

EXPRO National Manual of Assets and Facilities Management Volume 8, Chapter 6

Supplier Relationship Management

Document No. EOM-ZI0-GL-000005 Rev 001



Supplier Relationship Management

Document Submittal History:

Revision:	Date:	Reason For Issue
000	28/03/2020	For Use
001	18/08/2021	For Use



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Table of Contents

1.0	PURPOSE	5
2.0	SCOPE	5
3.0	DEFINITIONS	5
4.0	REFERENCES	6
5.0	RESPONSIBILITIES	6
6.0	PROCESS	7
6.1	Set Objectives	7
6.2	Define Challenges	8
6.2.1	Long-Term Focus	8
6.2.2	Lack of SRM Competences	8
6.2.3	Alignment of Strategies	8
6.3	Define Maturity Levels	8
6.4	Set Maturity Model	8
6.5	Supplier's Competences	9
6.5.1	Quality Awareness	9
6.5.2	Delivery	9
6.5.3	Response and Customer Service	10
6.5.4	Cost	10
6.5.5	Innovation/Technical Competence	10
6.5.6	Risk	10
6.5.7	Operational Excellence	10
6.6	Set Supplier Performance Evaluation KPIs	10
6.7	Define Key Value Drivers	10
6.7.1	Innovation	10
6.7.2	Sustainability	11
6.7.3	Supply Chain Management (SCM) Configurations	11
6.7.4	SCM Flexibility	11
6.8	Define Success Factors	11
6.8.1	Measurement of Benefits	11
6.8.2	Strategic Consistency	11
6.8.3	Senior Management Sponsorship	11
6.9	Define Potential Benefits	11
6.10	Set Framework	12
6.10.1	Identify Metrics, Thresholds, and Targets	12
6.10.2	Collect Data Through Various Mechanisms	12
6.10.3	View and Analyze Aggregated Information	12
6.10.4	Identify Gaps; Prioritize and Communicate	12
6.10.5	Implement Continuous Tracking	12
6.11	Change Management	13
7.0	ATTACHMENTS	13
	Attachment 1 – EOM-ZI0-TP-000002 – Suppliers Performance Evaluation KPIs Template	14



1.0 PURPOSE

The purpose of this document is to provide the Entities with an understanding on how to execute Supplier Relationship Management (SRM) as a systematic approach in support of the overall business strategy.

SRM focuses on developing two-way, mutually beneficial relationships with strategic supplier partners in order to gain increased levels of innovation and competitive advantage that could not be achieved through independent operations or conventional transactions.

2.0 SCOPE

These guidelines provide the Entities with an overview of SRM and details on the following topics associated with it:

- SRM objectives
- Challenges
- Maturity levels
- Maturity model
- Supplier competence
- Key Performance Indicators (KPIs)
- Key-value drivers
- Success factors
- Potential benefits
- SRM framework
- Change management

Furthermore, this document guides each Entity to perform planning and execution of all interactions with the suppliers in a synchronized manner over the lifecycle of the partnership in order to maximize the value gained through those interactions.

3.0 DEFINITIONS

Term	Definition
Enterprise Resource Planning (ERP)	A software that allows the integration of operations and resources and manages them through one program. The management strategy is called Integration. Most large companies worldwide use ERP to handle various aspects of their business. Those include stock planning, parts planning, sourcing of components and inventory management, working with vendors, providing customer support, and monitoring orders. It can also include Accounting and Human Resources Management applications.
Integration	System to achieve close and seamless collaboration between structures, different agencies, groups and organizations
Open Book Contract	The buyer and seller of work/services decide on an open-book contract to which costs are remunerable, and the margin that the supplier will add to these costs
Procurement Management	This is the process of acquisition or purchasing of goods and services. The method involves the planning and review of the application, as well as the final receipt and payment approval
Research and Development (R&D)	Research and Development (R&D) refers to innovative practices performed by corporations or governments to establish or upgrade current services or goods. R&D is the first stage of creating a possible new service or manufacturing cycle



