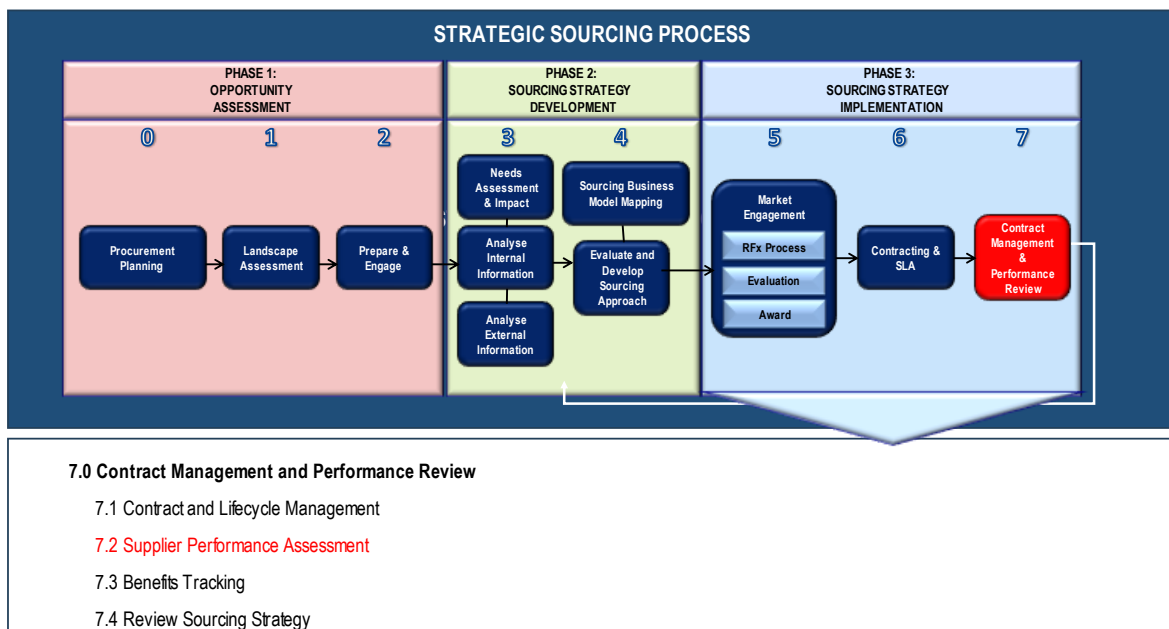


Using this guide

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

SUPPLIER PERFORMANCE ASSESSMENT



1.0 Introduction

- i. Effective procurement and monitoring of supplier performance is critical to controlling the risks and costs involved in procurement.
- ii. Managing and monitoring suppliers' performance is necessary for an institution to assess whether it is receiving value for money or not.
- iii. Managing and monitoring suppliers' performance is important when procuring goods and services for which there is a high relative expenditure and/or difficulty in securing supply.

- iv. Suppliers' performance should be managed and monitored before, during and after establishing supply arrangements.
- v. The following good practice guides apply when conducting supplier performance assessments:
 - a. How to monitor and manage a supplier's performance
 - b. Dealing with poor performance
 - c. Using past performance in future procurement decisions
 - d. Supplier performance management checklists

1.1 The objective

- i. To provide information about simple, practical tools for developing supplier performance monitoring strategies.

1.2 Output

- i. Supplier Performance Report

2.0 Good practice guides

2.1 How to monitor and manage a supplier's performance

- i. A key issue in contract management is the monitoring of the supplier's performance to ensure all standards are met.
- ii. The extent of performance monitoring applied to a supplier should be determined by the level of risk involved in the procurement and the nature of the goods or services provided.
- iii. Good monitoring of contractor performance progressively anticipates, identifies and facilitates correction of shortcomings before the relationship with the supplier is adversely affected and before value for money is compromised.

2.1.1 Performance monitoring approaches

- i. An important issue in monitoring a supplier's performance is deciding who is best placed to monitor that performance.

- ii. The supplier's performance must be assessed objectively against criteria that are pre-determined, clearly understood and agreed by both parties in the conditions of the contract.
- iii. Sound performance monitoring techniques must be applied.
- iv. These approaches may include direct monitoring by the procuring institution, regular reporting by the supplier, monitoring by end-users, independent monitoring or some combination of these.

