[Managing and Improving Performance](#)

This section outlines a number of activities and tools necessary to manage and improve suppliers' performance.

You must be careful not to substantially modify the contract when considering some of the following.

Benchmarking (where appropriate)

Benchmarking costs against the suppliers' competitors is a recognised method of avoiding cost 'creep' and ensuring best value.

Benchmarking should be undertaken throughout the life of the contract. It can be used for:

- ensuring incumbent suppliers remain competitive in the market;
- keeping abreast of the market rates;
- a negotiation tool for cost reductions.

Step One – What to benchmark

Open or close

Decide which spend category(s) you wish to perform the benchmarking exercise for.

1. Complete a spend analysis on what you have purchased in that area for at least the last 12 months (by line item);
2. Sort the data from the highest to lowest spend;
3. Highlight the top 80 percent of the spend.

This 80 percent will normally be no more than 20 percent of the number of line items.. You now have a manageable amount of data to go out into the market place with.

This does not cover every aspect of the potential scope of supply. In certain circumstances additional items may need to be added, such as bottle-neck and specialised items. The aim is to gain an estimation of the market rates.

The incumbent supplier should be made aware that you are planning to perform a benchmarking exercise before you go out to the market place.

Step Two – Going to the market

Open or close

Having selected the items you want to benchmark, you can now approach the market to understand the current prevailing costs.

Benchmarking is generally an informal process and the **Management Information Hub** is a good source of information, as is the internet. You can also contact a number of suppliers directly. However it is important to ensure that these suppliers who receive requests for information understand that you are conducting a benchmarking exercise and that this is not a business opportunity. The request should be simple enough for the suppliers to provide the information without having to spend a great deal of time doing so.

Step Three – Results analysis

Open or close

You are now ready to compare the results of your benchmarking exercise. To compare the results you could, for example, enter all prices into a spreadsheet and determine the price difference between the incumbent supplier's prices and the prevailing market rates. By doing this you can determine where the incumbent supplier(s) sit against the best, worst and average market rates.

Step Four – What next?

Open or close

If you are happy with where the incumbent supplier's pricing sits then the supplier is competitive and no further action needs be taken.

If you are not comfortable with where the incumbent supplier's pricing fits, invite them to a meeting. Give them the opportunity to explain why they are not competitive against the current market rates. On no account should you divulge the competitors' names or pricing information.

If the supplier is willing to accept their prices are not in line with the market rate, this will be a relatively pain free cost reduction for you. If the supplier is unwilling to negotiate a reduction, you should initiate the escalation process. Include this as an agenda item at the next Review Meeting.

Measuring Supplier Performance - Understand Contract Terms & Conditions

Open or close

The fundamental purpose of Contract and Supplier Management is to ensure that:

- suppliers meet their contractual obligations for the duration of the contract;
- the contract's requirements are successfully delivered. This includes any special contract *performance* conditions included in the competition documentation and related to the contract subject-matter. This may cover economic, innovation-related, environmental, social or employment-related conditions.

Anyone engaged in managing suppliers must read and fully understand the contract terms and conditions. This will ensure they are not at a disadvantage should any issues arise.

It is essential that your Organisation's Contract Manager/ Contract Management Officer is engaged from the Develop Strategy stage early in the process and participates in the development of the terms & conditions.

Balanced Scorecards

Open or close

The Full Balance Scorecard is recognised for monitoring and managing contract and supplier performance.

Key Performance Indicators (KPIs)

Open or close

KPIs provide a mechanism to measure the four quadrants of the balanced scorecard (Quality, Cost, Sustainability, and Service). KPIs help organisations understand how well they and/or their suppliers are performing against their strategic goals and objectives.

Care and Support Services

Open or close

For **Care & Support Services** please also read the Additional Guidance when Reviewing a Care and Support Service.

In some areas Contract Management Officers routinely attend the Care Inspectorate's post- inspection feedback sessions with service providers.

Contract management arrangements should identify what happens when the contract is not being delivered as agreed or, the agreed quality standards are not being met.