Stakeholder	An individual, group, or organization having an interest or concern. Stakeholders may influence or be influenced by the actions, objectives, and policies of the organization. Definitions of main stakeholders include creditors, directors, employees, government (and their agencies), owners (shareholders), suppliers, unions, and the society from which the company draws its resources
Acronyms	
ERP	Enterprise Resource Planning
KPI	Key Performance Indicator
O&M	Operations and Maintenance
R&D	Research and Development
SCM	Supply Chain Management
SRM	Supplier Relationship Management
UK	United Kingdom
USA	United States of America

Table 1: Definitions

4.0 REFERENCES

- APQC (American Productivity & Quality Center (APQC), link: <https://www.apqc.org>)
- Government of Kingdom of Saudi Arabia – Tendering and Procurement Law, www.mof.gov.sa
- National Manual of Assets and Facilities Management, Volume 8, Chapter 2 – Procurement General Guidelines (EOM-ZIO-GL-000002)
- National Manual of Assets and Facilities Management, Volume 8, Chapter 3 –Responsibilities & Thresholds (EOM-ZIO-GL-000003)
- National Manual of Assets and Facilities Management, Volume 8, Chapter 4 – Procurement Methods (EOM-ZIO-PR-000001)
- National Manual of Assets and Facilities Management, Volume 8, Chapter 5 – Category Management (EOM-ZIO-GL-000004)
- Procurement Policy and Procedure Manual, Serco Inc., USA
- The Good Practice Guide to FM Procurement by The British Institute of Facility Management (BIFM), UK

5.0 RESPONSIBILITIES

The Entity shall endeavor to have the right systems, smart processes, and qualified people in place to realize the full benefits of SRM. The Entity management shall:

- Evaluate potential suppliers using defined and accepted criteria
- Promote alignment and understanding of partnership expectations and requirements
- Tracking and reporting the performance of selected suppliers to ensure contractual commitments and performance measures are provided in line
- Manage outward communication to suppliers to facilitate understanding and awareness of organizational strategic direction, changes, and challenges
- Manage the interaction between suppliers and internal program delivery leaders to provide adequate visibility of interdependent initiatives and programs
- Liaise with negotiating parties to review, monitor and amend contractual arrangements as necessary



6.0 PROCESS

The steps involved in the SRM lifecycle are illustrated in Figure 1, and their relationship details are provided in the sub-sections below.

