PROCUREMENT EXCELLENCE NETWORK

Partners for **Public Good**

→ HOW-TO GUIDE

Assessing and Tracking Vendor Performance

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IN THIS HOW-TO GUIDE YOU WILL:

- Learn what a vendor performance evaluation system is and how it can be used to improve vendor performance and inform future contract decisions

- Understand the steps needed to set up a vendor performance evaluation system in your own government, from defining your goals to introducing the new vendor evaluation process with internal stakeholders

INTRODUCTION

State and local governments rely on vendors to provide goods and services to residents every day; from street paving to fire hoses to homeless services, the quality of life in a community is largely dependent on the quality of the contracts negotiated and managed by government officials. Yet many governments do not have mechanisms in place to formally track the performance of their vendors. Without an understanding of how vendors are performing, governments are limited in their ability to improve vendor performance or to make well-informed decisions about hiring a vendor in the future or renewing a contract. Setting up a vendor performance evaluation system can enable governments to track important data about performance. We hope this guide will help you get started!

Why implement a vendor performance evaluation system?

- It allows you to document vendor performance over time and to support vendors in improving how they deliver goods or services.

- It can help influence decisions on which vendors your government chooses to contract with based on previous positive or negative experiences.

- It facilitates better and more transparent information-sharing across departments and with peer governments on the track record of vendors being considered.

→ **A Note Before Getting Started**

Setting up a way to assess vendor performance will require working with other key government functions, including contract management, data, and IT systems, the purchasing office, and Legal. It will also require buy-in from department contract managers who work most closely with vendors and will be completing the vendor performance evaluations. As you navigate the steps outlined below, make sure you've assembled a team who can bring relevant perspectives. This investment will position your system to be feasible and sustainable in the long term.

What exactly is a vendor performance evaluation system, anyway?

A vendor performance evaluation system, sometimes also referred to as "vendor scorecards" or "vendor report cards," is a standardized way to capture a record of a vendor's performance to monitor whether a contract's desired outcomes are being met. There's no one right approach the design; some lean systems simply document instances of vendor underperformance at contract closeout, while more holistic systems regularly document a comprehensive picture of performance for most of a government's contracts. The diagram below illustrates a leaner example and more comprehensive example of a vendor performance evaluation system:

	EXAMPLE: LOWER-INTENSITY APPROACH	EXAMPLE: HIGHER-INTENSITY APPROACH
Data Collection	Data may only be collected on underperforming vendors or may only be collected for a subset of the government's contracts (e.g., for multi-year contracts over $500,000 or for vendors providing resident-facing services). Limited data fields may be captured, potentially simply one overall score on a vendor's performance at contract end.	Performance data is collected for most of the government's contracts, not just for those with vendor underperformance. Performance is evaluated on a regular basis during the contract term, such as every quarter or every six months. A variety of unique data fields may be captured, including cost control, responsiveness, and project management.
Reporting and Data Use	Data is primarily shared only with internal staff and may help them to avoid selecting an underperforming firm when evaluating bids or proposals. The use of vendor performance data to inform contract decisions (e.g., award, renewal) may not be formally codified.	Performance data is regularly discussed with vendors as a tool to give feedback and course correct. Data is formally used when future contracting decisions are being made (e.g., at the time of contract renewal or when a firm submits a future bid or proposal).

Creating your vendor performance evaluation system

1. Defining the Objectives of the Vendor Performance Evaluation System

The first step is to align with your team on your vision and objectives, which will form the basis of your process design. The decisions you make in this step require knowledge of your government's procurement code and involve consultation with your legal team. We've distilled some of the most important questions to gain alignment on below.

How Will Vendor Evaluations Be Used in Decision-Making?

You first need to gain clarity on your use cases—how you plan to use vendor evaluation information for both current and future contracts. Some or all these use cases may resonate with your government.

- **Use Case 1: As a Performance Tool for Active Vendors:** For contracts currently in place, vendor performance evaluation information can be used as a tool to discuss and work more closely with vendors to improve problem areas. If program staff already meet frequently with vendors, evaluations can provide a more formal way to offer feedback in those meetings and have a frank discussion about what's working and what's not in the government's partnership with the vendor. Additionally, some small firms or firms new to public sector contracting may face unique challenges. Discussing and giving formal feedback on their performance can be a powerful coaching tool to help them improve and be better vendors in the future.

- **Use Case 2: As a Deciding Factor When Renewing Contracts or Expanding the Contract Scope:** Evaluation information can also be used when deciding whether to renew a contract with a vendor, expand the contract scope, or give additional work to a vendor on a bench or within a pool of vendors. A positive performance review could lead you to approve a renewal, while a negative performance review could suggest you need to re-procure.

- **Use Case 3: As Supplementary Information in Future Contracting Decisions:** In many governments, the same firms frequently bid or propose on contracting opportunities. By formally capturing a record of a vendor's performance, you may be able to use that performance data when deciding whether or not to select a vendor the next time they bid or propose. Some governments have explicit language in their procurement code stating that historical vendor evaluation documentation will be used when considering vendors for future contracts and can be grounds for finding a vendor non-responsible, or it can be used as an additional positive reference. These terms should be made clear to prospective vendors in solicitation documents.