2.1.1.1 Direct monitoring by the institution

- i. This approach ensures that the institution is in control of the monitoring process.
- ii. This may increase the cost to the institution but will allow timely resolution of any problems that are detected.

2.1.1.2 Monitoring devolved to the supplier

- i. Even if the responsibility for monitoring performance is delegated to the supplier, accountability for contract outcomes remains with the institution.
- ii. Information provided by the supplier should be regularly checked to ensure its accuracy and reliability.
- iii. It may be necessary to test the accuracy of supplier reports through follow-up, site visits, spot checks or other forms of assessment.

2.1.1.3 Monitoring by end-users

- i. In this approach, supplier performance is monitored by regular follow-up with end-users.
- ii. This approach can be most effective in gaining an accurate idea of the real quality of a supplier's performance under actual service delivery conditions.
- iii. However, it can be costly and time-consuming to apply.

2.1.1.4 Independent third-party monitoring

- i. Independent third-party monitoring can be performed directly, by giving the responsibility over to an external monitoring body, or indirectly through an accreditation process.

- ii. In an accreditation process, service standards are set, reviewed and monitored, usually through an independent body.
- iii. Accreditation programmes can be expensive for the department to implement.
- iv. Potential costs incurred would need to be weighed against the potential benefits of accreditation, to determine if this method of monitoring is the most appropriate for a contract.

2.1.1.5 Combination of monitoring methods

- i. A combination of monitoring methods can be used effectively to ensure that contract outcomes are achieved.
- ii. For example, accreditation may be used to provide a front-end quality screening of potential providers, but further ongoing monitoring by the department may be required.
- iii. This ongoing monitoring may include input from stakeholders such as end-user representatives and provider representatives.

2.1.2 Useful performance monitoring and management tools and techniques

2.1.2.1 Setting Key Performance Indicators

- i. Before offers are invited, the institution needs to determine which activities are critical to the success of the procurement and what good performance by the supplier would look like.
- ii. From this understanding of the dimensions of good performance, Key Performance Indicators (KPIs) were developed during Stage 6.
- iii. The supplier's actual performance over the life of the contract can now be measured against these KPIs.
- iv. The KPIs must be included in the conditions of the contract.
- v. The specific KPIs and the level of performance required to satisfy them must be clearly defined in the contract documentation. This is to protect the institution's interests by ensuring that the supplier performs as expected.

2.1.2.2 Regular procurer–supplier meetings

- i. Regular, scheduled meetings between the institution and suppliers are an important way to monitor supplier (and the institution) performance.
- ii. They also form one of the cornerstones for building, developing and maintaining an effective relationship between the department and suppliers.
- iii. Regular meetings are particularly important for long-term contracts.
- iv. Ideally, such meetings would complement other forms of performance monitoring.
- v. The scope and frequency of meetings to review contract performance and progress will vary with the nature and complexity of the procurement activity being undertaken.
- vi. Some of the more common types of contract management meetings include:
 - a. **Progress review meetings.** These should be held regularly between key members of the department's contract management team and the supplier's management team. A progress review meeting will typically discuss performance trends, impending contract events or milestones, changes to the contract, proposed actions/responses to current or potential problems and similar matters affecting the operation of the contract.
 - b. **Technical review meetings.** Meetings of this type can be conducted, when required, between specialist technical representatives of the department and the supplier's technical experts to review technical reports and performance data and to discuss current technical issues affecting the operation of the contract.
 - c. **Longer-term reviews and audits.** These meetings aim to determine the extent to which contract requirements are being met and how to address any emerging or anticipated needs for change. Issues to consider in these 'whole contract' reviews include the achievement of objectives, achievement of budget relative to the provision of goods and/or services, user satisfaction levels and the extent to which value for money is being achieved.

