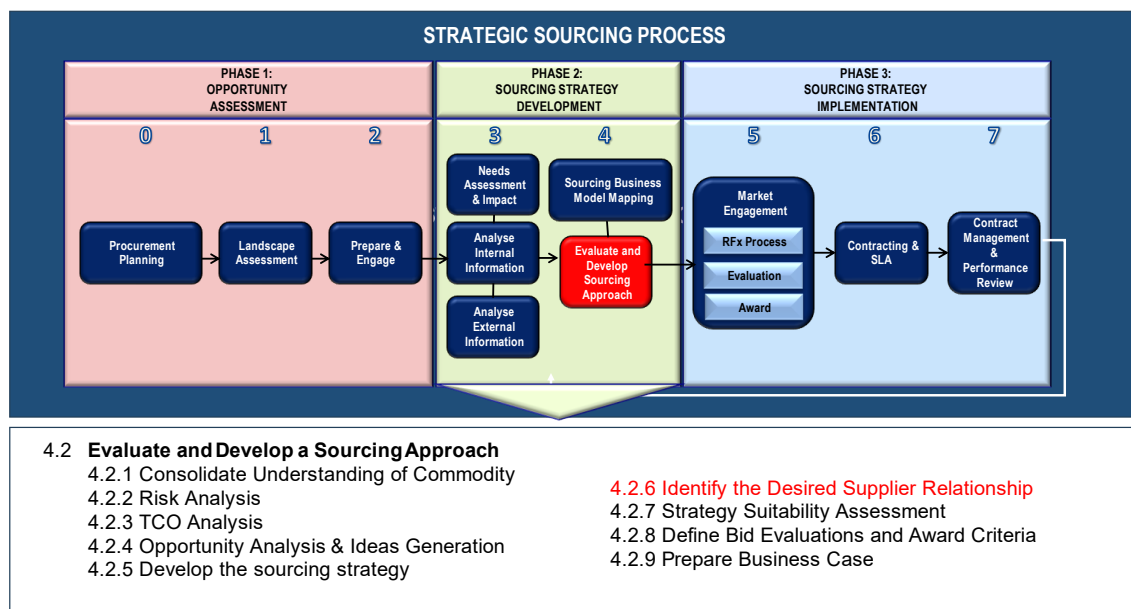


**Using this guide**

This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the National Treasury website at <http://ocpo.treasury.gov.za/>. The SPF can be found here:

[http://ocpo.treasury.gov.za/Resource\\_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf](http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf)

**IDENTIFYING THE DESIRED SUPPLIER RELATIONSHIP**



**1.0 Introduction**

- i. Buyer-supplier relationships can be classified as “Transactional” (transactional contract), “Collaborative (relational contract)” or “Alliances” (investment contract) but few relationships are pure or exclusively “Transactional”, “Collaborative” or “Alliances”.
- ii. The following good practice guides apply to this stage of determining the desired supplier relationship:
  - a. Three basic types of supplier relationships
  - b. Supply relationship characteristics
  - c. Desired supplier relationship

### 1.1 The objective

- i. To consider the most appropriate supplier relationship that will deliver maximum benefit to the procuring institution.

