sought to prevent a breach of contract.

All communication should be advised in writing and made promptly to allow action by the supplier. It is useful to consider the cost of resolving the problem; it may be cheaper to destroy the product than to return it or to accept it for some other application at a reduced price. How important is the failure? Is it a CCP or a quality issue and has the purchaser added to the problem in some way such as poor storage conditions or sampling techniques? To maintain credibility it is important to keep issues in perspective.

SUPPLIER PERFORMANCE MONITORING IN CERTIFICATION STANDARDS

Supplier Approval and Monitoring form a part of two important Standards, the British Retail Consortium Standard and ISO 9000:2000.

The BRC Global Food Standard for Food Safety, Clause 3.6.2 covers Supplier Approval and Monitoring and requires:

These procedures shall include clear criteria for on-going assessment and standards of performance required. Ongoing assessment may take the form of monitoring performance through the following, although this is not an exhaustive list:

- **In-house checks**
- **Certificates of analysis**
- **Supplier audit as appropriate**



In ISO 9000:2000, Clause 7.4.1 Purchasing Processes states:

The organization shall evaluate and select suppliers based on their ability to supply products in accordance with the organization's requirements. Criteria for selection, evaluation and re-evaluation shall be established. Records of the results of evaluations and any necessary actions arising from the evaluation shall be maintained.

SUPPLIER APPROVAL METHODS

Supplier assessment may form part of the prerequisites to HACCP where supplier quality may form an integral part of control of raw material quality and therefore the recorded evidence gained from this exercise can be very important.

Hitherto the length of the supply chain has not been considered as a relevant factor in the approval of suppliers but recent food frauds have focussed attention on this area. Whilst it may not be possible to gain a full picture of the supply chain in every case with high-risk ingredients such as meat, fish and their derivatives where substitution is a possible risk, consideration should be given to requiring total transparency and limiting the total number of parties in any one supply chain. This will help to ensure that the chain can be effectively understood and managed. The type of operation within a high-risk supply chain should also be considered and it is advisable to limit the number of agents who do not physically handle the product and consider whether 'spot buying' should be permitted due to the lack of control over such activities.

Raw material quality may be assessed by organoleptic, microbiological or other analytical tests, physical condition of the delivery or certificate of analysis/certificate of conformance sent with the delivery. Tests for authenticity of raw materials should be conducted on a risk assessed basis as part of the routine testing schedule. This may require access to specialist tests such as PCR for meat speciation that may need to be provided by another laboratory.

Supply conditions can be assessed by reference to a supplier audit questionnaire, audit or inspection of the facility. First party auditing or self-auditing requires



the supplier to critically assess their own site and controls. These can be backed up by spot checks (by prior agreement). Second party audits by the purchaser (either technical or purchasing) are useful as the criteria for supply can also be agreed at the same time. Third party audits are carried out by an independent body which may also be able to award a certificate from a certification scheme. Suppliers with certification may be then subjected to a lesser level of testing or second party auditing.

Whichever type of assessment is carried out, the visit should be recorded, include an assessment of the supplier's HACCP and follow a checklist for a standardized approach. Auditors should also be suitably trained and have experience of HACCP and the process being audited.

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