2.1.2.3 Contract-specific audits

- i. Contract-specific audits assist the institution in effectively managing specific risks that may arise from engaging a particular supplier and taking appropriate risk management actions.
- ii. The necessity for a contract-specific audit should be clearly stated in the invitation/request for bid documents as a condition of the contract.
- iii. Auditing supplier capabilities on a contract-specific basis is necessary before engagement unless the institution has recent knowledge of the supplier's track record, skills and capabilities.
- iv. Good records containing details of the supplier's performance history can also reduce the need for a contract-specific audit.
- v. When a contract operates over an extended period, intermittent contract-specific audits are a useful tool.
- vi. These offer the chance to monitor the effectiveness of the supplier's quality assurance system relating to the contract (if specified). They also have the advantage of emphasising to the supplier the significance the procuring institution places on achieving and maintaining high performance.

2.1.2.4 Spot checks and inspections

- i. Spot checks and inspections may be necessary to ensure that the goods or services delivered by the supplier conform to the contract standard.
- ii. Spot checks of supplier performance can be either announced or unannounced.
- iii. Spot checks and inspections are powerful supplier performance monitoring tools, but institutions should not overuse these tools.
- iv. In particular, over-reliance on unannounced spot checks is likely to damage relationships between the procuring institution and suppliers and make it difficult to build business relationships that are based on trust and mutual commitment.
- v. Such provisions must be included in the "Conditions of Contract".

2.1.2.5 Contract reports

- i. In some contracts, it is appropriate to require the contractor to provide written reports on performance as one of the contract deliverables, for example, consultancy services.
- ii. The reports provide a further mechanism for monitoring and managing the supplier's performance.
- iii. The contract manager must action any such reports promptly, otherwise the performance management opportunity may be lost.

2.1.2.6 Non-conformance reports from the field

- i. Sometimes, non-conformance with specifications is not addressed promptly.
- ii. Reporting of non-conformance from the field, however, allows rapid responses to problems or potential problems.
- iii. Information on non-conformance from the field allows strategic and risk managers in the institution to adjust plans and advise the supply chain. This ensures that strategies can be put in place to minimise and manage potential time or cost overruns, as well as any potential impact on the institution's core activities and end-users.

2.2 Dealing with poor performance

- i. There are several strategies for dealing with a supplier's poor performance.
- ii. These include:
 - a. Progress meetings and reviews;
 - b. Agreed problem-solving mechanisms and dispute resolution processes;
 - c. Enforcing the terms of the contract, including through legal action; and
 - d. As a last resort, terminating the contract and seeking damages from the supplier.
- iii. Effective performance monitoring should provide the contract manager with a timely warning if the supplier is having difficulty in meeting the terms of the contract or the agreed performance standards.

- iv. Prompt action must be taken if monitoring reveals that supplier performance does not meet the agreed standards.
- v. Early intervention may prevent a potential problem from escalating into a full-blown dispute.
- vi. It also protects the value-for-money objective.
- vii. Suppliers should be made aware of any shortcomings in their performance as soon as they occur.
- viii. For most performance problems, particularly for more serious or recurring problems, suppliers should be given a formal warning that their current level of performance is not satisfactory, an explanation of why this is the case and details as to what changes are required to meet the performance expectations.
- ix. This enables performance issues to be identified clearly and addressed by all parties. It also provides an opportunity for the supplier to improve performance to a satisfactory level before more serious actions are taken.
- x. Communication between the parties should increase, more frequent milestones should be set and closer monitoring should occur.
- xi. It may be necessary to renegotiate some elements of the contract.
- xii. The supplier should be informed, when appropriate, that termination of the contract may be considered and must be made fully aware of any changes in their performance that they are required to make if they wish to avoid having their contract terminated.
- xiii. Legal advice should be sought before acting on any breaches of the conditions of the contract.
- xiv. A good performance management process produces good contract management records.
- xv. These can be used for verification of performance and can be referred to when a contract is ready for extension or renewal. In extreme cases, these contract management records can be used as justification for the termination of a contract due to the supplier's failure to perform to the standard expected.

2.2.1 Dispute resolution

- i. Contractual disputes arise when the parties cannot agree upon areas of contract interpretation.
- ii. Disputes can occur, for example, over the interpretation of the contract conditions, the project specification, the performance of either party under the contract, or the effects of unexpected events.
- iii. Contract managers can minimise the likelihood of disputes by ensuring that they maintain close liaison with the supplier throughout the contract period and by effectively dealing with small problems when they arise to avoid escalation.
- iv. Alternative contractual dispute resolution procedures provide a mechanism to resolve disputes without the expense, delay and publicity associated with resorting to lawyers and the courts.
- v. Numerous alternative mechanisms can be used to assist both parties to resolve their differences.
- vi. These include:
 - a. Negotiation
 - b. Mediation
 - c. Expert appraisal/determination
 - d. Arbitration.
 - e. Litigation – this must be the last resort after exhausting the above.