As an example, for Care and Support Services, the content management arrangements should describe the process for agreeing necessary improvements (where appropriate, in discussion with the Care Inspectorate) to the service and the timescales that will apply. The contract itself should specify the circumstances in which the public body has a right to terminate the contract (for example, insolvency, service failure, loss of registration).

Blacklisting

Open or close

Blacklisting refers to the practice of systematically denying individuals employment who would otherwise be able to be employed. This can be on the basis of information, accurate or not, held in some type of database.

The Scottish Government regards blacklisting or the compiling of a blacklist as unacceptable.

Effective contract management ensures the practice of blacklisting does not occur in public contracts.

The Employment Relations Act 1999 (Blacklists) Regulations 2010 provide rights for individuals if blacklisting results in refusal of employment, detriment, dismissal or redundancy.

Any bidder which has been found to have breached, or has admitted breaching, these Regulations must be excluded from the procurement process for a period of three years. This is unless it can demonstrate to you that it has taken appropriate remedial steps. The Scottish Government regards blacklisting or the compiling of a blacklist as totally unacceptable. Blacklisting refers to the practice of systematically denying individuals employment, who would otherwise be able to be employed, on the basis of information, accurate or not, held in some type of database.

Management Information (MI)

Open or close

MI is used to monitor the supplier's or contract's performance. It ensures management have the information necessary to make effective strategic and operational decisions.

It is important that your MI requirements are clearly defined and communicated to the supplier. The reporting arrangements can be included in your specification and/ or in the terms and conditions of the contract. Reporting arrangements must be fair and proportionate and not duplicate information already provided.

Your MI approach should minimise demands on suppliers for information about goods/ service delivery. The frequency and level of reporting should be informed by a risk assessment. Reporting may increase in certain

circumstances, for example, if a complaint is made about service/ delivery.

For some specific services you should avoid duplicating information which is collected by and is available from regulatory bodies. This can be achieved through the development of Memoranda of Understanding and regular discussions between the Organisation and the regulatory bodies.

Contract Managers/ Contract Management Officers should present information gained through contract management in regular reports to senior managers. In order to fulfil their role, they should:

- prepare and issue reports summarising their actions, identifying any significant issues and detailing the conclusions that they have reached;
- consider the consistency of their conclusions with those arising from the work of the regulatory bodies;
- clearly identify the nature and grounds for any concerns and the action that is required to secure improvement;
- consult suppliers on the factual accuracy of all reports;
- communicate regularly with suppliers and ensure that emerging findings are discussed at an appropriate level within their organisations.

Further examples can be found in the Management Information document.

Approaches to Managing and Monitoring Sustainable Procurement Outcomes

Open or close

Sustainable Procurement outcomes, for example **Fair Work Practices**, must be an integral element of the contract and supplier management process. They should be included as a standard agenda item at supplier review meetings and considered alongside all other contract management matters.

It is important to ensure monitoring includes the use of any agency or sub-contractor workers throughout the duration of the contract. This will include any new members joining the workforce engaged on the contract's delivery.

Evidence should be sought from suppliers to demonstrate compliance with agreed contract conditions. This includes what the main contractor is doing to ensure Sustainable Procurement outcomes, such as Fair Work First commitments, down the supply chain to subcontractors and to agency workers. Evidence which should be sough can include, reviewing recruitment

information which could include pay policy and the terms and conditions for workers involved in the delivery of the contract.

Where there are material concerns regarding a supplier's compliance with any sustainable procurement commitments or the contractual obligations it has made, an Organisation could consider whether to undertake general sustainability audit of the contract.

Escalation

Open or close

Contract management arrangements should identify what happens when the contract is not being delivered as agreed or, the agreed quality standards are not being met.