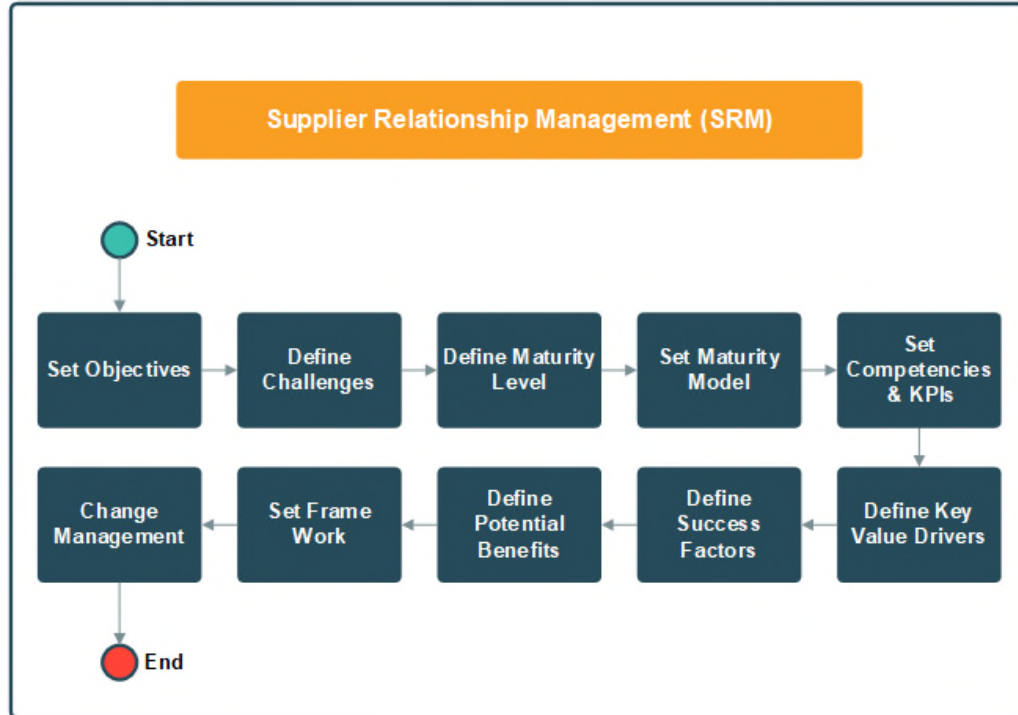


Figure 1: Supplier Relationship Management Flow Chart

6.1 Set Objectives

SRM recognizes and communicates with the key stakeholders to shape collective ownership, facilitate efficient collaboration, align strategic priorities and sustain constant development and efficiency, which will help to achieve the following objectives:

- Minimizing costs and improving performance by creating long-term relationships and communication beyond conventional procurement activities and category management
- Managing risk and compliance through policies and procedures and establishing metrics and methods for enhancing the integrity and accountability of strategic partnerships
- Effectively motivating the suppliers' efficiency in a clear and viable manner
- Facilitating constant operational development across strategic partnerships to enhance supply chain process effectively
- Adopting elaboration through mutual innovative identification and application of improvements, contributing vision, and strategy within timely collaborative planning



6.2 Define Challenges

6.2.1 Long-Term Focus

Reducing costs is an essential part of creating value in procurement, but excessive focus on this aspect discourages a long-term approach and consequently works against the Entities' best interests.

KPIs, that are focused on short-term optimization, promote collaboration and highlight the traditional role of procurement in achieving the lowest prices. However, value drivers such as innovation, sustainability, and legality need long-term orientation that conflicts with the short-term focus.

6.2.2 Lack of SRM Competences

Although procurement has always been responsible for running sourcing activities that need the best skills in negotiation, market analyses, cost optimization, and risk management; SRM, on the other hand, requires completely different competences such as influencing, leadership, and change management that the buyers generally lack in or are not trained to develop.

6.2.3 Alignment of Strategies

The strategic targets of the procurement organization and that of the supplier must be aligned. If the Entity wants to develop a partnership, then the supplier must share that vision, otherwise the goals of the two parties will be incompatible.

For this philosophy to succeed, the Entities leadership must be committed to it, as a top-down approach is required to give the process authority. This support will help the procurement team to explain the philosophy to the suppliers, which will encourage them to explore the idea with open minds.

6.3 Define Maturity Levels

Defining the maturity level helps the procurement organization to describe current state of affairs and identify opportunities to facilitate a discussion on the ambition level. The following four different maturity levels can be identified:

- **Lack of total SRM:** where the procurement department handles suppliers through POs and contracts regardless of supplier strategies
- **Discovering SRM:** The procurement department identifies strategic suppliers' worth prospective where some model exercises are hosted to construct confidence, capability, and reliability with cooperative hard work exceeding cost reduction basics to more operational tactics
- **Traditional SRM:** It is a settled business practice with cohesive operative model in place to cover all strategic suppliers and delivers paybacks, meantime risk is effectively managed. Mutual improvement programs with set of reliable governance configuration
- **Best in-Class SRM:** SRM is quite integrated into the organization global strategy and it becomes vital to the procurement department. The Entity and its key suppliers have become strategic partners with full integration and alliance between both of them

6.4 Set Maturity Model

The procurement organization should develop an SRM Maturity Model to help determine their current maturity level and define their future goal level. This model recognizes the maturity levels discussed above, and distinguishes seven (7) SRM enablers that are critical to success, such as:

- **Strategy and Governance:** What does the procurement organization want to achieve with SRM and how are those objectives accomplished?
- **Process:** What are the activities that the procurement organization performs and how is SRM supported by regular tools?



