



Finance,
Services &
Innovation

Supplier Relationship Management (SRM)

Guidelines for NSWP practitioners

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Purpose of this document

- Provide a consistent methodology for segmenting and managing the NSW supply base
- Provide example tools and templates to support supplier relationship management activities
- *Note: this document applies to ALL suppliers. Outputs developed as part of the Supplier Development Management (SDM) program apply to strategic whole-of-NSW Government suppliers only*

Contents

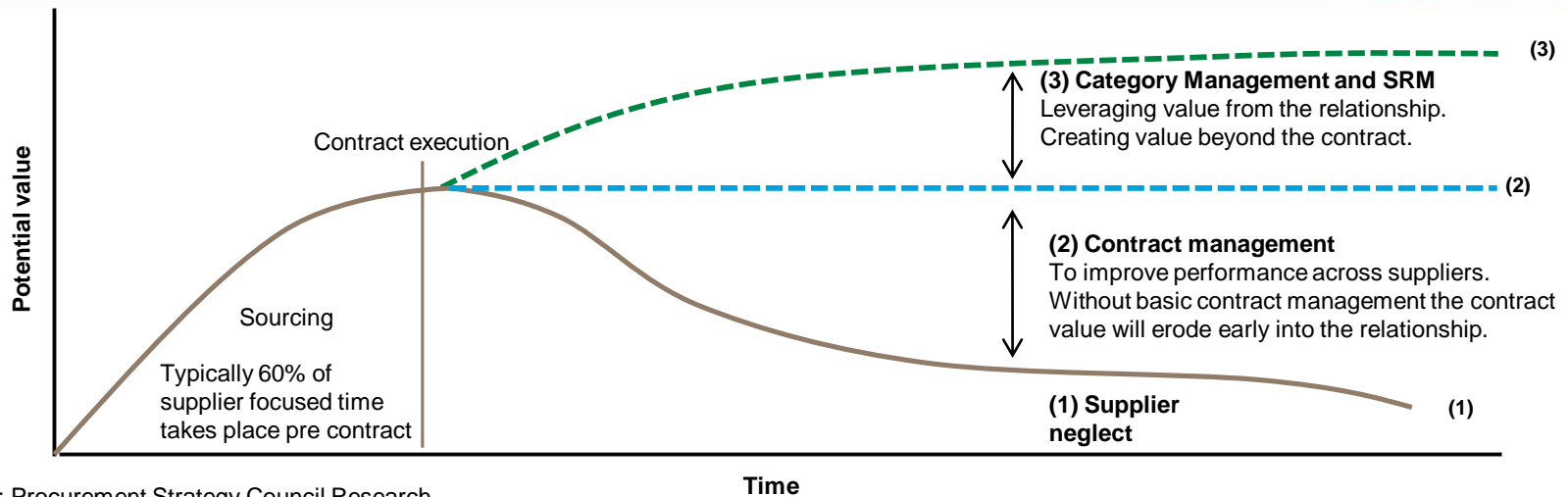
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INTRODUCTION

Definition

SRM enables NSWP to leverage value beyond the contract.
Effective contract management is a pre-requisite for SRM



Source: Procurement Strategy Council Research

Standard contract management

- Contracts stipulate the agreed **minimum levels of performance**
- Contract management should be a **low touch but comprehensive process** allowing more focus on value added activity
- Contract management should establish a **clear route for issue resolution** and escalation

Category Management & Supplier Relationship Management (SRM)

- SRM delivers value over and above the agreed minimum levels of performance laid out in the contract
- SRM focuses attention on the whole value stream
- While the contract process relates to all suppliers, SRM focuses resource and activity on those relationships that are considered most critical
- Most organisations have a contract management process in place, if only basic in nature, but very few operate effective SRM
- SRM can ensure the organisation becomes the “organisation of choice” for the suppliers



SEGMENTATION

Why segment suppliers?

- Segmentation provides a **consistent framework and terminology** for identifying and classifying different types of supplier relationships
- Not all suppliers require or benefit from the same degree of focus. Segmentation results therefore determine the appropriate degree of **supplier management effort and resource**, based on the nature of the relationship
- Based on the results of the segmentation, ownership of supplier management activities will be **assigned to different parts of the NSW Procurement organisation**
- Segmentation results also **determine the expectations for supplier management activities**, both for Procurement and business stakeholders
- Segmentation identifies those suppliers where **proactive performance and innovation management will deliver additional value**, rather than focusing only on reactive performance management and issue resolution
- Segmentation identifies those suppliers with a **willingness to improve performance**, develop relationships and help to focus NSW resources to become a **customer of choice**

There are 3 main steps to supplier segmentation

1 Analyse spend and mobilise stakeholders

Input

- Data from spend cube & supplier reports

Activities

- Analyse spend data
- Cleanse data and categorise where necessary
- Model future spend volumes where appropriate (e.g. large new supply agreements)
- Identify stakeholders to include in segmentation process

Output

- Validated spend by supplier

2 Conduct high-level segmentation

Input

- Validated spend from step 1

Activities

- Identify suppliers accounting for 80% of spend for the category
- Sense check initial segmentation results to verify if any critical suppliers have been excluded based on spend criterion
- Review and align initial segmentation results with stakeholders