- performance issues should be addressed immediately, and escalated within the supplier's organisation if not resolved promptly;
- If you find that the supplier is not delivering the agreed level of service, you should raise this with them immediately. For quickness, this can be done by telephone but should be followed up in writing. The supplier should be asked for an action plan to ensure that the required levels of service re-commence in a short time frame. Depending on the severity of the issue, it may also be necessary to hold a face-to-face meeting with the supplier. All discussions/meetings, etc. should be minuted to ensure an audit trail exists. If resolution of the issue is not completed within the timescales agreed then the issue should be escalated (see below) and your Organisation's procurement contact notified of the problem;
- If the issue(s) raised are not resolved to your satisfaction, they should be escalated within the supplier's organisation. An early face-to-face meeting should be arranged where actions and timescales to remedy the situation should be agreed and implemented. The recovery actions should be monitored on a regular basis to ensure that the agreed recovery/ resolution dates do not slip. All discussions/ agreements should be noted in writing;
- Contract Managers/ Contract Management Officers should ensure the escalation process is clearly defined, understood and communicated to all stakeholders and end users.

Incentives and Sanctions

Open or close

Incentives and sanctions should be used appropriately to maintain/improve the contract/supplier performance.

There are specific contract terms and conditions (T&Cs) that can be used to help drive contract compliance/performance. These should be incorporated into the contract T&Cs.

You should ensure that you understand the contract's specific T&Cs. Any incentives and sanctions must be appropriate and legally enforceable. You must seek legal advice if you are in doubt as to the wording, appropriateness or legality of a proposed condition.

Examples of incentives and sanctions which could be considered are listed below. These must not be applied autonomously. Appropriate internal approval must be sought and received prior to implementation.

Incentives could (subject to avoiding substantial modification) include:

- contract extension options as;
- a longer contract opportunity could provide performance motivation;
- payment by result, e.g. milestone payments (linked to defined deliverables);
- reduced payment terms.

Conditions of Contract could include:

- retention e.g. legitimately withholding payment if deliverables are not completed with genuine and notified reason, but compliant with previously agreed contract terms and conditions;
- legal action;
- termination of the contract. (Please note: you cannot terminate a contract with the aim of avoiding procurement rule obligations);
- collecting liquidated damages. Please note that Liquidated Damages is the amount which the parties designate during the formation of the contract for the injured party to collect as compensation should a specific breach occur.

For a sanction to be effectively enforced, sufficient evidence is required to justify the claim or action. It is therefore important to have clear records which could include

records of; agreed service levels; notice periods; reminders; communications; agreements etc.

Any enforced incentive or sanction must comply with the agreed terms and conditions for the contract or agreement.

Feedback and Improved Communication

Open or close

Improvement opportunities can be identified by anyone engaged with the Organisation, both internally and externally.

Many improvement ideas can come from management, employees and supplier(s) operationally involved in the delivery of the service/ goods contract. Supplier(s) and employees can be particularly insightful as they are regularly exposed to operational inefficiencies which may not be visible higher up in the Organisation.

Your Organisation should seek feedback and should work to develop a culture where everyone in the Organisation is encouraged to look for, and suggest, operational improvements. All suggestions should be considered.

Risk Management

Open or close

A key element of Contract and Supplier Management is the proactive identification and management of risk. Guidance can be accessed on the Risk Management page.

Fraud Prevention, Detection, Monitoring and Handling

Open or close

More guidance on fraud can be found in the **Scottish Government website on Fraud.**

Overbilling

Open or close

Weak interactions between an Organisation's finance, commercial, and contract management functions provide an opportunity for fraud and overbilling. This could be as a result of error and inefficiency, or by deliberate intent.

Without basic scrutiny of payments and performance an Organisation's departments may rely on the supplier to interpret the contract correctly which may result in errors . Better scrutiny of payments and improved contract knowledge within your Organisation will identify any possible overbilling and fraudulent activities Organisations can then take appropriate action.

Supplier Health Check

Open or close

Contracts are awarded following a thorough evaluation process which addresses some standard elements.

Throughout the life of the contract, your Organisation's Contract Managers/Contract Management Officers should perform periodic supplier 'health checks'. This ensures the standards demonstrated during the initial evaluation are being maintained. Health checks could include:

- Financial Status;
- Business Probity;
- Conviction of Criminal Offences;
- Compliance with Legislation and Regulatory Provisions (including Equality);
- Corporate Social Responsibility;
- **Sustainable Procurement** and Environmental practices;
- Health & Safety; and
- Insurances.