### 1.2 Output

- i. Proposed supplier relationship type

## 2.0 Good practice guides

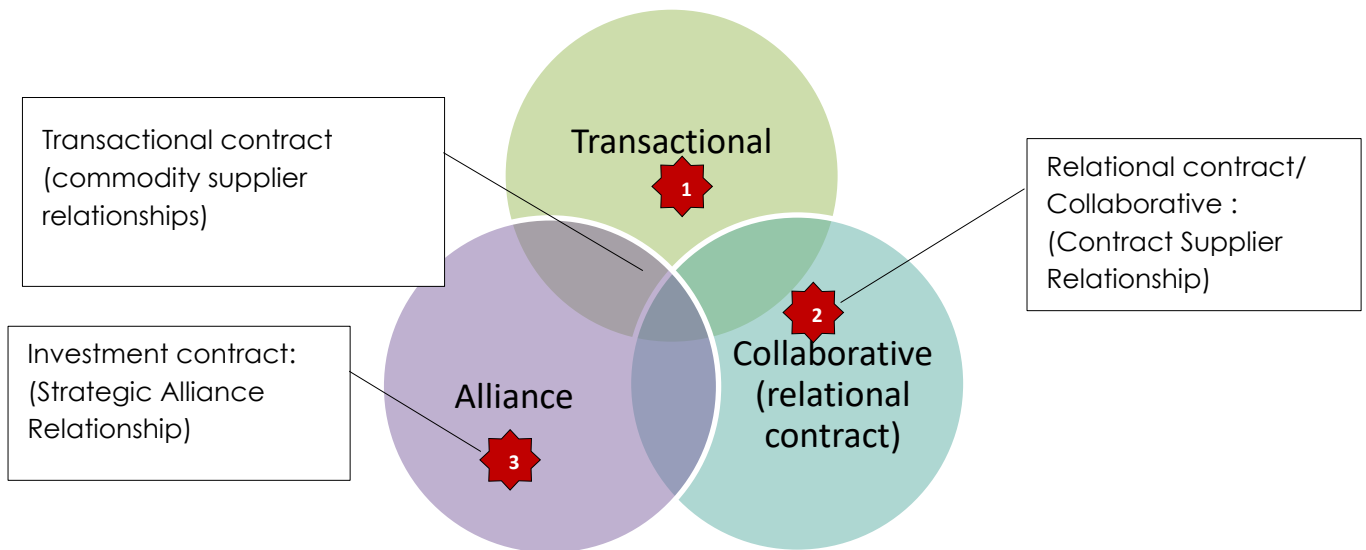
### 2.1 Three basic types of supplier relationships

- i. Buyer-supplier relationships can be classified as “Transactional” (transactional contract), “Collaborative (relational contract)” or “Alliances” (investment contract) but few relationships are pure or exclusively “Transactional”, “Collaborative” or “Alliances” (refer to stage 4.1.2, selecting sourcing business model).
- ii. A transactional relationship may have one or more collaborative characteristics while a collaborative relationship may have one or more transactional as well as some alliance characteristics as shown here.



**Figure 1: Different Types of Supplier Relationships**

- iii. Figure 1 shows the relationship between stage 4.1.2 sourcing business model and the desired relationship options.



**Figure 2: Desired Relationship Options**

### **2.1.1 Transactional contract: (Commodity supplier relationship)**

- i. Commodity supplier is the least complex and most short-term supplier relationship, so the time invested in building and managing a relationship would not add significant value and therefore does not require significant resources.
- ii. The supplier's unit pricing drives almost all of the value in this type of relationship.
- iii. There will be very limited if any, management of the supplier because such activity is unlikely to add value.

### **2.1.2 Relational contract / Collaborative: (Contract supplier relationship)**

- i. Contract supplier is a medium-term relationship where the value is driven by total cost, continuity of supply and the supplier's performance to required specifications and delivery requirements.
- ii. Management of the supplier will largely focus on the supplier's performance of its contractual obligations, continuing cost competitiveness and adherence to product quality standards.

- iii. Performance partnership includes a significant level of supplier relationship management, reflecting that value will be driven by continuous development and improvement throughout the relationship.
- iv. The relationship will show a high level of cost transparency with shared rewards for driving down costs throughout the relationship's life cycle.

### **2.1.3 Investment contract: (Strategic alliance relationship)**

- i. Strategic alliance relationships will be reserved for a small number of suppliers where high value can be derived from long-term strategic collaboration across multiple complex projects.
- ii. The relationship will feature high levels of strategic collaboration, joint product, process, and cost improvement throughout the extended life cycle of the relationship. This is commonly based on a Build-Own-Operate-Transfer basis.
- iii. Considerable effort and time will be given to manage this relationship.
- iv. Failure to manage this relationship effectively will impact the institution's service delivery and compromise long-term benefits, such as the construction of hospitals under Private-Public-Partnership contracts.

