

Grosvenor Procurement Research

Gearred to high performance

How to get the best out of your suppliers

GrosvenorTM
PROCUREMENT ADVISORY



Introduction

From contract management to strategic partner management, organisations across Australia are grappling with how to get high performance out of their supplier relationships.

Grosvenor undertakes annual research into the state of procurement and contract management in Australia. We see this as our contribution to the profession and we share our insights not only through our website but also speak about them at conferences and dedicated events.

In this edition we look at what worked best in 2023 and how to get the most out of your suppliers, service providers and vendors in the future.

Our research is based on 93 responses we have received across August and September 2023. As a thank you to those participants we have donated a total of \$225 to our charity partners.

[Read on to learn more](#)

Here are the key takeaways from our research:



The importance of cost management has certainly been replaced with improving outcomes for internal and external stakeholders, including through improved risk management and enabling supplier led-innovation



This research provides insights about how contract management, vendor management and strategic partner management can help you deliver against these new expectations



15% of participants in this research do not manage their contracts



Another 15% hope that just managing 10% of their contracts will yield best performance across all their external supplier relationships



On the other hand, almost half of the organisations have a structured way to manage the relationships with their most strategic partners

So what works best?

Will minimal effort yield best performance or are the organisations that actively manage their relationships more likely to get high performance?

Read on to see what our participants have learnt to be most effective in driving high performance from their supply base.

Value creation for internal and external stakeholders is top of mind for Australian Procurement Teams

Over the past five years we have talked to 590 organisations from right across Australia to track what is top of mind for their procurement teams. We have seen the importance of cost reduction in 2019 towering over all other goals, followed by risk mitigation being key during the COVID years. Last year, and now also this year,

the focus is well and truly on delivering value, to external and internal stakeholders.

The thinking is, that if prices go up in a world constrained by inflation and a tight labour market, then, “let’s at least get the most performance for our stakeholders”. This year, the ability to deliver

results for external stakeholders, such as taxpayers, the wider community and shareholders (24%), followed by the ability to improve the way the business operates (18%) are the top priorities for procurement teams.

Coupled with the importance of innovation through the supply chain (has jumped to 13%), organisations

once more discover that contract management, vendor management and strategic partner management are the key levers to deliver on these goals.

The remainder of this report will shine a light on how you can make the most of your contracts and supplier relationships.

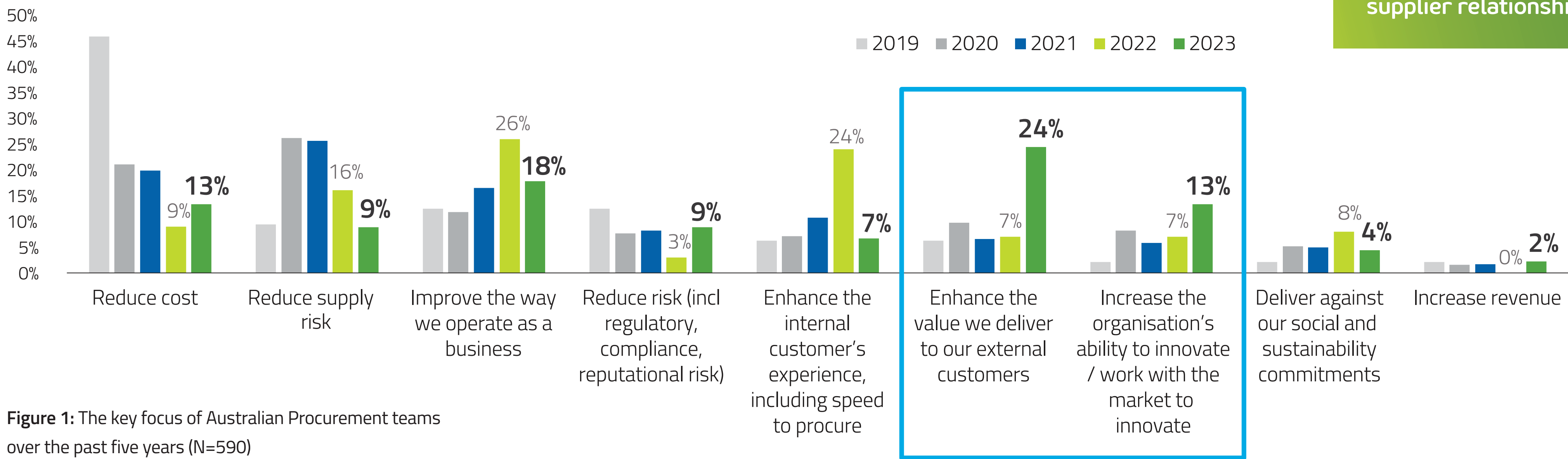


Figure 1: The key focus of Australian Procurement teams over the past five years (N=590)

The five layers of influencing supplier relationships and performance

There are five layers to any supplier/client relationship:

- 1 an **operational layer** focussed on delivery of on the ground services
- 2 a **contract administration layer** focussed on compliance, reporting and payments
- 3 a **contract management layer** focussed on driving outcomes and performance
- 4 a **vendor management layer** focusing on nurturing vendor relationships at the business to business level
- 5 a **strategic layer** that aligns higher level organisational objectives.