The use cases on which you are focused should inform with whom you share vendor performance evaluations, which may include other departments, the vendor, or even other governments.

2. Designing the vendor performance evaluation system

What Kinds of Contracts Will You Evaluate?

First, consider if the vendor performance evaluation system will apply to all types of contracts, including professional services, commodities, social services, and construction. The answer to this question can depend on where the system lives, whether some departments will opt to manage their vendor performance separately, and if certain contracts will be prioritized for evaluation given historical performance issues or public visibility.

After determining the categories of contracts, you need to consider whether all contracts within these categories will be evaluated. For example, if your government handles thousands of contracts every year, it may not be feasible for program staff to conduct an evaluation for every single contract. Some governments may opt instead to focus only on contracts that are "high priority," which could be defined as:

- Contracts above a certain annual dollar amount (e.g., > $100K).

- Contracts for programs or services that directly serve or impact residents (e.g., landscaping, waste collection).

- Contracts with prior performance challenges.

Various agencies or departments may have different definitions for "high priority." The goal is to work with departments and program staff to determine how to get evaluations to a manageable volume and to develop alignment on definitions across all teams involved in the evaluations.

Who will manage the vendor performance evaluation system?

In governments where procurement is centralized, it may make sense for the purchasing office to oversee this system. However, in governments where procurement functions are spread across agencies or departments, more thought is needed to systematize the process. This may require some reallocation of roles and responsibilities for certain staff or the designation of a lead office with clear responsibilites over the vendor performance evaluation system to enable a seamless rollout and execution.

Below are roles to consider, many of which could require a substantial time investment:

ROLE	DESCRIPTION
Department Liaison	Responsible for collaborating with departments so that vendor evaluations are completed on a timely basis; usually a member of purchasing staff
Data Manager	Responsible for storing completed surveys and setting up the required analysis and reports
Contract Manager or Administrator	Liaise the most with vendors; responsible for communicating feedback and actively managing the contract
Legal	Likely consulted when vendor performance challenges are not resolved and may require a decision to terminate or not renew a contract

How Will You Evaluate Vendors?

Once you've determined what types of contracts will be evaluated, the next step is to develop evaluation form content and criteria. To make evaluations as useful as possible in pinpointing exact areas of improvement, it's helpful to break down a vendor's evaluation across several performance dimensions. The criteria for evaluation may differ depending on the type of contract. Some categories to consider include:

- Fulfillment of key performance criteria

- Schedule/timeliness of performance

- Cost control

- Quality of work performed

- Regulatory compliance

- Availability of team

- Project and contract management

- Responsiveness and professionalism

SAMPLE QUESTIONS TO CONSIDER

- How would you rate the vendor's overall performance?
  (Choose from Excellent, Good, Fair, Poor)
- Would you recommend this vendor? (Choose from Yes, No, Conditional)
- Does the vendor's staff have sufficient knowledge and expertise in the subject matter?
- Does the vendor identify and implement new areas for improvement?
- Does the vendor have a strong response to problem resolution?
- How does the vendor rate across the following performance categories? (Choose from Above Standard, Standard, Below Standard)
  - Vendor requirements met as to quality of goods/services
  - Vendor requirements met as to timeliness of delivery or performance
  - Vendor requirements met as to price/budget
  - Business relations (professionalism, responsiveness, change management)

There is no hard or fast rule for how many categories to score vendors against. What's important is to provide evaluators with a clear definition of the categories so there's no confusion as to what is being evaluated.

Quantitative vs. Qualitative Scoring

Evaluation questions can be quantitative, such as Likert scale questions (e.g., "rate the vendor's performance in this area on a scale of 1-5" or select either "Needs Improvement," "Successful Performance," or "Exceptional Performance") and/or qualitative, including comments. Having a combination of both is practical, as it allows evaluators to quickly assess a vendor's performance and aggregate to a final score that can be used to compare the performance of similar vendors while allowing room for more detailed explanation.

Length and Complexity of the Evaluation Form

Aim to design evaluation forms that are straightforward for staff to fill out and do not require that extensive time is spent performing the evaluation, especially if you opt to have staff perform evaluations multiple times a year for a contract.

How Frequently Will You Evaluate Contracts?

This question largely depends on the duration of a contract and whether the contract has demonstrated a performance issue. For example, some governments require an evaluation to be conducted within the first three to six months that a contract is in place; if performance issues are identified, then quarterly evaluations may be conducted until the issue is addressed. If no performance issues are identified, the frequency of evaluations may be limited to once or twice annually until the contract term is completed. This rule and similar ones should not replace a collaborative approach between your purchasing office and other departments or agencies to discuss issues with vendors as they come up in real time. Once the contract term expires, you may find it useful to have a final evaluation with an ultimate recommendation as to whether the vendor should be considered for future contracts. Or, if your only use case is to capture a historical record of a vendor's performance for future contracting decisions, simply evaluating the vendor's performance formally at contract end may be appropriate.

Who Will Complete Evaluations?

