Scholars Journal of Engineering and Technology

OPEN ACCESS

Abbreviated Key Title: Sch J Eng Tech
ISSN 2347-9523 (Print) | ISSN 2321-435X (Online)
Journal homepage: https://saspublishers.com

Transforming Supplier Engagement via Comprehensive Supplier Performance Index (SPI) Evaluation

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DOI: 10.36347/sjet.2024.v12i07.002 | **Received:** 22.05.2024 | **Accepted:** 27.06.2024 | **Published:** 06.07.2024

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Abstract | **Review Article**

The gig economy's reliance on professional service suppliers, while offering flexibility and expertise, presents significant challenges for companies across diverse industries: including financial losses, operational disruptions, and reputational damage. Companies need a holistic supplier performance evaluation framework that assesses key factors like quality, efficiency, cost, compliance, and risk for navigating this dynamic landscape. A comprehensive model, utilizing a multi-dimensional matrix and customizable weights can generate a single, actionable supplier performance score that will significantly aid companies in making informed decisions about supplier engagements. This paper proposes the Supplier Performance Index (SPI) model, a comprehensive framework that empowers companies to make informed decisions about supplier engagements, leading to significant cost savings and improved operational efficiency.

Keywords: Contingent Workforce, Gig Economy, Supplier Performance Index (SPI).

1. INTRODUCTION

The contingent workforce is booming across industries, with estimates up to 50% in the tech industry alone. In 2021, Staffing Industry Analysts (SIA) estimated 52 million contingent workers in the U.S., representing 35% of the workforce [1]. The global Contingent Workforce Management market size was valued at $171.5 billion in 2021 and is projected to reach $465.2 billion by 2031, growing at a CAGR of 10.5% [2], driven by the rise of the gig economy. Studies suggest unmanaged supplier performance risks can cost companies up to 30% of their annual contingent workforce budget, potentially leading to billions in losses. Key Industries include Tech, Healthcare, Retail, Manufacturing, Finance & Banking, Logistics & Transportation, Media & Entertainment.

2. BACKGROUND

Traditional supplier evaluation methods [5] rely on linear scoring, limiting their ability to provide a comprehensive picture. Our novel Supplier Performance Index (SPI) model exceeds conventional methods by integrating multidimensional metrics that surpasses linear system, generating a unified decision score through a (N*M) decision matrix. It utilizes autonomous adaptive learning for dynamic parameter adjustments.

3. MODEL INVENTION

The Supplier Performance Index (SPI) is a combination scorecard, with deeper insights through multidimensional assessment, customizable weights, and ML integration. A centralized supplier relationship management program using this model is essential for efficient partnerships.

The model creates an (N x M) decision matrix where each cell (i, j) represents a score for metric M_j within dimension N_i.

- **Dimensions (N)**: Represent the key performance areas (KPAs) aligned with the QECR framework (Quality, Efficiency, Cost, Risk).

- **Metrics (M_i)**: Each dimension (N) can have several relevant metrics (M_i) specific to the industry (e.g., M_Q1: Time-to-productive-hire, M_E2: Fill Rate). Metrics can be continuous (e.g., time) or discrete (e.g., number of errors).

Scoring can be based on predefined scales (e.g., 1-5 for satisfaction score) or calculated functions (e.g., percentage of successful background checks).

Example -

Dimension (N_i)	Metric (M_i)	Score (M_i,j)
Quality (0.4)	Time-to-productive-hire (M_Q1)	4 (out of 5)
	Accuracy of submitted candidates (M_Q2)	0.95
Efficiency (0.3)	Fill Rate (M_E1)	0.8
	Project completion rate (M_E2)	3 days
Cost (0.2)	Average hourly rate (M_C1)	$50
	Agency fees (M_C2)	15% of placement cost
Risk (0.1)	Number of failed background checks (M_R1)	0.5
	Cybersecurity breach history (M_R2)	4.5 (out of 5)

Weighting System: Each dimension (N_i) has a weight (W_i) reflecting its importance for your organization (e.g., higher weight for Quality in tech roles). Weights sum up to 1 (ΣW_i = 1).

Supplier Performance Index (SPI) Calculation:
SPI = $\Sigma\ (W\_i\ *\ \Sigma\ (M\_i,j\ *\ Score(M\_i,j)))$
Where:

- W_i is the weight for dimension N_i.
- M_i,j is the metric M_j within dimension N_i.
- Score(M_i,j) is the score assigned to metric M_i,j based on its specific scale or calculation.

Scaling and Adaptive Learning

This model can be scaled to accommodate different industries and organizations by adjusting the key performance areas (KPAs), metrics, and weights tailored to specific requirements, making it adaptable and scalable for various contexts.