Supplier Relationship Management

- **Structure:** How does the procurement organization structure SRM and which roles and responsibilities are required?
- **People:** Which unique competences does the procurement organization need to establish and manage SRM?
- **Technology:** Which support system(s) should the procurement organization deploy?
- **Performance Management:** How does the procurement organization measure and improve partnership performance?
- **Risk Management:** How does the procurement organization identify and mitigate risks related to key suppliers?

Implementing the above enablers is not enough to build successful SRM, unless the procurement organization considers and scores its own organization on the following SRM capabilities:

- **Technical Capabilities:** Bidding, parleying and contract management, supply marketplace surveys, and spend analyses
- **Interactive Capabilities:** Foreseeing, management style, process and managerial planning, negotiating, problem solving, individual relationships, demanding behavior, joint venture management, project and program management, change management
- **Developmental Capabilities:** invention ability, sustainability, constant development, lean and/or agile operations, production capacity, information management

The procurement organization should identify on what level they currently collaborate with their key suppliers and interact with them in the following areas:

- Continuous improvement
- Joint product development
- Focus on value creation
- Real-time data exchange
- Open book contracts
- Integrated planning cycle
- Shared investments

6.5 Supplier's Competences

Supplier's competences are the resources, processes, and measures a supplier can offer the Entity, which are needed to develop and manage partnerships. The supplier's competences are as follows:

6.5.1 Quality Awareness

This competency indicates the possible compatibility between the quality standard of the manufacturer and that of the Entity. The quality of service is directly influenced by the degree of product quality offered by the suppliers.

6.5.2 Delivery

The willingness of the supplier to continuously meet the deadlines is how the credibility of the supplier is established. Providers are now becoming an extension of their own services. In the world of internet placed orders, the ability to meet quality requirements most often will decide the supplier's next purchase (or order). This could also lead to lower carrying costs, as a lower security stock and inventory investment would be needed.



6.5.3 Response and Customer Service

Response indicates the time taken to resolve an issue from the time of reporting. This is an important parameter to score the concerned supplier from the viewpoint that considers outages and shortfalls as unacceptable.

Customer service with proper responsiveness is an important factor, not only to sustain the footprint but also to enhance the presence. A service industry truly thrives on the behavior and response of the customer service; hence, this cannot be disregarded.

6.5.4 Cost

Cost indicates how much the supplier pricing is in-line with competition and current market conditions. In the current economic climate, pricing is one of the reasons why organizations are aggressively reviewing their supplier base.

6.5.5 Innovation/Technical Competence

Innovation competence shows commitment of the supplier towards innovation. Innovation is a key foundation element upon which the Operations and Maintenance (O&M) can either thrive or decline.

Technical competence is the ability of the supplier to understand the technical requirements of the client and stand or deliver the same in conformance. This enables a healthy and trustworthy relationship, as both the parties benefit from each other. This also helps to adapt or customize to any requirement or need of the client.

6.5.6 Risk

Risk causes stress, trouble, rejection, rework, and loss of reputation in the market and among the customers. Hence, it is important to assess the supplier's risk management plan and the mitigation strategy in place. A supplier with better risk mitigation plan has better cost beneficial back effect on the client, as the number of man-hours spent on rework or litigation is reduced.

6.5.7 Operational Excellence

Operational excellence is a valuable differentiator as it generates competitive strength, and cost and cash benefits associated with the well-managed operation. Suppliers who seek operational excellence and make smart decisions about the structure and execution of operations are entitled to gain an edge over their competitors in the market.

6.6 Set Supplier Performance Evaluation KPIs

Supplier performance evaluation KPIs related to the above competences are detailed in **Attachment 1**. The template is a sample that comprehensively indicates the KPIs against each competency parameters e.g., target, purpose, current score, achievable, sub weightage, applicable weightage, score, final score, index for score and rating.

6.7 Define Key Value Drivers

6.7.1 Innovation

The increasing need to deliver competitive products and services requires that both the Entity and suppliers recognize the necessity to bring new products and services to meet and surpass customer demands and expectations to survive and excel in the market.



Sustainability of value creation can be accomplished by continuous innovation. Joint innovation with suppliers is the next phase in innovation excellence because all Research and Development (R&D) activities cannot be fully funded by the Entities themselves.

