

## Contract and Supplier Management

The purpose of Contract and Supplier Management is to work closely with suppliers and internal customers to:

- minimise the total cost of ownership and
- maximise supply chain efficiencies throughout the life of the contract.

Contract and Supplier Management should result in contract procedure and process improvements. It should also increase Procurement Function knowledge and experience, which can then be used to benefit future contracts. This can be done by:

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| Relationships              | developing and managing constructive and transparent relationships with suppliers                                                                                                                                                               |
| Execution                  | ensuring the contract is successfully executed. Includes meeting all special conditions relating to the <i>performance</i> of the contract which may cover economic, innovation-related, environmental, social or employment-related conditions |
| Value for money            | maximising value for money from suppliers and contracts                                                                                                                                                                                         |
| Monitoring & improvement   | providing a formalised system of monitoring, managing and continuously improving the supplier and the Organisation's performance against the contract                                                                                           |
| Roles and responsibilities | ensuring that all parties recognise and understand their contractual roles and responsibilities                                                                                                                                                 |

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| Compliance              | monitoring overall compliance to Key Performance Indicators and Service Level Agreements. Implementing improvement plans in the event of underperformance. Leveraging supplier expertise in pursuit of cost and efficiency gains |
| Improved benefits       | realising additional savings and benefits and sharing them appropriately                                                                                                                                                         |
| Supply Chain            | effectively managing the prompt payment of the supply chain                                                                                                                                                                      |
| Innovation              | providing a focus for development of initiatives and innovations                                                                                                                                                                 |
| Continuous improvement  | driving continuous improvement                                                                                                                                                                                                   |
| Lessons learned         | identifying lessons learned to inform future contract terms or strategies                                                                                                                                                        |
| Efficiency              | developing supplier relationships to maximise efficiency. Collaborate towards common goals and reduce waste, environmental or social risks                                                                                       |
| Strategic goals         | support the achievement of strategic goals, such as attracting Community Benefits through the contract                                                                                                                           |
| Sustainable procurement | monitoring Sustainable Procurement benefits through the life of the contract and ensuring that targets are met                                                                                                                   |

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| Community benefits | monitoring Community Benefits achieved vs anticipated |
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Care should also be taken to manage the risks to changes in contracts e.g. you may require to retender if there is substantial modification.

## **Vision**

Open or close

Organisations should use the four quadrants of the balanced scorecard in a consistent manner. This will allow measurement of a supplier's performance across all organisations and / or sectors using that supplier.

Contract and Supplier Management should:

- ensure that the service/contract is delivered to the required standards
- provides value for money;
- proactively identify and manage any risks which may impact on a supplier's service delivery / fulfilment of the contract requirements;
- improve and develop contract and supplier performance across organisations, sectors and nationally. A consistent approach will maximise efficiencies and promote adding value across the supply base;
- appropriately influence supplier activity and decisions, improving value for money, over and above cost savings;
- ensure the contract is effectively administered, for example from a change management perspective.

You should frequently aim to improve your own and supply base performance by various techniques.

## **Continuous Improvement**

Open or close

There are a number of formal and informal continuous improvement methods. These range from: full continuous improvement programmes; to organisational collaboration; and improved internal and external communication.

One of the key continuous improvement tools used in the Scottish Public Sector is the [Procurement and Commercial Improvement Programme \(PCIP\)](#). This is designed to drive forward best practice and develop procurement activity.

Contract and Supplier Management can be considered successful when:

- the arrangements for service delivery continue to be satisfactory to both parties, and the expected business benefits and value for money are being achieved or exceeded;
- the supplier is efficient, co-operative and responsive;
- the Organisation understands its obligations under the contract;
- there are no surprises;
- there are no disputes;
- professional and objective discussions over changes and issues are straightforward and easily managed;
- efficiencies are being realised;
- the Organisation's procurement department contract and market knowledge improves, and benefits future contracts.

## **Definition and Importance**

Open or close

## **Definition**

Contract Management and Supplier Management differ.

Supplier Management refers to activities across a supplier's whole portfolio of contracts. These activities are normally more strategic, longer term activities. Some examples could be:

- a project to move to reusable pallets for all products and contracts delivered by the supplier

- or for a stationery supplier, moving to a new on-line catalogue ordering system

Contract Management applies to the specific contract for the good(s) or service(s) being procured. For example:

- increasing the quality of refuse sacks to the UK requirements
- or amending the hours worked by staff on a security contract

However, although different, Contract Management and Supplier Management are linked. It is very difficult to perform effective Supplier Management if basic Contract Management disciplines are not in place. It would be difficult to discuss strategic partnerships, innovation or joint ventures if you do not understand the supplier's contract details. You need to understand how the supplier is performing day to day.