Output

- Long list of potential suppliers for advanced SRM activities
- Remainder of suppliers assigned to Tier 3 status

3 Conduct detailed segmentation

Input

- Long list of suppliers from step 2

Activities

- Conduct detailed segmentation based on spend and criticality matrix
- Assign suppliers to tiers based on segmentation
- Review and align segmentation results with stakeholders and agree final assignment of suppliers to tiers
- Assign supplier relationship lead and associated governance for each supplier

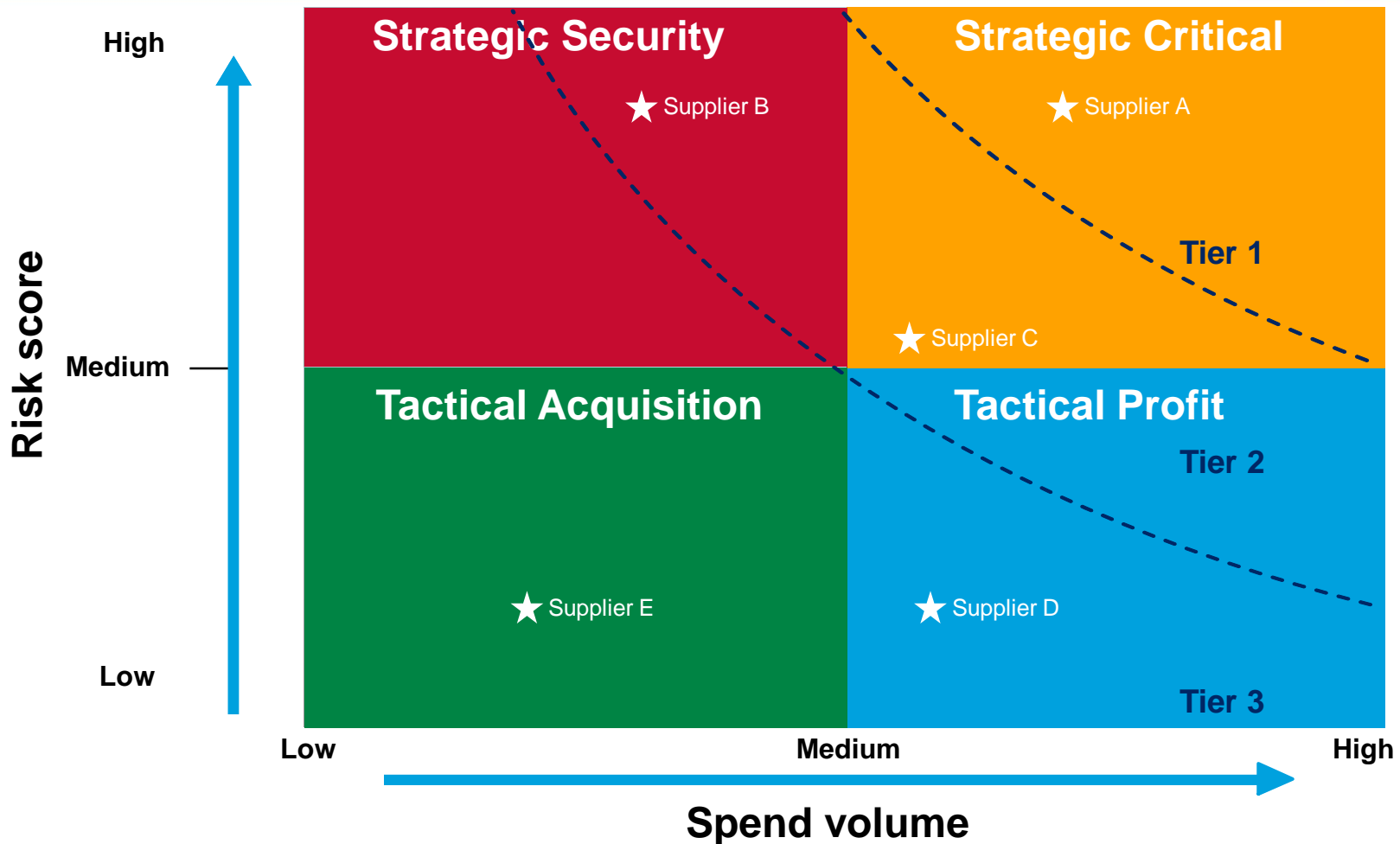
Output

- Completed segmentation, assigning suppliers to Tiers 1 and 2 to inform SRM activities
- Additional Tier 3 suppliers if appropriate
- Identified supplier relationship leads and governance structures

Basic supplier segmentation assesses suppliers based on spend and risk



Supplier tiering can then be applied to group suppliers and prioritise supplier management effort accordingly



Additional segmentation criteria and weightings can be added for more complex categories

Step 1 – Business Impact and Criticality

Risk Score		
Area	Weight	Question
Data/ Information Sharing	25%	What is the potential for customer data breaches? What is the level of sharing of critical information & knowledge?
Dependencies	25%	What is the linkage with NSW Government's key processes? Are any other suppliers/services dependent on this supplier?
Stakeholder Impact	30%	What is the impact on the end customer if this supplier fails to perform? What is the impact on NSW Government staff if this supplier fails to perform?
Supply Risk	20%	Which statement best describes the supply market? What are the switching costs/disruption if supplier was replaced or goods/services brought in house?