In this report, we have focused on those layers that are the most value adding levers for an organisation to pull:



Figure 2: The three most important layers of managing supplier performance

Contract Management



Contract Management involves the management of a single contract established between a supplier and a client to ensure agreed commitments, such as performance, timeframes, cost, and risks are monitored, reported and delivered to meet the client's needs. This may include activities such as performance management against KPIs, risk management, supplier meetings, etc.

86% of participants manage at least some of their contracts

42% of organisations with an annual procurement volume more than \$50M manage more than half of their contracts proactively

20% of participants do not manage their ICT contracts and a total of 70% actively manage less than half of their ICT contracts

Vendor Management



While Contract Management is the approach to managing a relationship with a vendor for the provision of goods and/or services under a single contract, Vendor Management takes an overall strategic view of the relationship, capturing all contracts with a partner.

Vendor Management activities relate to relationship management, strategy and design, management of performance and continuous improvement across the entire portfolio of contracts and services supplied by a vendor. For example, within a chosen category there may be several contracts with the same supplier and the client actively manages the relationship with the supplier instead or in addition to managing the individual contract.

60% of smaller organisations with an annual procurement volume up to \$500M have a Vendor Management program in place for more than 10% of their contracts

22% of participants actively manage more than 98% of their Property and Facilities Management supplier relationships

Strategic Partner Management



Strategic Partners are significant suppliers, with whom strategic information is shared and owned at the senior management level with regular contact and reviews. These supplier 'partnerships' typically include a higher degree of risk and complexity compared to other suppliers.

The objective with Strategic Partners is to develop deep and mutually beneficial relationships at the senior level, to foster innovation, reduce risk and improve costs and performance.

44% of organisations have a Strategic Partner Management program in place for about a quarter of their contracts

30% of ICT contracts, **45%** of Professional Services Contracts and **11%** of Property/FM contracts are not part of a formal Strategic Partner Management program

Good Contract Management is a bit like good people management

Better-practice Contract Management starts during the sourcing process. Successful contracts include clear sections on how the contract will be implemented, how decision-making will work, how performance is measured and reviewed and who is responsible for what part of managing the relationship.

In fact, contract management is a bit like managing staff: you get out what you put in. And the reverse is true as well: how can you expect a supplier who is not managed well to turn up and provide their best work?

From our previous research, we know that leadership matters, including in contract management. We found that organisations that use leadership techniques in managing their supplier relationships are almost three times as likely to receive superior performance (>90%). On average they achieve 29% better performance. Conversely those organisations that least use leadership techniques are twice as likely to receive LESS than 60% performance on their contracts.

But it is not just better performance, Contract Management can also deliver better risk management and higher efficiency for internal processes.



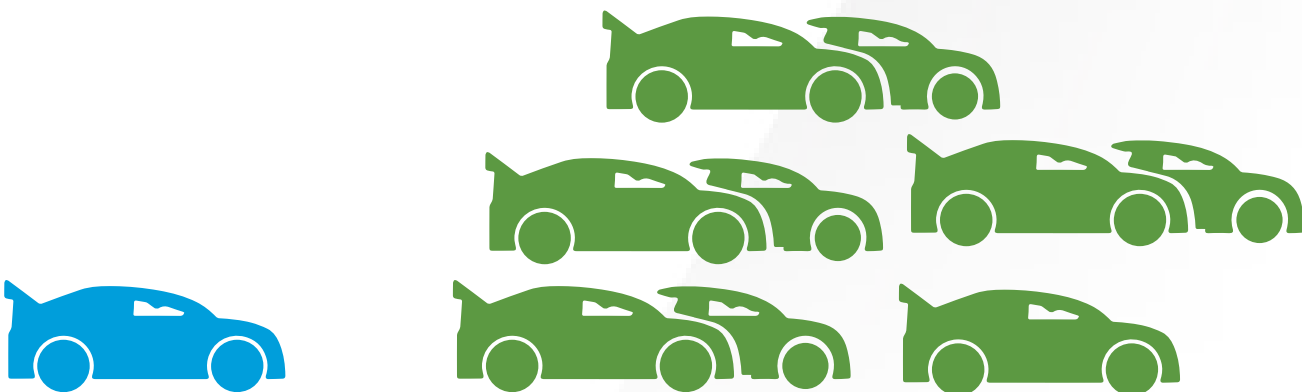
Almost nine out of ten participants actively manage some of their contracts