6.7.2 Sustainability

Sustainability is a central aspect of long-term strategic planning for economic health. Metrics of sustainability should be integrated into the Entity's overall corporate goals in order to achieve sustainable, financial, and operational performance simultaneously.

Procurement represents a big portion of the total operating costs and sustainability impression is mainly defined by the key suppliers. Therefore, collaboration here is fundamental.

6.7.3 Supply Chain Management (SCM) Configurations

SCM should apply multiple configurations instead of deploying a one-size-fits-all approach in order to achieve competitive advantage.

Each supply chain configuration is customized and distinguished to service specific business requirements. A configuration can be lean or agile. Both configurations can co-exist within the Entity and business functions. Suppliers must be completely compliant with the configuration they choose.

6.7.4 SCM Flexibility

SCM should become aware of risks that can harm the organization and be able to implement adequate measures by allowing the processes and organization to cope with these risks. SCM with mature supply capabilities and risk management practices are more resilient and less vulnerable to disruptions.

6.8 Define Success Factors

6.8.1 Measurement of Benefits

It is important and necessary to track progress of the intended benefits. Positive results build credibility and ensure focus, which support the success of SRM and consequently help to achieve ultimate procurement goals.

6.8.2 Strategic Consistency

The Entity and procurement organization should be internally aligned so that SRM can fully contribute to the business objectives. Once that is realized, a partnership will succeed provided there is a strategic coherence between the Entity and the key supplier.

6.8.3 Senior Management Sponsorship

Senior management endorsement is a crucial factor in the progress. This ensures the correct priorities are set and the distribution of adequate / appropriate resources.

6.9 Define Potential Benefits

There are many benefits associated with effective handling of supplier relationships and they all culminate in a better result. These benefits include, but not limited to:

- Cost reduction
- Reduction of inventory
- Developing a scorecard
- Sustainable products or services
- Identifying and addressing weak intersections



- Increased organization-wide alignment
- Better utilization of technological innovations
- Improved customer satisfaction
- Improved on-time delivery by suppliers
- Better quality of end product and services
- Better access to new products and services
- Mitigation of the risk related to quality issues, materials shortage, and currency and price fluctuations

6.10 Set Framework

6.10.1 Identify Metrics, Thresholds, and Targets

The first step is to capture the key performance metrics within the supplier's contracts to ensure that these are highlighted. Secondly, collect data from key relationship managers to identify the supplier performance goals, and use this information to set targets and ensure consistency with the overall strategy.

Such metrics and goals should be discussed and mutually agreed upon with the suppliers. This is how both the procurement organization and suppliers are able to create the right performance management program.

6.10.2 Collect Data Through Various Mechanisms

The procurement should collect information on a regular basis to measure current values on an agreed set of metrics, thresholds, and targets. Various methods that can be used to gather this data include supplier assessment surveys and information from Enterprise Resource Planning (ERP) systems.

6.10.3 View and Analyze Aggregated Information

Once the data is collected, reporting on performance versus plan should be aggregated. Then, supplier performance management systems can considerably improve the ability to analyze such data. Spreadsheets and other tools can also be used for analysis, if needed.

KPI scores can be compared with contract terms to ensure contract compliance. KPIs allow procurement to monitor the progress of suppliers ensuring that early warnings are received if suppliers are underperforming and quickly flag the potential areas to focus on.

Scorecards further compile this information and provide procurement with the ability to monitor supplier output at a given time or pattern over a given period. Scorecards allow the procurement organization to compare the performance of a supplier with those of their peers.

6.10.4 Identify Gaps; Prioritize and Communicate

Scorecards, trend reports, and alarms help each supplier recognize differences between the expected and the actual performance. In order to prioritize, the procurement agency will use this information to determine the effect of performance issues on its business and then communicate the expectations of the problems that need to be resolved with the supplier and ask for a remediation plan.

The use of collaborative supplier portals, which provide this information to suppliers, together with the ability to set priorities ensures that nothing slips and both parties are on the same page with respect to what works well and what needs improvement.