The frequency of the checks should be in line with the type of contract. For example, strategic and bottleneck contracts will be checked more frequently than collaborative and routine contracts.

Data Protection

Open or close

Contract management activities must include sufficient checks to ensure suppliers are meeting their **Data Protection Legislation** obligations as the Processor. These checks may include audits undertaken by the controller or a third party auditor.

If obligations are not being met, organisations should take urgent remedial action with the supplier to address issues and risks.

More detailed information can be found in **Additional Resources.**

Innovation/Value Add

Good Contract and Supplier Management processes should encourage both supplier and organisational innovation. It should be recognised that suppliers often have innovative ideas to improve their own and their customer's service. However suppliers can be blocked in their attempts to put these ideas forward.

You should want to be a customer of choice i.e. suppliers will invest and bring innovation to the contract. You should adopt these behaviours and allow supplier innovation and added value activity to flourish:

Quickfire Guide

Quickfire Guide

How to Promote Innovation

- **Embrace your suppliers as an extension of your business.** Learn from their ideas and build open and trusting relationships where innovation will thrive.

- **Establish a culture of trust and encourage ideas from suppliers**, as they often know your business better than some of your own team.

- **Define and share your Organisation's definition of supplier innovation**. This way suppliers can understand your internal process, where they fit in and your expectations of them.

- **Share as much information as you can with your top suppliers.** The earlier suppliers can see your product / services roadmap, the sooner they can provide ideas to improve it.

- **Implement a consistent governance framework.** If a supplier's idea has potential, assign an internal owner to investigate and develop this ensuring there is accountability and development continuity.

- **Innovation does not have to be 'ground breaking'.** Even minor service or process adjustments can bring cost and/or efficiency gains.

- **Encourage collaboration within the teams.** Let them know there will be some ideas that will be more successful than others, but all ideas will be considered. Publicise and reward innovative contributors appropriately.

- **Publicise supplier innovation success stories.** A brief email outlining real supplier initiated added-value and the mutual benefits will encourage others to do the same.

- **Consider innovation as a standard KPI** and ensure innovation is on the agenda at performance reviews.

Innovation is a two way process. Your organisation should be equally active in exploring innovative ideas which will help your suppliers improve their performance and service delivery.

What is Demand Management?

Demand Management can be defined as:

"the alignment of a business' consumption with its business requirements"

It is applicable to all goods and services where internal demand and consumption can be influenced to reduce costs.

Demand Management is a key aspect of effectively aligning external resources to meet requirements. When Demand Management is considered, it is often seen as a simple matter of stopping people spending money. However there are ways to look at Demand Management without completely preventing spend. These can provide notable savings and have a less drastic impact on the business.

Demand often results from internal practices and processes rather than from addressing a real need of the Organisation. The approach is about addressing change 'in' an Organisation.

Therefore the starting point will be the culture, policy and behaviours of your Organisation.

Your Organisation can also participate by sharing best practice, benchmarking behaviour, creating policy guidance and undertaking peer review.

Demand Management can come at different points in the procurement process. For example, during the initial purchase point e.g. that software licences are purchased for the correct number of users at a single point in time. Demand Management can also occur in situations where costs are recurring as an ongoing activity such as in a category where spend is ongoing and regular (e.g stationery or postal services).

Principles of Demand Management

Open or close

Demand Management, including behaviour change, represents a significant and untapped opportunity.

In the short term   changing expectations

in the medium term changing participation

in the long term   reducing need

There are 3 main principles of demand management:

1. Each business unit should have exactly what it needs in order to deliver its business objectives;

2. Any resources consumed above this level represents a waste to the Organisation;

3. There may be many and very different ways of meeting a user's needs. Each way represents a different level of resource to achieve the same outcome.

The three strategies listed below could be independently or jointly applied.