Beyond the Matrix: Embracing Dynamic Weighting with Machine Learning

SPI leverages machine learning algorithms to dynamically adjust weights (W_i) assigned to each dimension of QECR (Quality, Efficiency, Cost, Risk) based on real-time data and market fluctuations.

Imagine an SPI that learns and adapts! This allows companies to factor in the ever-evolving industry landscape, prioritizing critical aspects like emerging cybersecurity threats and a diverse workforce.

Example -

Dimension	Description	Weight (W_i)
Quality	Accuracy, completeness, conformance	0.4
Efficiency	Timeliness, responsiveness, delivery	0.3
Cost	Price, competitiveness, value	0.2
Risk	Compliance, security, stability	0.1

Predictive Analytics: Foresight into Future Performance - SPI utilizes predictive analytics to forecast future supplier behavior, leveraging historical data and industry trends, empowering proactive decision-making.

Integration with Talent Acquisition Platforms: A Seamless Workflow - Frictionless integration with leading talent acquisition platforms is another innovation in SPI, facilitating real-time data exchange and automatic population of relevant metrics for continuous optimization.

Experimental Model Design: The experimental model for SPI involves:

1. **Data Collection:** Gathering historical supplier performance data, real-time market data, and industry trends [4].
2. **Machine Learning Model Development:** Training machine learning algorithms to predict future supplier performance and dynamically adjust weights based on real-time data.
3. **Integration with Talent Acquisition Platforms:** Seamlessly integrating with existing talent acquisition platforms to facilitate real-time data exchange and automatic population of relevant metrics.
4. **Pilot Testing:** Implementing the model in a controlled environment to assess its effectiveness and gather feedback from stakeholders.
5. **Evaluation and Refinement:** Analyzing the pilot test results and iteratively refining the model based on the collected data and feedback.

Architecture

While the SPI models don't directly utilize Machine Learning for core calculations, ML can play a supporting role. Here's how:

1. Feature Vector and Values for ML Support in SPI:

- **Feature Vector:** This represents a collection of data points [3] relevant to specific supplier and industry, including -
  - Historical performance metrics (Quality, Efficiency, Cost, Risk scores).
  - Publicly available information about the supplier (e.g., size, location, certifications).

- Industry trends and reports on cybersecurity threats, talent shortages, etc. (sourced from the web).
- News articles or social media sentiment analysis related to the supplier (for insights into reputation and social responsibility).

- **Values:** Each feature in the vector would have a corresponding value.
  - Historical SPI scores would be numerical values.
  - Public information could be categorical (e.g., location) or numerical (e.g., company size).
  - Industry trends and sentiment analysis might involve sentiment scores or topic probabilities.

2. How ML can Leverage Feature Vectors:

- **Dynamic Weighting:** ML can analyze massive amounts of data to identify correlations between features in the vector and supplier performance. This can inform the machine learning algorithms that adjust weights in SPI.
- **Predictive Analytics:** ML models can be trained on historical data to identify patterns that predict future supplier behavior. By analyzing a supplier's feature vector, the ML model could predict the likelihood of issues like high turnover or security breaches.

Overall Model Look for SP is a layered system:

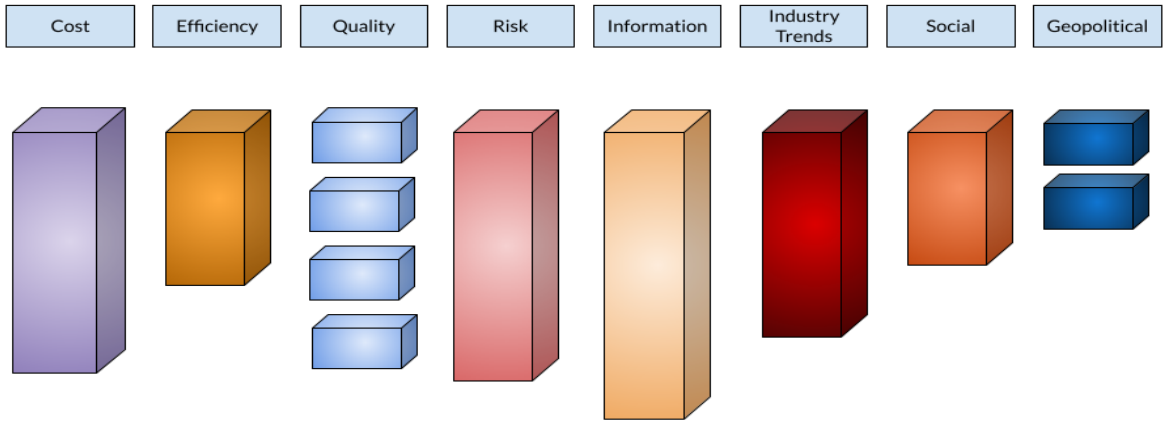
- **Core SPI Model:** This remains the foundation, calculating the multidimensional score based on pre-defined metrics and weights.
- **Machine Learning Layer:** This layer takes over dynamic weight adjustments based on real-time data and market fluctuations.