87% of organisations apply contract management techniques at least for some contracts, meaning that they typically assign a contract manager who actively manages a single contract for the delivery of a specific good or service

62% of organisations manage less than half of their contracts actively

Smaller organisations, particularly those who procure less than \$50M dollars a year, typically do not engage in active contract management. In fact, only **29%** of these organisations do any form of contract management.

Bigger organisations with more than \$250M procurement volume per year manage contracts more actively.

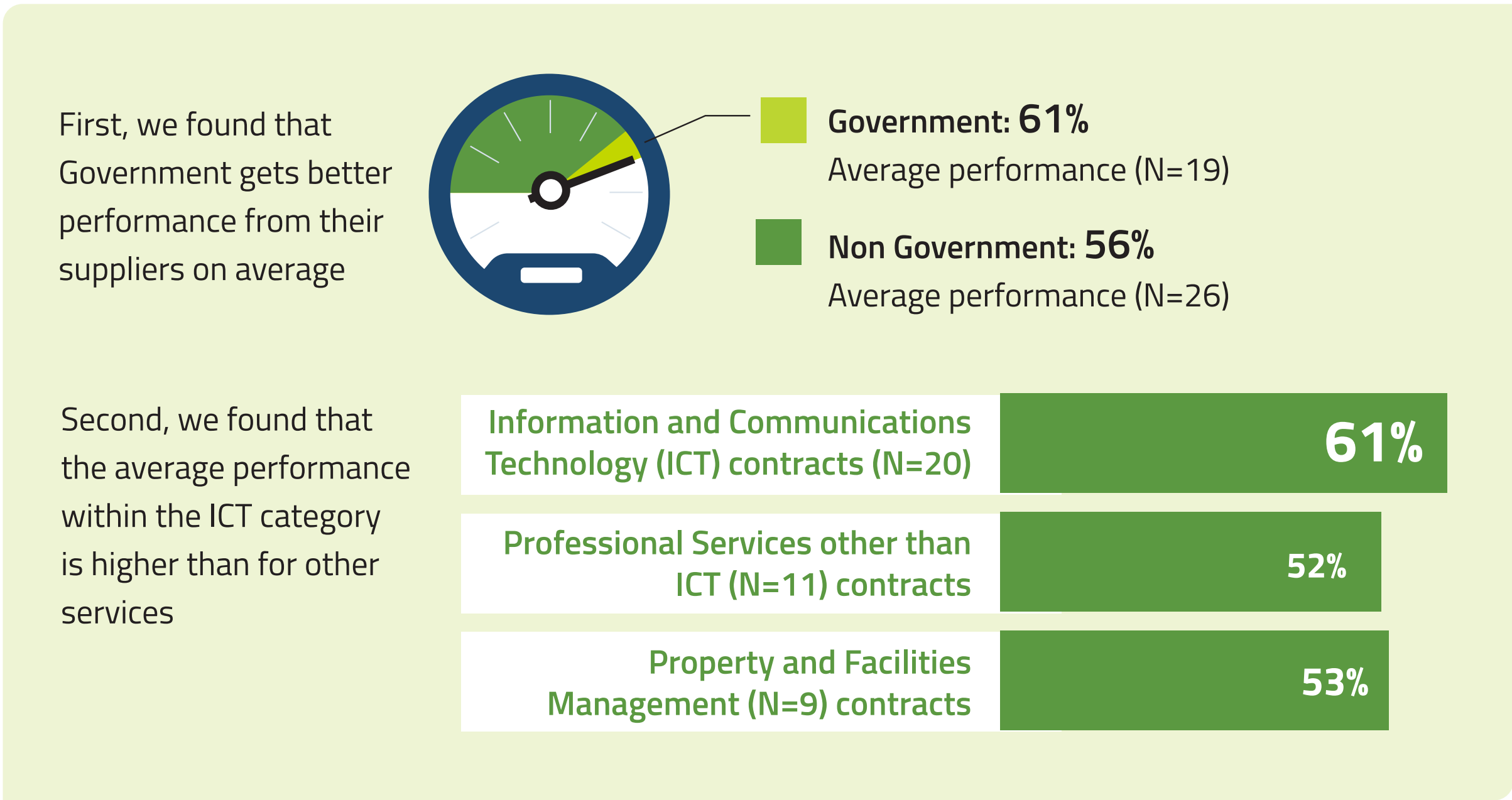


		By annual procurement volume				
% of contracts actively managed	ALL participants	Less than \$50M	\$50M-\$250M	\$250M-\$500M	\$500M - \$1B	More than \$1BN
Not at all	13%	71%	0%	0%	14%	0%
Less than 10%	16%	0%	26%	14%	0%	20%
10% to 50%	33%	14%	32%	29%	57%	40%
50% to 90%	16%	0%	32%	14%	0%	0%
More than 90%	22%	14%	11%	43%	29%	40%

Table 1: Percentage of actively managed contracts by organisational size (annual procurement volume, N=45)

How participants achieve high performance: which interventions boost supplier performance most

We asked participants in this research how they would rate the average performance of their suppliers within a specific category. Not a lot of science was applied here – instead we asked for a general score between 0 (no performance) to 10 (high performance).



How organisations go about getting more performance from their suppliers

Our participants in general found that the more avenues to influence the performance of their service providers they use, the better the performance. Those participants who achieved good performance used on average eight interventions, those who received acceptable or underperformance used only five interventions.

We found that the following five interventions made the biggest difference on supplier performance:

- > We make efforts to understand the supplier’s business and aspirations
- > We have processes and systems in place that support our staff managing suppliers
- > We regularly educate our suppliers on the strategy of our business and share information on our pipeline of work coming up
- > We help suppliers develop their own business
- > We are specific about what good performance looks like and we assess and manage the performance of our suppliers.

Here is a complete list of interventions used by participants. The Performance Boost column indicates what additional performance clients receive who use this intervention versus those clients who do not use the intervention.