Eliminate	Is the requirement really needed? Can the consumption be stopped? e.g. cancel non-essential meetings, or stop the use of mobile phones for non-business calls.
Replace	Can we use lower cost or more effective alternatives? e.g. use video-conferencing for meetings or ensure non-confidential papers are not treated as confidential waste
Reduce	Can we use less of a product / service? e.g. don't order a monitor with every PC purchase or, schedule meetings for the same day

With Demand Management you should consider:

- a reduction in the demand for goods;
- if there is an option to use recycled goods to avoid buying new? Could recycled goods be supplied under an existing contract?;
- is there an opportunity to consolidate orders/ services to reduce costs?;
- improving your purchase to pay system to reduce transactional costs.
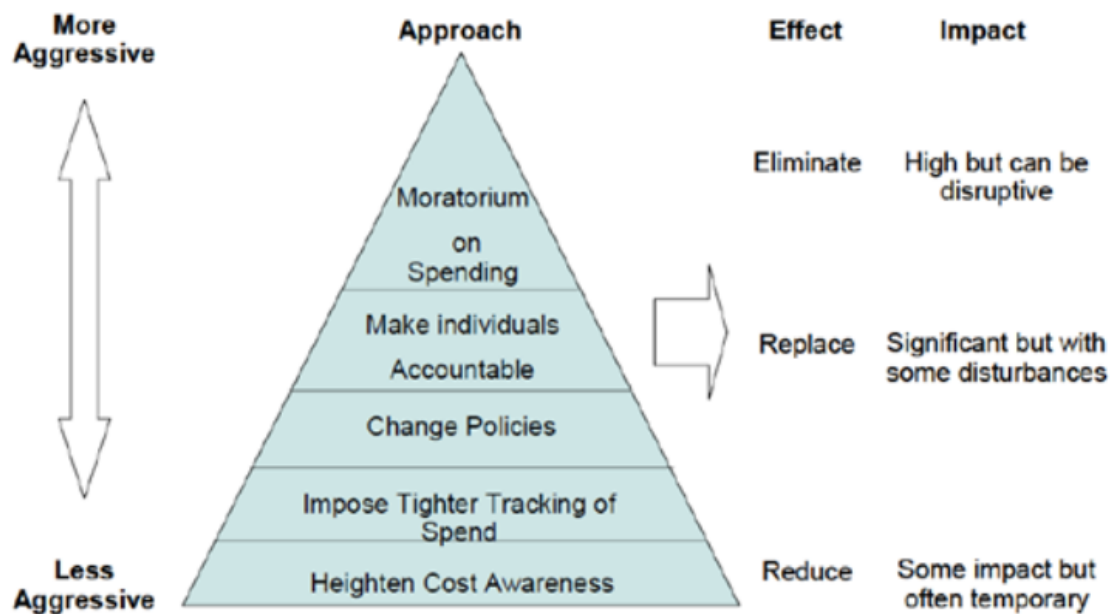
Benefits of Demand Management

Open or close

There are a number of benefits to an effective Demand Management strategy. Many benefits are driven by:

- a change in the Organisation culture and outlook; and
- how goods and services are specified and requested.

When robustly implemented across all goods and services Demand Management drives public sector Organisations' efficiency and effectiveness. The Organisation uses all the external resources it procures to meet operational requirements.

The Demand Management process challenges the norms, standards, customs and practices of an Organisation. This is done to a degree not usually found in other processes.

Using Demand Management to prepare Strategic Sourcing, you can establish that the Organisation's requirements are sourced to a very specific level. This can avoid the development of a sourcing strategy for over-specified operational requirements.

Used routinely Demand Management can ensure the highest possible resource levels are directed at front line services. This is especially important in the public sector.

Forecasting Demand

Open or close

Consideration as to how the demand will be forecasted and fluctuations managed should be initially undertaken at the '**Shaping the Requirement'** stage. This should be subsequently monitored and managed throughout the lifetime of the contract. Failure to do so could result in:

- excess material purchases and subsequent material write off/ waste disposal costs;

- inadequate material availability resulting in additional recovery costs and/ or service breakdown;
- excess, inadequate or inappropriately positioned resource;
- reputational damage as a result of service breakdown; and
- detrimental impact on the end user.