Important to Note:

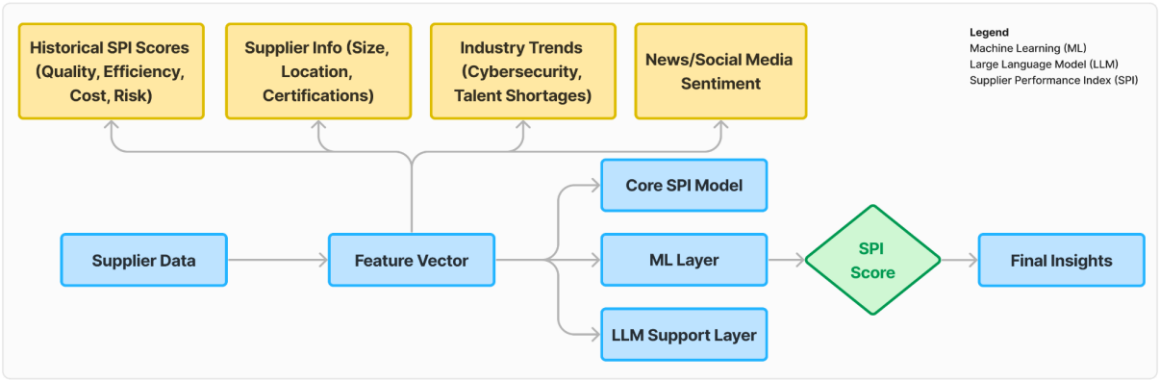
- ML wouldn't directly influence the SPI score calculation.
- The quality of the ML output depends heavily on the training data.
- Human expertise remains crucial in interpreting ML insights and making final decisions.

By leveraging ML for data analysis and feature extraction, SPI can evolve into a powerful ecosystem for intelligent supplier evaluation in the industry.

Multi-dimensional vector with varying scales (shown as representation)



Pictorial Solution Model



Impact

Current impact of Supplier Performance in VMS: Supplier Performance Management in Vendor Management Systems (VMS) products streamline supplier performance assessment and optimization through KPI tracking, compliance monitoring,

performance reviews, and integrated risk management. This transparent management empowers organizations, fostering accountability and continuous improvement. While the current assessment offers significant value, further enhancements are needed to address a spectrum of use cases.

Extrapolating Potential Quantitative Savings: Studies suggest that companies can lose up to 30% of their annual contingent workforce costs ($465.2 billion by 2031) due to poor talent selection and management practices, equating to millions of dollars in losses across industries. Extrapolating this to a global scale, a hypothetical saving estimate could be $22.32 billion annually:

1. **Global Potential Loss:** 30% of $465.2 billion = ~ $139.56 billion
2. **Model effectiveness:** Assuming the SPI model can help companies recover a significant portion of this loss, let's say 20% to start with
3. **Global Potential Savings:** $139.56 billion * 20% = $27.91 billion
4. **US Share of Global Economy**: Approximately 24%
5. **US-Specific Potential Loss**: $465.2 billion * 24% = $111.64 billion
6. **US-Specific Potential Savings**: $111.64 billion * 20% = $22.32 billion annually

Qualitative Benefits: SPI's value goes beyond cost savings, unlocking strategic advantages in supplier selection and talent acquisition across industries by facilitating the following -

- **Data-Driven Decisions:** Empower companies to make improved decisions for engaging suppliers based on multi-dimensional performance data.
- **Stronger Partnerships:** Foster collaboration and align supplier services with specific needs.
- **Enhanced Agility:** Continuous performance evaluation through SPI enables enhanced agility, allowing companies to adapt talent acquisition strategies.
- **Competitive Edge:** a rigorous supplier selection process showcasing commitment to quality and efficiency attracts top talent, giving companies a competitive edge

CONCLUSION

The Supplier Performance Index (SPI) transcends a mere tool; it's a navigation system for the ever-evolving gig economy. By illuminating data-driven insights and fostering dynamic multidimensional assessment, SPI empowers companies and suppliers to chart a course towards mutual success. As the contingent workforce expands, the SPI equips them to navigate this dynamic landscape together, unlocking billions in potential savings and improved operational efficiency along the way.

Disclosure

This concept is an individual endeavor and not associated with any organization.

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   b. Real-Time Market data:
      i. Market Research Reports like Gartner, Forrester, IDC.
      ii. Industry Publications like Trade journals, News websites, Industry blogs
   c. Publicly available data:
      i. Business Intelligence Platforms like Dun & Bradstreet, Bloomberg, S&P Global Market Intelligence
   d. Industry Trends and Reports:
      i. Research Firms like McKinsey & Company, Boston Consulting Group, Bain & Company
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