Intervention	How often participants use this intervention	Performance Boost if the intervention is used
We make efforts to understand the supplier's business and aspirations	Rarely	11%
We have processes and systems in place that support our staff managing suppliers	Commonly	9%
We regularly educate our suppliers on the strategy of our business and share information on our pipeline of work coming up	Rarely	9%
We help suppliers develop their own business	Sometimes	8%
We are specific about what good performance looks like and we assess and manage the performance of our suppliers	Rarely	7%
We respond to supplier questions as quickly as possible	Very commonly	6%
We see our relationship with the supplier as something that is more than just about the contract at hand	Commonly	6%
We make clear what suppliers can expect if they provide good performance	Sometimes	5%
We seek the supplier's input on how to best solve challenges we have	Commonly	5%
We have regular meetings with our suppliers	Very commonly	Minimal impact
We are on top of things and address underperformance before it becomes a larger issue	Sometimes	Minimal impact
We make clear what suppliers can expect in case of underperformance	Rarely	Minimal impact

Table 2: Interventions our participants found to boost supplier’s performance the most (N=93)

Here are some specific callouts our participants have made and what they have seen works best in their contracts:

- “Setting clear and realistic KPIs tied to numerical targets with detailed measures reported and monitored monthly.”
- “Issues addressed immediately and actions followed.”
- “Appreciation of efforts and good performance.”
- “Being responsive and supportive to build trust and minimise effort and red tape (thus costs) on both sides.”
- “Developing clear specifications.”
- “Making sure everyone understands what is required.”

Want to learn more about effective Contract Management? Join our seven part online training course.

Vendor Management lifts the relationship above the single contract

While Contract Management focuses on the delivery of a specific contract and the associated performance with that contract, Vendor Management is more holistic and operates at the business-to-business level of the relationship. It therefore operates across all contracts that supplier and client have.

Vendor Management includes activities that relate to relationship management, pipeline management and continuous improvement across the entire portfolio of contracts and services with a supplier. It further investigates and manages future opportunities and risks, rather than focussing only on current contracts.