Effective Demand Management forecasts also give the supply base the opportunity to manage their costs. This can be achieved by positioning resource and materials in line with demand.

Demand forecasting should be based on considerations such as:

- historical consumption;
- supplier lead times;
- market forces;
- service criticality;
- key stakeholder input;
- purchase cost; and
- information from other buying organisations, trade bodies and business support organisations e.g. Federation of Small Businesses and Chambers of Commerce, etc.

Where practical, you should look to reduce future demand and costs by using strategies such as:

- considering if there is an option to fully or partially transition to recycled goods, instead of buying new;
- reducing transactional cost by improving the purchase to pay system;
- innovating supplier(s) to reduce mutual cost which should have been previously written into the contract / agreement with the supplier.

For any supplier to operate effectively, it must understand and manage its demand. They can use this knowledge to tailor its resources and processes proportionately. This will ensure they deliver their service in the most efficient and cost effective manner. By understanding historical demand, an organisation can work with its suppliers to realise mutual cost and efficiency gains.

The most effective way to forecast future demand is to consider a combination of:

- historical demand;
- market forces;
- the Organisation's business plan/strategic direction.

Forecasting is not an exact science and will never be 100% accurate. However these elements should provide sufficient information to allow the Organisation to develop forecasts. These forecasts should be accurate enough to accommodate demand fluctuations during the lifetime of the contract(s) with minimal cost.

The Organisation should ensure the supplier stays in regular contact with all key stakeholders (including other suppliers). This will ensure that all parties are aware of the supply/demand position, especially during periods of fluctuation.

Review Meetings

Open or close

Performance Review Meetings provide your Organisation and the supplier with an opportunity to:

- focus on end to end performance;
- identify issues and opportunities; and
- put appropriate action plans in place.

The Performance Review Meeting standard agenda template can be completed by your Organisation and the supplier before the meeting. This will provide a structure to the meeting.

It is best practice to hold at least an annual review for suppliers identified (under the segmentation process) as requiring 'medium level' supplier management. At least two review meeting per year should be held for 'high level' suppliers.

The Review Meeting Template and a meeting agenda example are available below to assist you in doing this.

The Performance Review Agenda Example (agenda can be amended to suit your personal preferences):

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Example Performance Review Meeting Agenda

Agenda Item	Description
Introduction and Opening Remarks	Introduce attendees. Recognise special or new guests. Provide any opening remarks that are pertinent to this meeting such as current events, organisational changes, etc.
Review of Action Items	Each Performance Management Review meeting will produce some follow up action items for your supplier, your Organisation or both. These should be documented and followed up at the next Performance Management Review meeting.
Supplier Performance	Performance against SLAs/ KPIs/ Scorecards should be reviewed and discussed, and any performance concerns raised. This will be a quick review if all deliverables are being achieved. Any "below plan" performance will demand more discussion and most likely recovery action plans. These plans should be managed operationally and reviewed at the next Performance Review meeting.
Customer Performance	The supplier can raise any customer performance issues. For example these may be impacting their ability to their contractual obligations.
Key Improvement Areas/ Opportunities	All opportunities for improvement should be explored. Once identified, action plans should be agreed. Areas to be explored should include: current performance issues, cost, process, Sustainable Procurement, Corporate and Social Responsibility, innovation/value add.

Supplier Presentation	The supplier should provide a business overview, including example financial information, strategy, overarching objectives, etc.
Meeting Summary and Review of Action Items	Round up of meeting and confirm next meeting date.

Any documents you need are listed below

[Additional Guidance when Reviewing a Care and Support Service](#)

(file type: docx)

[Additional KPI Guidance for Care and Support Services Contracts](#)

(file type: docx)

[Balanced Scorecard](#)

(file type: docx)

[Management Information](#)

(file type: pdf)

[Relationship of the Buyer and Supplier](#)

(file type: docx)

[Review Meeting Template](#)

(file type: docx)

[Full Balanced Scorecard - Excel Spreadsheet](#)

(file type: xlsx)