Value Score		
Area	Weight	Question
Current Spend	60%	What is NSW Government spend with the supplier in the last FY?
Forecasted Spend	20%	Is the spend with this supplier forecasted to increase, decrease or remain constant in the next financial year?
Contracts	20%	Please note the date of expiry of majority of contract(s) with this supplier

Step 2 – SDM Readiness

Readiness Score		
Area	Weight	Question
Relationship & Performance	70%	What Contract & Category Management is currently in place with this supplier? What formal Performance Management in place and reported? Please assess historic performance of this supplier
Value Add	20%	Please assess the degree of commoditisation of a product/service Please assess supplier's innovation track record Please assess the importance 'Value-adds' associated with goods/service provided by the supplier
Strategic Alignment	10%	Please assess the importance of NSW Government as a customer to this suppliers operations? Is there an evidence of any significant barriers to SDM implementation with the supplier? Is this supplier strategically aligned to NSW Government?



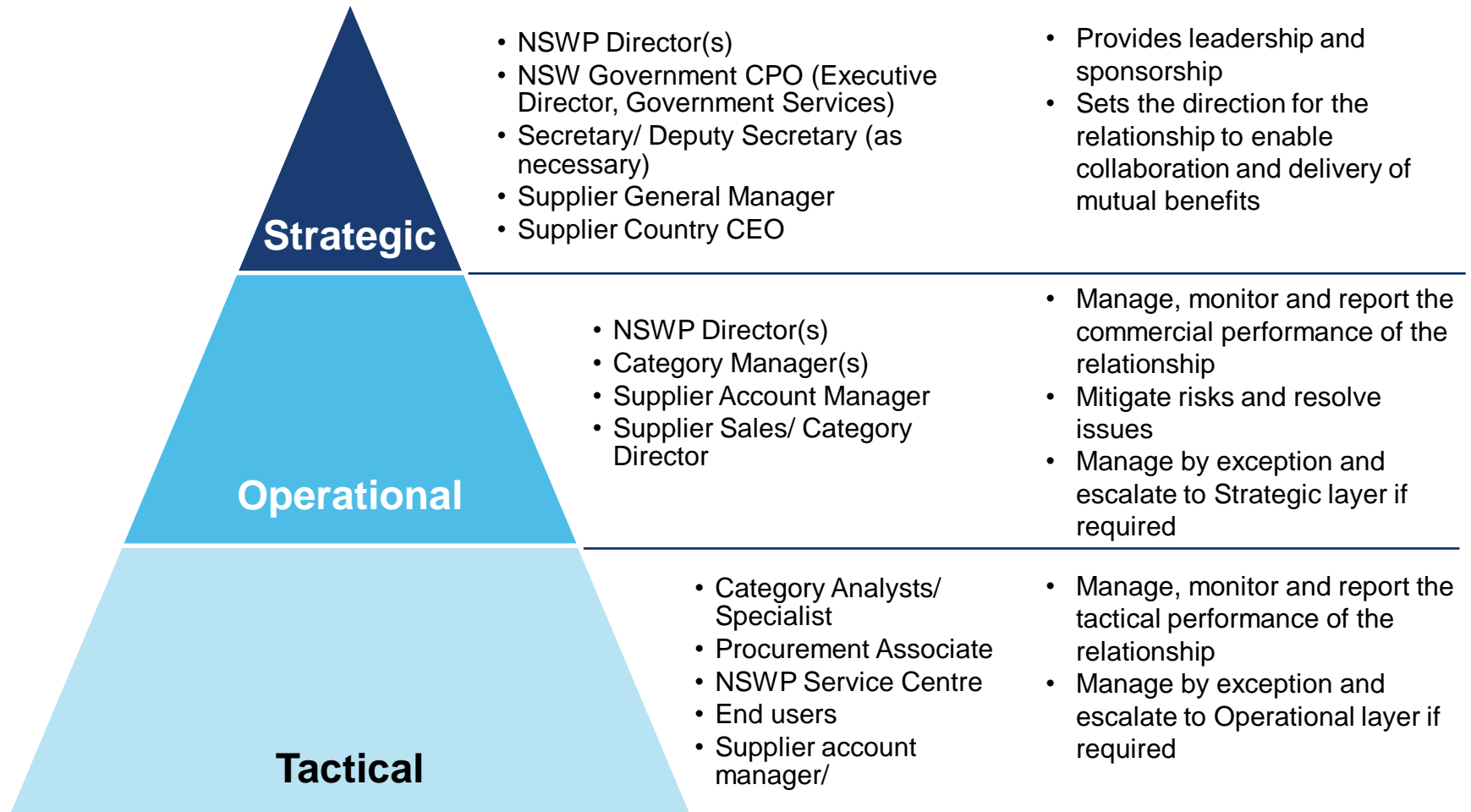
Template:

NSWP_Detailed
segmentation tool



GOVERNANCE

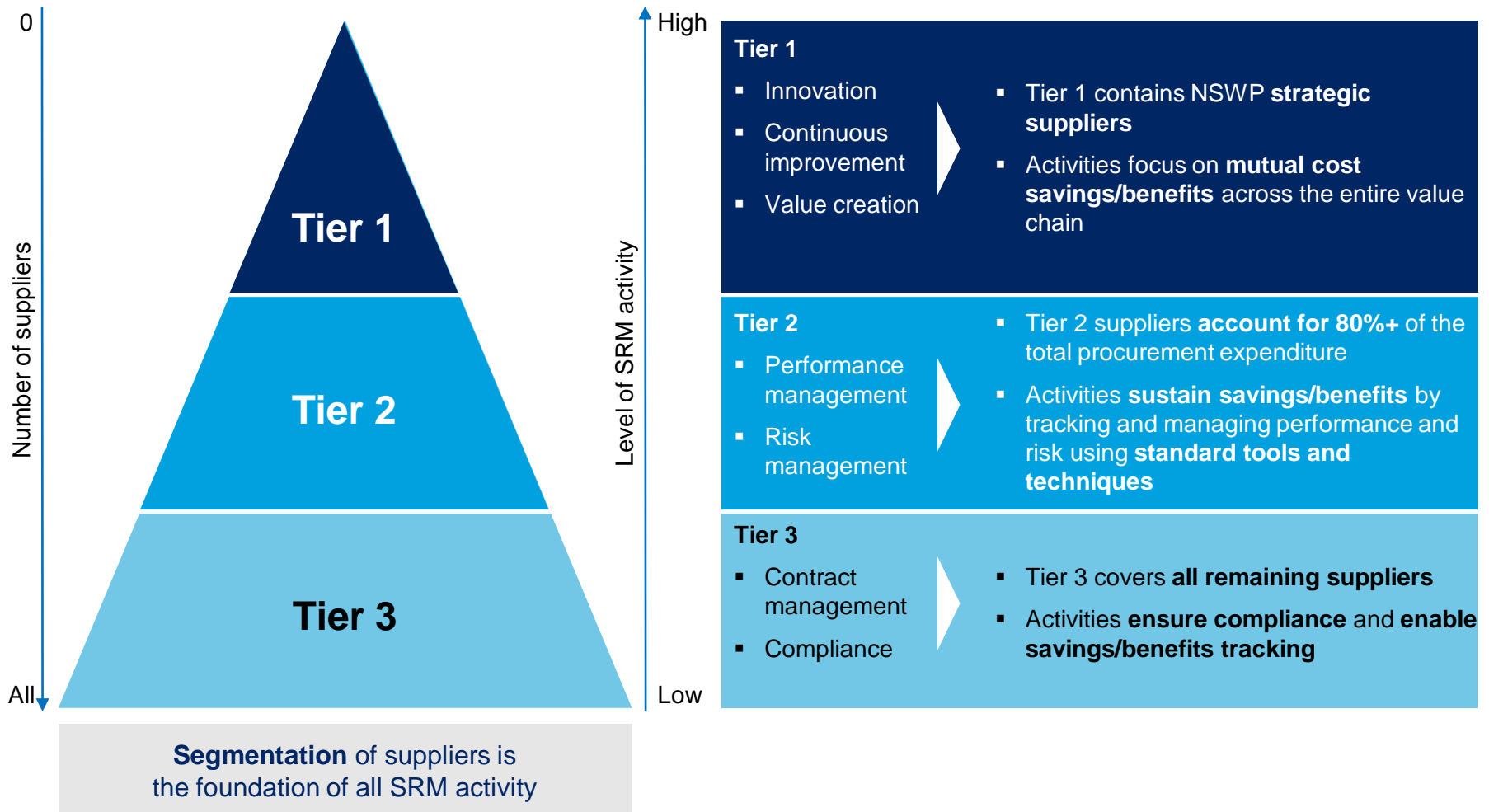
Key stakeholders from both supplier and NSWP organisation should be mapped at multiple levels to provide clear sponsorship and escalation channels





SRM PROCESS AND PROCEDURES

Supplier management effort and activities vary by supplier tier. Tier 3 suppliers require basic management whilst Tier 1 suppliers require advanced supplier management effort and activities



SRM activities for Tier 3 suppliers focus on compliance

Tier 3 Suppliers

Overview

Tier 3 suppliers are typically transactional suppliers that provide no business critical commodity products/services and viable alternatives exist

Example procurement activities

- Regular sourcing events (technology supported)
- Minimising acquisition costs such as automated purchasing activities
- Transactional activities such as purchase orders

Relationship building

- Short-term high-level business relationship involving procurement associates or end users (e.g. Category Analysts, Category Specialists and Category Managers)

Communication

- Communication limited to transactional purchasing activities
- Leverage mass communications where possible (e.g. Procurement alerts and supplier conferences)

Minimum governance

- Supplier management effort concentrated during contract award and expiry, with ongoing governance focused on basic monthly reporting and compliance
- NSW Service Centre and ProcurePoint leveraged for ad hoc queries and enquiries

SRM activities for Tier 2 suppliers add a focus on performance and risk management

Tier 2 Suppliers

Overview

Tier 2 suppliers are typically suppliers that provide more tailored or specific products or services that may be critical at a business unit level. Alternatives exist but switching is more difficult.