More than eight in ten organisations have a vendor management program in place

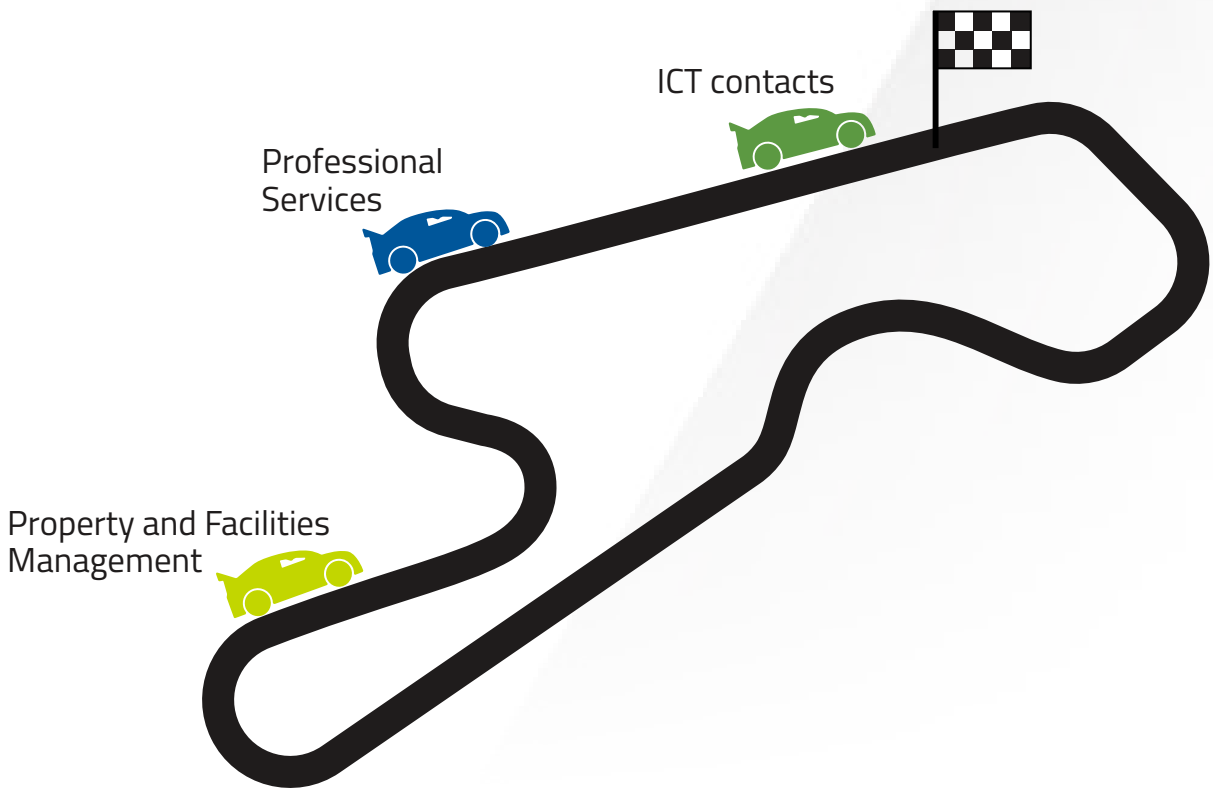
84% of organisations have a vendor management program for at least some of their suppliers

73% of organisations manage less than half of their suppliers actively

Smaller organisations, in contrast to contract management, quite regularly engage in vendor management activities

In comparison, 60% of the largest organisations (above \$500M), while more likely to have a vendor management program, they apply vendor management to less than 10% of their vendors

There is a further distinction by category: 95% of ICT contracts have a vendor management component, but only 55% of Property and Facilities Management contracts do. For professional services it is 81%



		By annual procurement volume				
% of vendors actively managed	ALL participants	Less than \$50M	\$50M-\$250M	\$250M-\$500M	\$500M - \$1B	More than \$1BN
Not at all	16%	29%	16%	14%	14%	0%
Less than 10%	29%	14%	26%	14%	57%	40%
10% to 50%	29%	29%	32%	29%	14%	40%
50% to 90%	18%	14%	26%	14%	0%	20%
More than 90%	9%	14%	0%	29%	14%	0%

Table 3: Percentage of contract managed through vendor management program, by organisational size (annual procurement volume, N=45)

Here are some specific callouts our participants have made and what they have seen works best in their contracts:

“Choosing a smaller supplier who is an expert in their particular field.”

“Transparency and information sharing with suppliers.”

“Understanding of the client’s business, including what is important to them (eg prompt payment, clarity of information, future work, etc).”

“Developing a clear strategy to manage the supplier relationship.”

What have you seen works best for contracts?



When client and supplier see each other as irreplaceable – where the magic happens

Every organisation has at least a hand full of Strategic Partners. These are key relationships the client has in order to deliver the very core of their business. Strategic Partner Management is all about friction-free sharing of information and includes the senior leadership of clients and suppliers to improve the ease of doing business, joint risk mitigation, joint cost reduction, mutually beneficial improvements and delivery of innovation.