Ideally, the individuals working most closely with vendors should complete evaluations. Some governments have layers of approvals built into the evaluation, whereby supervisors and purchasing office staff review the evaluation and sign off prior to finalizing it.

→ ## A Note About Underperformance

It's critical to remember that there are always two sides to any performance issue. Before formalizing a record of vendor underperformance, conduct proper due diligence to hear the vendor's side of the story and confirm that government policies or practices were not creating an environment or relationship that made it impossible for the vendor to perform at the level expected.

3. Implementing your vendor performance evaluation system

Now that you've designed your evaluation process, it's time to think ahead to data management and change management, which will set your vendor performance evaluation system up for a successful launch. Make sure that you have dedicated representatives from your data and IT teams as well as buy-in from executive leadership to work through the questions below.

→ ## Gilbert's Digital Vendor Evaluation Platform

The Town of Gilbert, AZ created an online evaluation survey. The survey was hosted in a cloud-based application, ArcGIS, and connected to a dashboard that populated responses in real time and allowed the Purchasing team to view a snapshot of vendor performance across all their contracts. Because Gilbert used a numerical scoring system for its evaluations, it was able to quickly filter responses that dipped below an overall score, which enabled it to target vendors for performance improvement. Read more about the Town of Gilbert's vendor performance evaluation system here.

What Platform Will You Use to Collect Vendor Evaluation Responses?

Some governments opt to create surveys in static document or spreadsheet form and store completed forms on a shared drive. Others use cloud-based applications that allow real-time storage and analysis of evaluations in web form and simplify data collection and reporting. Work with your data and IT team to explore the most feasible technology solution for hosting the evaluation and to develop a system for record-keeping and analysis. One important consideration is the ability of your solution to standardize contract numbers/names and vendor names for consistency across existing contract management systems.

What Internal Metrics Will You Collect and Report On?

Developing internal metrics to track and monitor regularly allows you to take actionable steps to improve vendor performance and monitor whether the system is functioning as intended. Metrics should allow you to understand at a high level which contracts or vendors are struggling, which are thriving, and which still need to be evaluated. Sample metrics include:

- Percent of contracts with required evaluation forms completed.

- Percent of vendors not recommended for future work due to poor performance.

- Percent of vendors with positive evaluations.

One important factor to consider on outcome metrics is how you want to weigh earlier evaluations of a contract relative to more recent evaluations. Some governments find it helpful to create dashboards that only show the latest evaluation for a contract with the ability to view historical data as needed.

How Will You Track and Monitor Which Evaluations Have Been Completed?

With hundreds or thousands of contracts active in any given year in larger governments, it's important to develop a system for tracking which contracts have their required evaluations completed. This task can be difficult, especially if there is not a robust database of current contracts and associated key information for those contracts (e.g., dollar amount, renewal date, vendor name, vendor identifier number, or department contract manager). There are advantages to aligning the data in your contract management system with your vendor performance evaluation system, even if you need to store evaluations in a separate data system.

→ # A Note About Linking Vendor Evaluations with Existing Contract Data Management

Vendor evaluations map directly to the contracts in your system. Central to the conversation on managing vendor evaluations is the broader context of how contract data is currently stored by your government. Ideally, your contract management system captures accurate data for all current and expiring contracts and includes fields for contract start and end dates, dollar amounts, renewal milestones, and points of contact. Linking your contract management systems to your vendor evaluations allows for standardization of vendor names and contract numbers, which will streamline reporting and allow for a comprehensive tracking of which contracts have received evaluations. More broadly, having a centralized system for consistently collecting and storing contract start and end dates as well as dollar amounts will allow your government to better anticipate when contracts are expiring and to identify high-priority contracts requiring closer attention to performance.

How Will You Socialize your Vendor Performance Evaluation System Across Departments?

Once you have developed your vendor performance evaluation system with your team and have a plan in place for implementing the system, consider how you will roll it out to departments and staff across your government. There are several groups of stakeholders that you may want to consider:

STAKEHOLDER GROUP	CONSIDERATIONS	POSSIBLE PRESENTATION FORMAT
• Department managers • Program staff interfacing with vendors • Support staff	• Explain the motivation for conducting evaluations • Reality test the details of a phased approach for rolling out evaluations • Articulate roles and expectations of department staff vs. purchasing office staff	• Present and demonstrate how the system will work • Develop FAQs to answer high-level questions • Hold separate meetings with departments in more intimate settings to discuss any concerns and next steps
• Executive Leadership	• Communicate why this matters and what support is needed to phase implementation across departments	• Share high-level strategic metrics and actionable outcomes expected

Conclusion

Vendor performance evaluation systems are useful tools to engage with your vendors, provide data points that can improve contract management, and bring transparency to contracting decisions. Successful vendor evaluation systems require a collaborative effort among multiple teams, from data to IT to purchasing, and can require a multi-phased implementation to fully roll out across critical contracts. We've seen in many governments that the investment is worth it and can result in a more collaborative relationship with vendors and greater information at hand when making future contracting decisions. We wish you and your team nothing but success on your journey to set up your own vendor performance evaluation system!

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