Effective Contract Management is therefore necessary for successful Supplier Management

### **Importance of Contract Management at Board/Senior Management Level**

An effective Contract Management strategy should be a high priority for Chief Financial Officers (CFOs) or Chief Operating Officers (Accounting Officers) and Senior Management Teams.

Effective contract management is necessary for an efficient and compliant business. Contracts must be managed: especially those which deliver services, provide infrastructure or third-party essentials.

Central functions of an Organisation's Contract Management strategy should include:

- complying with corporate governance regulations;
- managing risk;
- eliminating or reducing cost (not by impacting supply chain efficiency or profit);
- maximising revenue streams.

Managing the contract information, obligations and the contract life-cycle are critical to meeting compliance regulations. This means that the entire process needs to be sponsored at an executive level. This includes:

- contract creation;

- clarity of final agreement;
- electronic contract management system; and
- integration of contract data with back-end systems and contract performance reporting.

The above need to be rolled-out to your entire organisation (for at least the most critical/high impact contracts).

**Robust Contract Management will reduce risk to your Organisation. This includes issues such as Conflicts of Interest and Fraud.**

**Your Organisation must consider these areas as a vital part of its governance. You must ensure all appropriate measures are taken to prevent, identify and remedy conflicts of interest and include measures to combat fraud, throughout the life of the contract.**

## **Contract Management for Joint Procurements**

Open or close

If entering a joint procurement exercise with one or more public sector organisation, you must have already agreed the legal status and requirements of such an exercise.

A “lead” authority may have been agreed at strategy stage. Legally they are responsible for forming the contract with the awarded supplier(s).

Alternatively a truly “joint” exercise may be initiated. Here procurement conduct is carried out in the joint name(s) of the participating organisations.

In either case, the organisations each remain responsible for meeting their contractual obligations.

Where you have determined only part of the procurement will operate as a joint exercise, the organisations will be jointly responsible for those activity areas declared as joint. Each organisation will retain sole responsibility for the activities carried out on its own behalf.

All of the above factors determine the subsequent approach to contract management. Although considered at Strategy Development stage, when deciding subsequent practical considerations these must remain a factor when determining the operational approach such as:

- who is responsible for contract management;
- how Key Performance Indicators (KPIs) will be managed and communicated; and
- the reporting / communication network needed between your organisations and the supplier(s).

## Benefits

Open or close

Both you and the supplier should be motivated and enabled to deliver additional value. This should be done within legal limits and over and above that specified in the original contract, e.g. not simply extending the expenditure. The process should deliver benefits such as:

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| Routes of engagement   | provide formal routes of engagement at different levels of management. This allows opportunities for improvement at senior levels                                                                                                                                        |
| Supply costs           | ensure supply costs are contained and minimised, and that opportunities for improving cost effectiveness and efficiencies are explored and progressed e.g. packaging, service level definition                                                                           |
| Deliver business needs | proactively ensure that the business needs under the contract are delivered. Ensure both customer and supplier's obligations are understood and managed. Reduce reactive 'incident resolution activity' to minimise the cost of failure and of managing the relationship |

|                  |                                                                                                                                                                                                                                                                                                     |
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| Issue resolution | promote proactive issue resolution. Ensure clear escalation paths exist within both organisations                                                                                                                                                                                                   |
| Standardisation  | Use a standardised approach for a number of suppliers/customers. This will embed operational efficiency, consistency and quality                                                                                                                                                                    |
| Consistency      | limit the number of people involved. This ensures process consistency and communication. It ensures the right people are involved in the right activities at the right time with the right information                                                                                              |
| Improvements     | encourage the supplier to improve their product or service in ways which provide additional value to the customer and to future customers. Promote efficiencies within both organisations which will develop the skills of the employees and help the supplier's staff to deliver a better service. |

## Data Protection

Open or close

Organisations should build into their contract management activities sufficient checks.

This includes ensuring suppliers are meeting their [Data Protection Legislation](#) obligations. If these obligations are not being met, you should take urgent remedial action with the supplier to address issues and risks.

More detailed information can be found in [Additional Resources](#).

Consideration must also be given to [Planning, Sustainable Procurement](#) and [Risk Management](#) throughout this stage of the Procurement Journey.