We recommend clients use the Kraljic Matrix (refer Figure 3 right) to identify if a supplier relationship is suitable to Strategic Partner Management. The importance here is to consider the supplier's perspective. Only if they consider the client's business as Core to their own business will Strategic Partner Management be successful.

Organisations who have successfully implemented Strategic Partner Management have invested significantly into those suppliers that fall into the 'Strategic' quadrant and they themselves fall into the 'Core' quadrant for the supplier. They have implemented detailed and active management, with significant effort in developing and nurturing the relationship across both organisations. They focus on initiatives which result in win/win, innovation, and joint cost reduction.

Benefits organisations can achieve from Strategic Partner Management:

- > establishing sustainable, collaborative relationships with key suppliers, ensuring both parties improve their ability to plan, forecast and execute
- > increasing supplier-led innovation and focusing on continuous improvement and value, which reduces costs and creates sustained savings for both parties
- > reducing operational and supply risk exposure, which ultimately enables the client to obtain better operational and commercial outcomes.

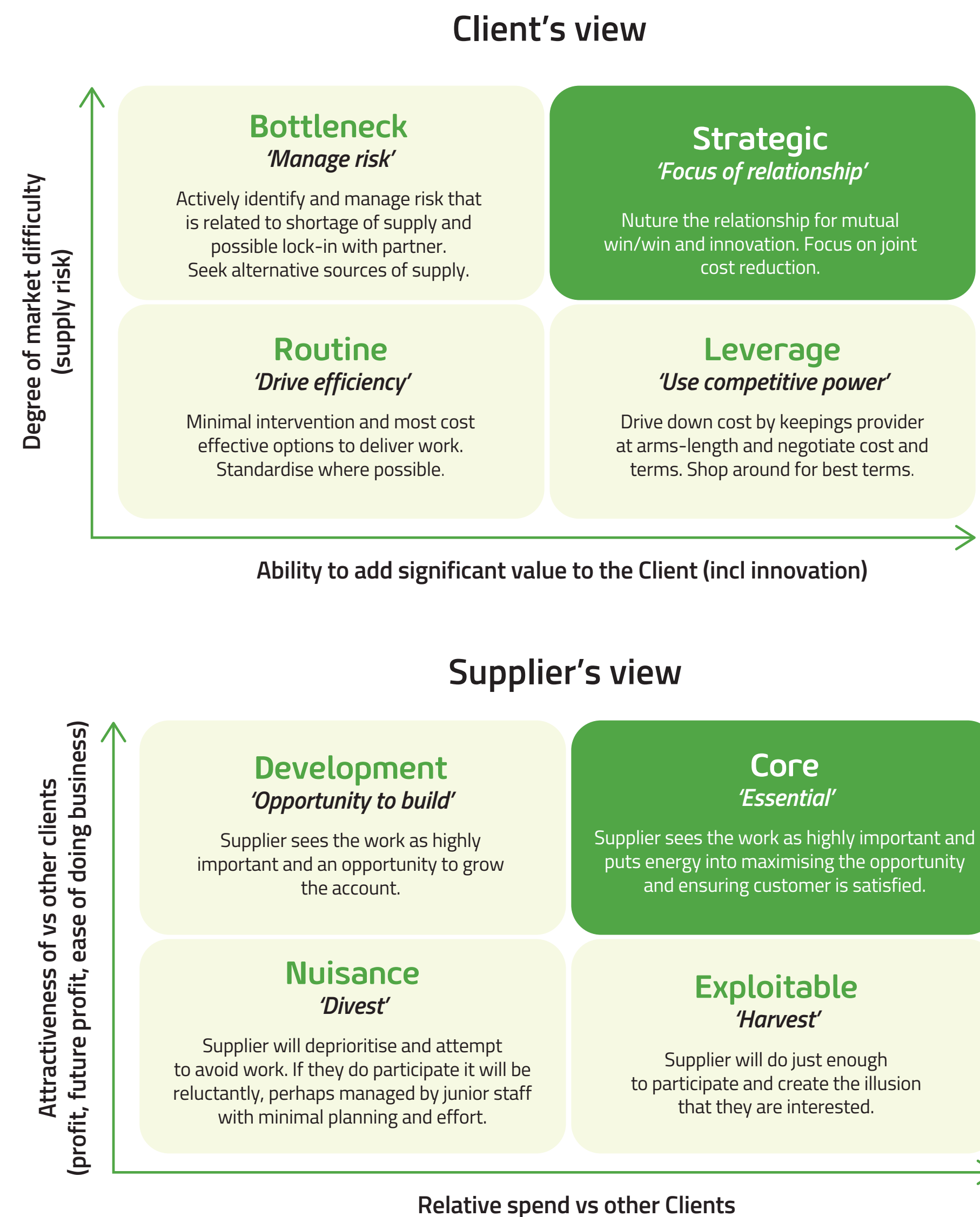


Figure 3: An adaptation of the Kraljic Matrix to identify which suppliers are the highest priority for strategic partner management