Example procurement activities

- Limited sourcing events
- Regular KPI reviews
- Mitigating actions as required to ensure performance
- Tactical improvement activities
- Automated purchasing activities

Relationship building

- Mid-term business relationship involving procurement associates (e.g. Category Managers) and /or senior business stakeholders (e.g. Directors)

Communication

- Regular communication to discuss performance
- Limited information sharing

Minimum governance

- Monthly reporting and quarterly or annual performance reviews as appropriate

SRM activities for Tier 1 suppliers add a focus on improvement and innovation

Tier 1 Suppliers

Overview

Tier 1 suppliers are typically suppliers that provide highly customised or unique products/services that have a significant impact on the business, and provide a large source of competitive advantage. Alternatives are scarce/nonexistent and switching costs are very high.

Example procurement activities

- Infrequent sourcing events
- Customised purchasing activities
- Innovation
- Continuous improvement
- Risk sharing
- Gain sharing

Relationship building

- Long-term strategic business relationship involving senior procurement staff and/or senior management (e.g. Directors and NSW Government CPO)

Communication

- Regular communication to discuss performance improvement and innovation opportunities, and progress on in-flight projects
- Extensive information sharing

Minimum governance

- Annual business reviews, quarterly performance meetings and monthly reporting
- Annual continuous improvement, innovation or supplier development workshops



SUPPLIER PERFORMANCE MANAGEMENT AND KPIs

There are a number of pre-requisites for effective supplier performance management

Prerequisite

Create category based scorecards

Involve internal business stakeholders

Focus on the “critical few” KPIs

Select KPIs within the organisation's control

Use a mix of both quantitative and qualitative KPIs

Incorporate KPIs into contracts and SLAs

Automate data collection, aggregation and reporting

Benefit

Enables like-for-like comparison between suppliers

Engages key stakeholders early in the process and ensures KPIs are aligned to business priorities

Maintains focus on the most important drivers of supplier performance

Measures outcomes that can be influenced by NSWP and/or the supplier

Contributes to a fact-based scorecard whilst providing flexibility for specific needs

Encourages adherence to contract terms and conditions

Minimises time and resources required to analyse and interpret performance data

The effort of KPI management must be proportionate to the benefits

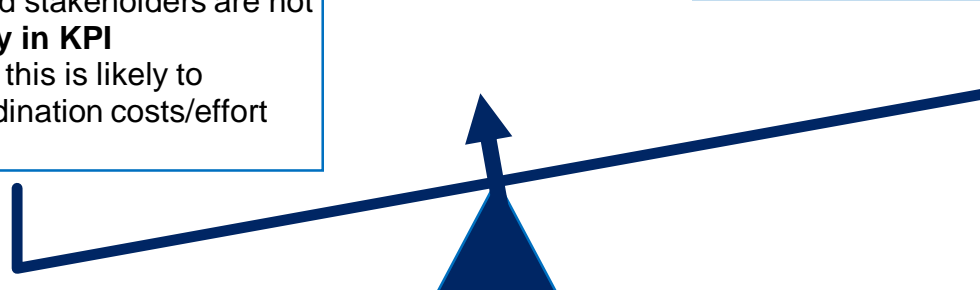
To be effective, the time spent reviewing outputs of KPI dashboards should outweigh the resource effort to prepare them

Resource effort

- A **maximum of 3 KPIs** should be used **per metric** (e.g. cost, quality etc) to provide a holistic view of performance measurement
- The target should be for **around 10 KPIs** for the entire scorecard
- Without **automation** procurement associate time is required for data collation and manual analysis
- If suppliers and stakeholders are not **involved early in KPI development** this is likely to increase coordination costs/effort

Benefits

- Provides a **clear supplier performance data** across a broad range of metrics
- **Objective** and demonstrates compliance to contract and **alignment to business objectives**
- Helps to identify trends, issues, risks and **support management by exception**
- Tailored to a particular supplier or **allows comparison** between multiple suppliers



There are 3 steps to effective supplier performance management

1

Establish metrics and baseline

Input

- Historical performance data
- Business objectives

Activities

- Draft list of relevant KPIs for supplier performance
- Review KPIs with stakeholders to ensure alignment
- Establish baselines against which to measure performance
- Identify sources of data for KPI reporting
- Build KPIs into contracts and SLAs

Output

- Metrics, baseline and data sources identified

2

Measure, report and review

Input

- Metrics established in step 1
- Actual performance data

Activities

- Review performance against criteria identified
- Identify supplier strengths and development areas
- Review performance with suppliers with appropriate frequency
- Identify root causes of supplier performance issues

