

Supplier Adoption and Economic Development (Strand 5)

Discussion Paper

Automating Supplier Relationship Management Processes

This paper has been developed as part of the National e-Procurement Project: Strand 5 - Supplier Adoption and Economic Development and is published to generate debate and highlight the opportunities for performance improvement that might arise from automation of SRM processes.

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Developing strong relationships with quality suppliers can take risk and cost out of the buying of goods and services and is particularly important in the delivery of services - social services, maintenance and construction.

Some Local Authority buyers have expressed to us their fears that e-procurement could weaken the supplier relationship by automating the purchasing process. However if automation is used appropriately it can be a tool to make supplier pre-qualification and contract assessment more transparent, without distancing the buyer from the supplier.

Good Supplier Relationship Management

Supplier Relationship Management (SRM) describes the processes used by procurement professionals to ensure they get the best value from their suppliers. Good SRM supports suppliers and their participation in Local Authority tenders and sourcing activity.

There are four linked stages in the SRM lifecycle:

- **Sourcing and pre-qualification of suppliers**
Good practice here means giving buyers quick and easy access to quality suppliers
- **Selection of the appropriate supplier**
Good practice here means choosing the right supplier on the basis of a set of carefully weighted criteria.
- **Performance monitoring**
Good practice here means setting Key Performance Indicators against which suppliers are measured, including their performance against the selection criteria
- **Feedback to suppliers and into sourcing process**
Good practice here means communicating the results of the measurement process to ensure improvement by suppliers and in the selection process.

The discussion in this paper looks at the opportunities for automation and performance improvement in each of these four stages. But note that it is when they are linked as a workflow that they become powerful tools for SRM.

In the work carried out for the NePP Supplier Adoption project, we have found that SRM in the LA sector is generally confined to high value contracts. The principle reasons for this low level of SRM activity are:

- Decentralised buying and therefore little real management of procurement performance or SRM
- Lack of standards, practical guiding principles or tools

But principally:

- Lack of resources – pressure on time and lack of trained people

There are exceptions - pockets of excellence - where resources have been made available locally and applied to one area of procurement such as property services or social services. The success of these operations only serves to demonstrate the opportunity for focusing on SRM that exists across the sector, with the better management of risk that it brings and the **significant cost savings** available from such improvement.

KEY QUESTION 5: How do I make sure that I choose qualified suppliers, and how do I review and assess their performance?

Until recently, this was an aspiration that was clearly beyond the reach of Local Authorities. e-Procurement is now beginning to offer the means to automate many of the SRM processes and achieve these improvements, but only if this objective is designed into the e-procurement strategy from the start and specified for the systems being acquired and implemented.

Stage 1: Pre-qualification and Accreditation

For any online initiative to work efficiently and bring the desired cost savings, it requires that ALL suppliers that the local authority wishes to use, from the local florist to the multimillion £ construction company, are on a shared database. In order to establish such a database, the suppliers must be identified and checked according to accreditation criteria agreed by the local authority.

The way in which such databases are implemented will depend on the size and resources of the local authority. It could be a local database built initially from the authority's purchase ledger. It could be an external database built by an outsourced service. It could be on an intranet. It could link with an electronic marketplace. Ultimately the aim might be to work towards a regional, or even national database of public sector suppliers shared by all authorities.

Our detailed guideline: '**Towards a Unified Approach to Supplier Prequalification and Accreditation**', published on this site, provides a guide on how to standardise pre-qualification.

The key feature of any accredited supplier list is that it is made readily available (possibly as the default list on-screen) to buyers, or they will continue to use their own preferred suppliers, irrespective of corporate policy.

Stage 2: Selection of the appropriate supplier

Having established a list of suitably qualified suppliers the Local Authority should support the suppliers that have been through the process by establishing a **transparent** and **consistent** selection process across the authority.

Each authority defines its levels of authorisation and spending processes in its standing orders, and these vary in value but there are always 4 levels:

- discretionary spend – no formal process
- selection by informal quotation process
- formal quotation – 3 written quotes
- full OJEU tendering.