## **2.2 Supply relationship characteristics**

- i. Each supplier relationship has its own set of characteristics which is useful to take note of when deciding on the most appropriate or desirable supplier relationship as indicated in Table 1.

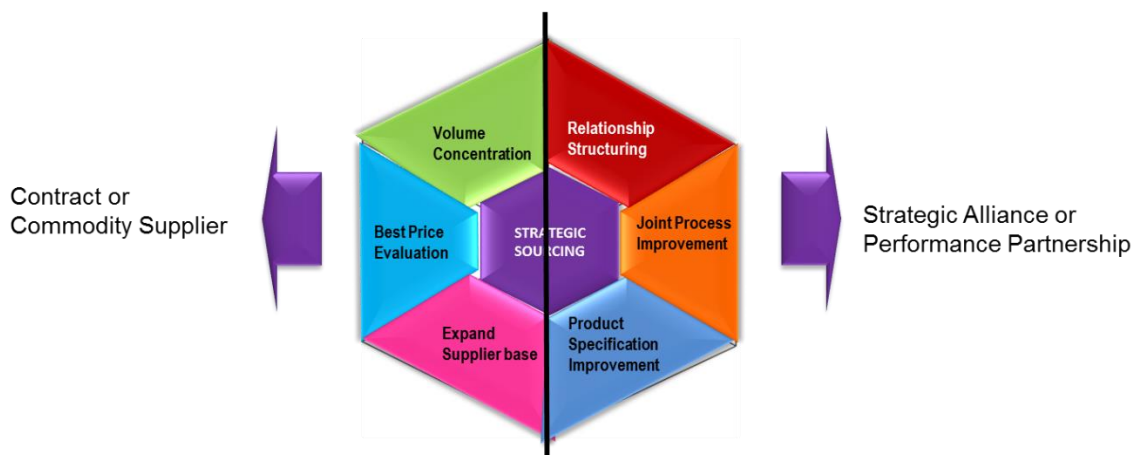
	<b>COLLABORATIVE</b>	<b>ALLIANCE</b>
<b>Communication</b>	High potential for problems	A systematic approach to enhance communication
<b>Competitive advantage</b>	Low	High
<b>Connectedness</b>	Independence	Interdependence
<b>Continuous improvement</b>	Little	A focus
<b>Contributions to new product development</b>	Few	Early supplier involvement
<b>Difficulty of exit</b>	Low	High Impact
<b>Duration</b>	Short	Long

	<b>COLLABORATIVE</b>	<b>ALLIANCE</b>
<b>Expediting</b>	Reactive	Proactive
<b>Focus</b>	Price	Total Cost
<b>Level of integration</b>	Little or none	High or total
<b>Level of trust</b>	Low	High
<b>Number of suppliers</b>	A number	One or few
<b>Open books</b>	No	Yes
<b>Quality</b>	Incoming inspection	Designed into system
<b>Resources</b>	Few skilled	Professional
<b>Service</b>	Acceptable	Greatly improved
<b>Shared forecast</b>	No	Yes
<b>Supply disruptions</b>	Possible	Unlikely
<b>Technology inflows</b>	No	Yes
<b>Type of interaction</b>	Tactical	Strategic synergy

**Table 1: Supplier Relationship Characteristics**

### 2.3 Desired supplier relationship

- i. The nature of the opportunity and the sourcing strategy selected will indicate the most appropriate relationship. The Sourcing Gemstone illustrates the strategies and the nature of the relationship usually required to deliver them.



**Figure 3: Desired Supplier Relationship**

- ii. In very general terms, sourcing strategies that pick up features from the left of the model will be categorised as Commodity or Contract Suppliers. Those on the right will result in a Performance Partnership or Strategic Alliance relationship.

### **3.0 Templates**

Not applicable