Output

- Understanding of areas of good and poor performance and root causes

3

Manage performance improvement

Input

- Development areas and root causes from step 2

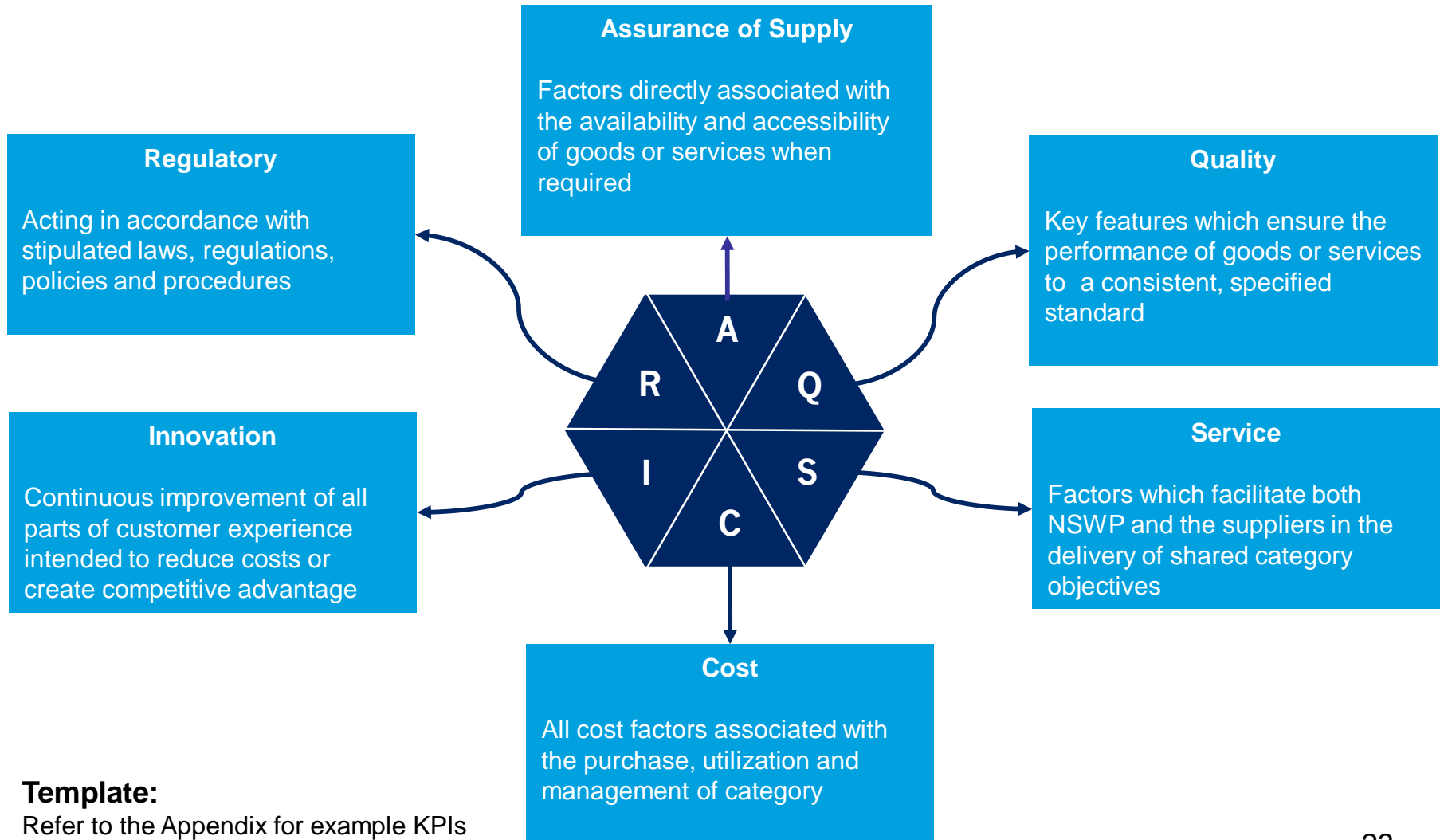
Activities

- Establish improvement plan with supplier
- Monitor progress against improvement plan, with more frequent reviews as appropriate
- Refine KPIs as appropriate during lifespan of relationship to ensure relevance








Output

- Supplier improvement plans in place and tracked





The AQSCIR framework provides a holistic grouping of key KPIs



Example supplier meeting agendas and templates are available to support the SRM process

Template name	Description	Templates
Quarterly or Annual Business Review Meeting	Key topics to be discussed during a Quarterly or Annual Business Review	 Supplier Business Review Meeting
Supplier KPI tracker	Tool to track target and actual supplier performance against agreed KPIs	 Supplier Performance Report
Voice-of-Customer (VoC) and Voice-of-Supplier (VoS) surveys	Survey tools to capture 360° stakeholder feedback	 VoC survey  VoS survey
Continuous improvement/innovation workshop	Example design thinking workshop approach to explore continuous improvement and innovation initiatives with strategic/Tier 1 suppliers	 Improvement & Innovation Workshop
Initiative sign-off and tracking templates	Template to concisely summarise each initiative and track the status of all initiatives	 Opportunity Analysis  Project Delivery Tracker