2.2.3 Reducing the likelihood of a dispute

- i. The chance of a dispute occurring can usually be reduced by:
 - a. Identifying the matters likely to give rise to dispute during the planning stages so that they can be specifically addressed in the contract;
 - b. Stating the requirements clearly;
 - c. Using simple, plain and clear language in all contract documents;
 - d. Regularly reviewing performance and dealing with problems as soon as they arise, before they escalate;
 - e. Maintaining a close relationship with the supplier to assist in dealing with problems when they become apparent; and

- f. Not allowing a pattern of supplier default to develop. This makes it harder to resolve later disputes as well as potentially reducing the legal remedies.

2.2.4 Checklist for dealing with poor performance

- i. Once a problem with the supplier's performance has been identified, the contract manager might consider the following questions:
 - a. Is the supplier aware of the problem?
 - b. Is there a clear failure to perform?
 - c. Has the department contributed to the failure in any material way?
 - d. How important is this supplier?
 - e. Have the goods or services been accepted?
 - f. Has the contract been substantially completed?
 - g. What are the conditions of a contract?
 - h. Does the contract provide for a dispute resolution mechanism?
 - i. Can a solution be negotiated?
 - j. What is the cost of resolution?

2.3 Using past performance in future procurement decisions

- i. Using past performance as an evaluation factor in the procurement process can allow institutions to predict the quality and likely degree of customer satisfaction with future work better. It also provides a strong incentive to suppliers to maintain high levels of performance.
- ii. Effective supplier performance monitoring that is properly integrated with the procurement process can provide institutions with more insight into supplier capabilities, strengths and weaknesses.
- iii. Past performance measures that can be recorded (preferably on a corporately controlled database) and referred to in future procurement decisions must, wherever possible, be objective.
- iv. Some areas of performance that should be recorded include:
 - a. Conformance with specifications and standards of quality;
 - b. Containment and forecasting of costs;

- c. Adherence to contract schedules, including administrative aspects of performance;
- d. History of reasonable and cooperative behaviour and overall business-like concern for the interests of the customer;
- e. Service to the end user of the goods or services.

2.4 Supplier Performance Management Checklists

- i. The following checklists are not exhaustive.
- ii. They are intended to provide a starting point for the types of issues that should be monitored if a supplier's performance is to be managed effectively.
- iii. Officers should add to these lists any additional monitoring issues that are appropriate to the nature of the procurement being undertaken.

2.4.1 Delivery

- i. Consider whether the supplier:
 - a. Delivers on time.
 - b. Meets due date without expediting.
 - c. Offers a competitive lead time.
 - d. Delivers correct items and quantities.
 - e. Provides accurate documentation and information.
 - f. Responds to emergency delivery requirements.

2.4.2 Pricing

- i. Consider the following factors:
 - a. Competitiveness.
 - b. Price stability.
 - c. Volume or other discounts.
 - d. How price changes are introduced.

2.4.3 Customer service

- i. Consider the following factors for each supplier:
 - a. Compliance with contract terms and conditions.

- b. Supplier representatives have a sincere desire to serve.
- c. Provides feedback to the procuring organisation from the factory or manufacturer.
- d. Effectiveness of sales support.
- e. Market insight.
- f. Training provided on equipment or products.
- g. Support on professional or technical matters.
- h. Administrative efficiency (including order acknowledgement and accurate invoicing).
- i. Adherence to their company policies.
- j. Adherence to their company quality systems.

2.4.4 Product/service

- i. Consider these aspects relating to the product or service being procured:
 - a. Meets specifications.
 - b. Reliability/durability.
 - c. Product or contract service quality.
 - d. Quality and availability of documentation, instructions, technical manuals.
 - e. Packaging suitability, and environmental aspects.

3.0 Templates

Not applicable