Private sector organisations are ahead in their efforts to manage the key relationships they have compared to government participants



69% of organisations have a strategic partner management program for at least some of their suppliers

82% of organisations manage less than 50% of their contracts through strategic partner management. This is probably based on the fact that, if done well, strategic partner management can only be applied to a handful of partners at the same time before diluting either the strategic importance of the relationship or the attention the client can give to establishing and maintaining the relationship

73% of private sector participants have a strategic partner management program, with that number dropping to 63% for government organisations

Larger organisations (those with more than \$500M procurement volume per annum) are more selective with their strategic partner management program. **86%** of those that sit in the \$500M to \$1BN bracket manage less than 50% of their contracts through strategic partner management while none of the very big organisations above \$1BN manage more than 10%

The smallest organisations are divided on strategic partner management: 43% do not have such a program and 28% have it in place for more than 50% of their contracts

There is also a difference by category. **70%** of ICT contracts are part of a strategic partner management program, whereas this is only the case of **55%** of Professional Services contracts. At almost nine out of ten, most property contracts fall under an strategic partner management program.

		By annual procurement volume				
% actively managed	ALL participants	Less than \$50M	\$50M-\$250M	\$250M-\$500M	\$500M - \$1B	More than \$1BN
Not at all	31%	43%	32%	29%	14%	40%
Less than 10%	29%	0%	37%	14%	29%	60%
10% to 50%	22%	29%	21%	14%	43%	0%
50% to 90%	9%	14%	11%	14%	0%	0%
More than 90%	9%	14%	0%	29%	14%	0%

Table 4: Percentage of contracts managed through strategic partner management program, by organisational size (annual procurement volume, N=45)

Conclusion

Organisations across the private and public sector in Australia are pulling all available levers to obtain the highest performance from their supply base. This includes more operational contract management, tactical vendor management and strategic partner management.

This is in stark contrast to those 30% of organisations who do not manage their contracts or do so for less than 10% of their contracts. We find that managing suppliers successfully is quite similar to the successful management of employees: the more (effort) you put in, the higher the return. Sitting tight and hoping for the best does not work.

This applies to organisations of all sizes and across all procurement categories. Of course, there are nuances of what works best depending on organisational size or category, which we have described in this report. Again, the analogy to managing staff works as well: in the end we are often buying professional services that are heavily dependent on the motivation of the supplier's staff working together with our staff as one team. No wonder that leadership techniques work best: those clients who inspire, motivate, challenge and develop their suppliers achieve best performance.

Our participants concluded that the following five interventions work best to lift supplier performance:

- > We make efforts to understand the supplier's business and aspirations
- > We have processes and systems in place that support our staff managing suppliers
- > We regularly educate our suppliers on the strategy of our business and share information on our pipeline of work coming up
- > We help suppliers develop their own business
- > We are specific about what good performance looks like and we assess and manage the performance of our suppliers

These interventions lift the average supplier performance between 7% and 11% compared to those organisations who don't use them. And the more the better: organisations who pull as many levers as possible get the best results.

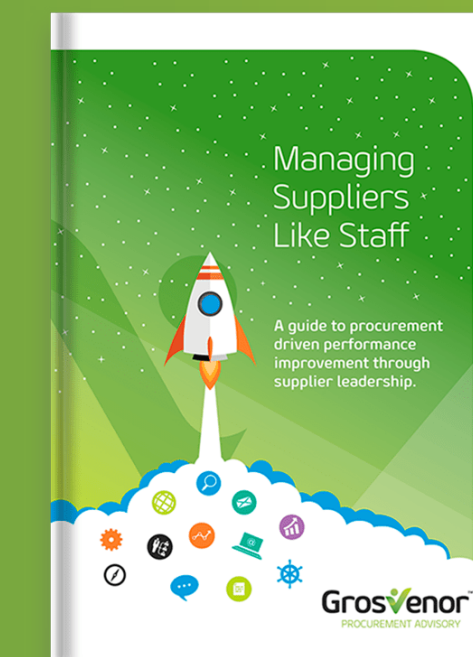
From this research, it is very clear that it takes active involvement, leadership and effort to get high performance from the supply base.