Currently, at the lower spend levels, there is no consistency or transparency in the criteria used to select suppliers. We think more guidance from IDeA and training of buyers is required to improve this. The move towards an electronic list of accredited suppliers will help the buyers choose consistently and transparently, and will provide a wider pool but in the end the best way to achieve higher standards has to be the introduction of an online system that allows unskilled buyers to follow supplier selection best practice embodied in the system.

Automated tender scoring - Current tender practices tend to be paper based and therefore time consuming and difficult to share with other departments and practically impossible for a corporate procurement function to audit. The lack of a transparent process deters suppliers as they do not get a

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sense of fair participation unless they actually get useful feedback from the process to improve their chances next time a tender is issued.

The use of automated tools to create and assess tenders improves the buyers performance by developing tender creation skills and allowing the use of the process to be spread to more categories of spend and risk. The automated process benefits suppliers in addressing concerns of evaluation and provides the basis for supplier feedback. The automation of the process allows the sharing of best practice, as the software saves and allows the re-use of tenders that have been successful. The time saved can allow the use of the tender process to be spread to more categories of spend delivering best value throughout the procurement process

The automation will provide significant reductions in the time required to participate in the tender process for both buyers and suppliers. Improvements in accuracy, reduced risk and high probity standards add to the benefits for both sides. The output of the system will allow tender results to be analysed in hours and provide the basis for feedback to successful and unsuccessful bidders alike. The tender process should be directly incorporated into contract formation supporting supplier performance reviews and contract management.

One spin-off benefit that will come from automation of tender scoring will be the ability to respond to the requirement in the Freedom of Information Act that authorities will have to provide full details to companies which ask why they did not win a tender.

Stage 3: Measuring Performance

Once orders and contracts are stored electronically it should be possible to collect statistics about how your suppliers are performing. You must decide what statistics are going to be useful before you set up your system (it is too late by the time you come to design reports) and it would depend on buyers developing and using Key Performance Indicators for all contracts above discretionary spending limits – unlikely to succeed given the pressure they are under.

Buyers would be more likely to accept the use of KPIs if the supplier pre-qualification and selection systems were linked together in an online workflow which then automatically generated a set of KPIs based on these criteria. They could be flagged on screen for buyers to agree and again at the completion of a project or successful receipt of an order for the buyer to tick or comment against each KPI, introducing a level of consistent and meaningful performance measurement into the system.

Stage 4: Supplier Feedback

At each stage in the above process there are opportunities to feed back findings to suppliers in a structured way.

- The accreditation process will highlight any weaknesses in the pre-qualification requirements. At this point feedback can be given to help the supplier develop the necessary skills and competencies required qualifying as an accredited supplier for the local authority.
- At the supplier selection stage, a more transparent automated system would enable suppliers access to data which could guide them in improving their offering. We saw how a consistent and transparent tender response system could allow suppliers to participate in the knowledge that their efforts will be assessed fairly and quickly. Gaps in their response can be swiftly identified and those weaknesses communicated to the supplier. This will

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allow the supplier to respond and to develop their tender response skills and offerings to meet the local authority's needs.

- Once the contract is in place the ongoing performance of the contract can be monitored using simple online KPI response forms and any problems can be communicated to the supplier based on facts, not hearsay. This level of evidence will strengthen the buyers' ability to improve suppliers' performance and ensure that performance remains at the required level for the duration of the supplier relationship.

Summary

Electronic tools are emerging which promise to help procurement officers manage their supplier relationships in a more efficient and transparent way. Perhaps the most important opportunity is the possibility of linking the four stages of SRM in a workflow that made it easy for non-specialist buyers to input to and use the system. The opportunities for performance improvement are clearly significant – perhaps as great as those available from the introduction of today's generation of e-procurement systems.

Although the technology is ready and waiting in the wings, there are as yet no obvious signs of these tools being offered. There are pockets of automation on offer, but there are as yet no end-to-end solutions.

It is important that local authorities implementing e-sourcing and e-ordering solutions recognised that one day these systems will all share a common supplier database, and that database will store the information most relevant for assessment of performance and feedback as well as simply accreditation data.

It is also important that solution providers come to market quickly with SRM tools integrated into their e-procurement systems.