Example strategic, operational & tactical meeting agendas

Meeting type	Attendees	Discussion points	Templates
Strategic	<ul style="list-style-type: none"> • Tier one (strategic) suppliers, senior executive staff eg General Manager or equivalent • Strategic level meetings held with tier two suppliers on an as needs basis • DFSI Strategic, senior management staff attend annual review & potentially quarterly review, with Category Manager (eg Directors & NSW Government CPO) • Secretary and/or Deputy Secretary may attend meetings arranged for specific purposes or relationship building, as required 	<ul style="list-style-type: none"> • Focus on long-term strategic business relationship • Collaboration and delivery of mutual benefits • Extensive information sharing • Alignment of priorities • Risk review and shared mitigations • Annual continuous improvement, innovation or supplier development workshops 	 Strategic Meeting  Supplier Workshop
Operational	<ul style="list-style-type: none"> • Category Manager manages relationship • Director attends annual and/or quarterly reviews as required • Supplier Sales Director or equivalent attends annual reviews and/or quarterly reviews as required • Tier two supplier activities are concentrated here 	<ul style="list-style-type: none"> • Manage, monitor and report the commercial performance of the relationship • Identify opportunities to increase benefits • Mitigate risks and resolve issues • Manage issues by exception and escalate to Strategic layer if required 	 Operational Meeting
Tactical	<ul style="list-style-type: none"> • Category Analysts/ Specialist • Procurement Associate • NSWP Service Centre • Supplier account representative or area representative 	<ul style="list-style-type: none"> • Manage, monitor and report the tactical performance of the relationship • Order fulfilment, deliveries, invoice accuracy, timeliness of payments, etc • Manage by exception and escalate to Operational layer if required 	 Tactical Meeting



APPENDIX

Indicative Supplier KPIs – Assurance of Supply

KPI type	KPI / metric	Description
Assurance of Supply	Ability to diagnose and solve incidents	Measures the ability and tools used by the supplier to solve and diagnose incidents
	Proactive issue identification and resolution	Enables NSWP to understand the level of knowledge and experience a supplier has in predicting serious faults and preventing them before they become too serious This metric gives the customer and supplier a tool to track various issues and an ability to solve supplier problems
	Service reliability	Measures the amount of downtime, or failure rate of the product or service
	Supplier financial stability	Measures the financial stability through financial metrics and analysis Supplier financial stability is important to capture at the beginning of a contract, however it is also important to capture this info throughout the lifetime of the supplier relationship. Tracking this metric can give foresight to if there is going to be future problems, and potentially need to look at sourcing elsewhere
	Supplier asset specificity (value of assets dedicated to NSWP)	Enables NSWP to understand the 'Financial' degree of investment the supplier has made in the relationship

Indicative Supplier KPIs – Quality

KPI type	KPI / metric	Description
Quality	Quality SLAs as per contract	Ensures compliance to key 'Quality' SLAs as set out in the contract between NSWSP and supplier
	Customer satisfaction	Measures overall customer satisfaction with the relationship to the supplier, normally established with a survey
	Customer complaints	Tracks the number of customer complaints in a reporting period, or tracking the number of complaints as a % of # of transactions Tracking the number of recorded complaints received by the customer can give an indication of the quality of service or the quality of product and can also help to spot problems early, to mitigate long term issues.
	Ability of supplier to meet end customer needs	Demonstrated by category-specific criteria and measures either through observation or surveys
	Ability to meet business needs	Demonstrated by category-specific criteria and measures either through observation or surveys
	Supplier development of 2nd tier suppliers	Drives focus on key suppliers own development activity, critical to total performance

Indicative Supplier KPIs – Service (1 of 3)

KPI type	KPI / metric	Description
Service	Delivery SLAs as per contract - Meeting key milestones	Ensures compliance to key 'Delivery' SLAs as set out in the contract between NSWSP and supplier
	Required remedial action is timely and effective	Enables NSWSP to track issue resolution capability of the supplier
	On time deliveries	Measures percentage of on-time, in-full deliveries
	Service reports delivered accurately and on time	Helps to establish standard of reporting NSWSP has in relationship with the supplier
	Reports meet our business and service needs	Enables NSWSP to track the accuracy and quality of reporting by the supplier
	Delays to progress reports	Enables NSWSP to assess the utility of progress reports and keep an accurate track of in flight supplier projects
	Quality and timeliness of progress reports	Measures the timeliness of quality and timeliness of progress reports
	Delays to service delivery are reported in a prompt manner	Enables NSWSP to identify promptness of supplier in delivering customer impacting service interruptions
	Complaint escalation compliance	Ensures that escalations are handled with the appropriate level of importance and in a timely manner to prevent repeat issues

Indicative Supplier KPIs – Service (2 of 3)

KPI type	KPI / metric	Description
Service	Overall service quality	Measures quality of service or product (can be captured by a variety of calculations depending on category)
	Billing information accuracy	Measures the supplier's ability to demonstrate a thorough understanding of their cost model and structure in order to reduce billing contentions Billing information can show the detail of complexity that a supplier has in their costing system
	Speed and ability to issue an invoice to NSW	Measures the supplier's ability to demonstrate a thorough understanding of their cost model and structure in order to reduce billing contentions Requires capture of the invoice turnaround time. This helps to ensure old bills are not coming late, and also helps with planning cash flow.
	Invoice turnaround time	Enables NSW to understand how effectively they are paying suppliers - important for building good relationships
	Number of refunds received	Enables NSW to understand the admin / order processing effectiveness of suppliers
	Value of refunds received	Enables NSW to understand the financial extent of admin / order processing failures
	NSWP attractiveness to supplier (supplier preferencing analysis)	Helps inform NSW negotiation planning and identify improvement opportunities
	Transaction volume	Helps understand NSW total transaction volume to assist with NSW strategy formulation
	Transaction volume variance	Helps understand variation in volume against projections to enable investigation / better demand planning