6.10.5 Implement Continuous Tracking

Supplier performance management is not a one-time process and performance should be tracked on an ongoing basis to ensure that weaknesses are remediated and the focus is on continuous enhancement.



A supplier performance management system needs to be viable, as it offers a vital basis for the assessment, review, and enhancement of supplier performance. Therefore, this must be introduced using a technology platform, so that it can be reliable, flexible to support growth, replicated, and transported to other geographical regions in which the organization operates.

6.11 Change Management

Establishing a SRM program is a long journey/exercise that needs strong and successful change management to get the following into effect in order to ease the change:

- Raise awareness on what SRM is about and its importance for the Entity
- Build a transparent and motivating vision with understandable and measurable benefits
- Assign executive sponsorship and ensure its position in the governance structure
- Manage SRM as a corporate program supported by multifunctional teams
- Ensure alignment between the procurement organization and other departments to effectively manage SRM
- Enable dedicated resources and empower people
- Involve people during the development process to facilitate change management within the Entity
- Start with a limited number of pilot projects to build trust and confidence
- Train stakeholders intensively in all competences
- Track and communicate progress


7.0 ATTACHMENTS

1. EOM-ZI0-TP-000002 – Suppliers Performance Evaluation KPIs Template



Supplier Relationship Management

Attachment 1 – EOM-ZI0-TP-000002 – Suppliers Performance Evaluation KPIs Template

					Index for Score	Point "5"	Meeting the Criteria by 90%+		 Rating	0
						Point "4"	Meeting the Criteria by 75-89%			1
						Point "3"	Meeting the Criteria by 60-74%			2
						Point "2"	Meeting the Criteria by < 60%			3
						Point "1"	Meeting the Criteria by <50%			4
						Point "0"	Not Applicable			5
Competency	Key Performance Indicators (KPIs)	Questionnaire for Evaluation-Target	Purpose		Current Score	% Achievable	Sub-Weightage	Applicable Weightage	Score	Final Score
Quality Awareness	Quality Certification	Mandatory Quality Certification is BS ISO 55000:2014-55000:2014 €	ISO Certification and Standardization makes the organization compliant to global standards and measures		5	1	12.5	0.025	20	2.50
	Training and workshop	1. Trained and Certified Professionals 2. Quality and Competence of the staff	Good conduct/Professional approach/Quality and standard value		5	1	12.5	0.025		2.50
	Up-to-Date Quality System	1. Error-free transaction 2. Error-free Delivery/Documentation/Invoice generation	Does away with Rework and Repeated/Wasted efforts		5	1	25	0.05		5
	No Dispute/Breach	Supplier adhering to the cause of the agreement/Contract/PO	Reduces the paperwork and man-hours spent in resolving the disputes and arriving at resolutions		5	1	12.5	0.025		2.50
		No. of Breaches and Disputes reported between the Supplier and the Customer			5	1	12.5	0.025		2.50
	Compliant to Specification	Goods and services are provided in conformance to the specifications and the requirements set out in the Agreement/Contract/PO	1. Rejection of Goods/Services adds cost to the business and may delays the delivery of the projects		5	1	25	0.05		5.0



Supplier Relationship Management

			2. Poor and non-compliant products/services may hamper the productivity and brand-image of the company						
			Total			100			20

Competency	Key Performance Indicators (KPIs)	Questionnaire for Evaluation-Target	Purpose	Current Score	% Achievable	Sub-Weightage	Applicable Weightage	Score	Final Score
Delivery	In Full	Goods and services are provided in good volume and quantity	Incomplete orders may add time and cost to delivery of projects	5	1	20	0.04		3.00
	On Time	Are goods and services provided on the date/time required	Late delivery of orders or other deliverables may add time and cost to the delivery of the projects	5	1	25	0.05		3.75
		All deliveries are in compliance with Purchase Order	To ensure there is no lag in delivery	5	1	20	0.04		3.00
	Good Condition	All the deliveries are in good condition	There is no damaged goods	5	1	20	0.04		3.00
	Rejection	Rejection of goods and services due to quality issue	to ensure that acceptance of goods are in max against the rejection numbers	5	1	15	0.03		2.25
			Total			100		15	15