Indicative Supplier KPIs – Service (3 of 3)

KPI type	KPI / metric	Description
Service	Timely response to requests	Helps NSWP track how responsive the supplier is to responding to requests, indicative of resource allocated and importance placed on NSWP business This KPI is important to ensure that customer inquiries are being handled in a timely manner. This can be tracked either through survey, or monitoring issues.
	Accuracy and completeness of response	Measures supplier responsiveness. While a supplier may respond on time, it may not be a quality response that enables NSWP to proceed so need to track time (above) and quality
	Ease of placing orders and change requests	Enables NSWP to identify accuracy and promptness of supplier in responding to new requests
	Quotation timeliness, completeness and accuracy	Enables NSWP to identify accuracy and promptness of supplier in delivering quotes
	Flexibility to meet NSWP needs	Enables NSWP to understand how willing the supplier is to tailor its services, therefore shows importance of NSWP as a customer
	Ability to own and resolve issues	Helps NSWP identify future strategic suppliers and strengthen relationships
	Contactability and focus of account management team	Helps NSWP identify future strategic suppliers and strengthen relationships

Indicative Supplier KPIs – Cost

KPI type	KPI / metric	Description
Cost	Cost vs. industry or competitor	Demonstrates value for money, more openness should increase trust. Transparency of costs gives a good indication of trust in a relationship
	Cost reduction initiatives	Measures the number of cost reduction initiatives that are recommended by the supplier A good "value-add" metric to ensure the supplier is proactive and sharing cost saving ideas
	Cost givebacks	Measures the amount of year-on-year percentage givebacks over the lifetime of a project
	Spend by cost centre	Helps understand NSWSP total spend to highlight relative relationship status and leverage opportunity
	Spend by NCC code	Helps understand NSWSP total spend to highlight relative relationship status and leverage opportunity
	Spend	Helps understand NSWSP spend development with the supplier to flag changes to relationship status
	Average invoice value	Helps NSWSP to understand any movement which may require further investigation
	Spend variance	Helps understand variation in spend against projections to enable investigation
	Flexibility with commercial pricing options	Enables NSWSP to understand how willing the supplier is to tailor its pricing therefore shows importance of NSWSP as a customer . This metric is important to show how much influence NSWSP can have over their suppliers
	Openness and transparency of actual costs	Demonstrates customer value for money, more openness should increase trust. Transparency of costs gives a good indication of trust in a relationship

Indicative Supplier KPIs – Innovation (1 of 2)

KPI type	KPI / metric	Description
Innovation	Understanding of NSWSP long term vision	Measures focus on "future" relationship building instead of focusing on present metrics
	Number of supplier-led innovations delivered	Helps to understand suppliers' willingness to innovate and usefulness of these innovations
	Value of supplier-led innovations delivered	Helps to understand level of innovation suppliers contribute and relative performance of strategic suppliers
	Supplier trust in NSWSP	Helps understand progress made in building critical trust with strategic suppliers (measured by survey)
	Skills and knowledge	Ensures the supplier has allocated the correct resources to a NSWSP project
	Ability to add value to NSWSP	Helps NSWSP understand which suppliers will continue to be strategic in the future, who to strengthen relationships with
	Willingness to work closely for mutual benefit	Helps NSWSP understand which suppliers will continue to be strategic in the future, who to strengthen relationships with
	Understanding of NSWSP immediate business drivers and requirements	Helps NSWSP identify future strategic suppliers and strengthen relationships
	Ability to recommend new ideas and improvements to meet our business needs	Helps NSWSP identify future strategic suppliers and strengthen relationships

Indicative Supplier KPIs – Innovation (2 of 2)

KPI type	KPI / metric	Description
Innovation	Knowledge of industry	Helps NSWSP identify future strategic suppliers and strengthen relationships
	Knowledge of our organisation	Helps NSWSP identify future strategic suppliers and strengthen relationships
	Total number of completed continuous improvement projects	Measures the amount of continuous improvement projects performed by the supplier that adds value to NSWSP. Tracking continuous improvement is a very important measure. It establishes accountability on the supplier's part, and also helps to identify long standing issues. By initiating a continuous improvement programme, NSWSP can have control and oversee some of the issues that the supplier is working towards, and this helps to create an open communication and collaboration between NSWSP and the supplier to work towards a better future state.
	Continuous improvement savings	Measures the amount of savings attributed to the continuous improvement projects
	Continuous improvement savings variance	Measures the variance of savings from period to period
	Continuous improvement revenue growth	Measures the impact of the continuous improvement programs on Revenue growth
	Continuous Improvement revenue growth variance	Measures the variance of revenue growth due to continuous improvement programs

Indicative Supplier KPIs – Regulation

KPI type	KPI / metric	Description
Regulation	Major incident reports accurate and timely	Ensures reports are tracking major incidents or issues with the supplier
	Environmental compliance	Determines the level of environmental compliance that a supplier is following This can be achieved through ensuring the supplier has proper certification (ISO 14001) or tracking the number of environmental initiatives the supplier is pursuing.
	Responsible procurement	Ensures compliance to NSW responsible procurement standards and policies