Further Reading

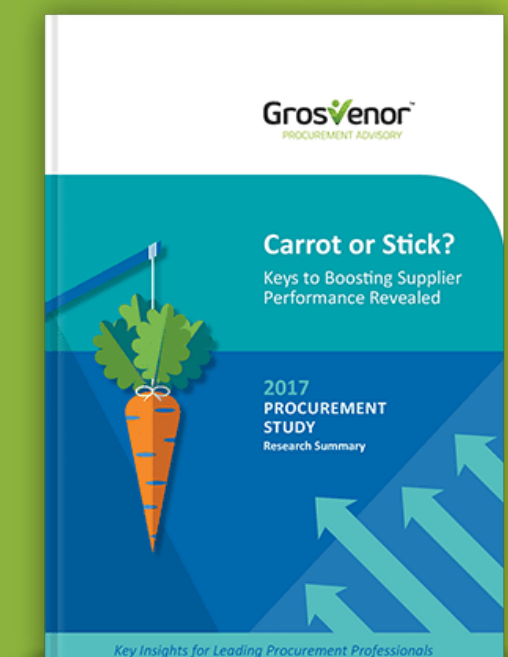
Grosvenor has published several resources to help organisations get started with better-practice contract management:



Supplier Performance Starter Kit



Managing Suppliers like Staff



2017 Procurement Study: Carrot or Stick

How we can help



Our clients describe us as Experts without Attitude. That is exactly what you can expect working with our procurement consultants. We have helped government and non-government clients for more than 25 years implementing better practice across their procurement and contract management functions.

This includes defining contract management frameworks, implementing a strategic partner function, getting to the root cause for why a contract is underperforming and the related capability uplift for staff, processes and systems.



Get in touch with us today to bounce ideas around or see how we can help you drive better performance through your supplier relationships.

Cost Control & Reduction

When it comes to cost control and reduction there is more than one way to skin the cat. Procurement teams have four levers at their disposal – Pay Less, Buy Cheaper, Buy Less, Buy Smarter.

Our team will:

- > Help you identify and apply a four levers strategy to your procurement function and buying process.
- > Provide you with deep category insight that quickly identifies cost saving opportunities.
- > Give you on demand access to our resources to supplement your own team.

Process Improvement

Transforming the way procurement is done often meets internal resistance particularly if to date it has been ineffectual or an impediment to getting things done.

Our team will:

- > Assess the procurement capabilities of people, systems and processes.
- > Diagnose exactly where the pain is, what is causing it and then implement the changes with you.
- > Give you the time to focus on the important, not only the urgent, through improved planning and better category management.
- > Streamline procurement policies, processes, guidelines and templates.
- > Coach and tailor training across the whole contract lifecycle.

Supplier Leadership

More often than not service providers disappoint. Managers end up spending most of their time putting out fires and dealing with poor performance rather than making strategic decisions.

Our team will:

- > Introduce a contract and supplier relationship management framework to drive the required outcomes from your suppliers.
- > Determine if your contracts are effective and where they are underperforming and get them up to scratch through our contract health checks.
- > Fix a dysfunctional contract or relationship.

Procurement Systems

Chances are your processes and outcomes can be significantly improved through better procurement systems. We offer truly independent and system-agnostic advice on optimising existing systems and how to drive customer adoption of new technology.

Our team will help you:

- > Clearly identify why your existing systems do not deliver the expected benefits and efficiencies. Then we help you implement the fixes.
- > Use artificial intelligence to rapidly understand your spend, even if the underlying data is poor.
- > Assess your readiness to implementation of a new procurement system and develop the business case.
- > Map and support the change management required for any successful new eProcurement system.

Sustainability

Organisations often have difficulties embedding sustainable procurement into an organisation supply chain, due to a lack of tools, skills & data.

Our team will help you:

- > Set clear sustainability ambitions and outcomes that match the business context, strategy and goals.
- > Embed sustainable procurement into category management, supplier management and sourcing activity.
- > Prioritise initiatives that enable
 - Zero-carbon supply base
 - Circularity & waste reduction in supply chain
 - Track sustainability performance and communicate impact with stakeholders.

Professionalised contract and partner management

The Situation

Ausgrid has a large decentralised contract management function with more than 150 staff responsible for getting best performance from thousands of suppliers.

To align this function with the overall business objectives of achieving sustainable, reliable and affordable outcomes for its electricity customers it was necessary to introduce a consistent approach to contract management.

Ausgrid desired a more strategic approach to managing its most important suppliers – with the aim of driving innovation.

Based on our past experience we knew that the key challenge for this project was the change management required to alter staff behaviour and drive adoption rates of the new way of doing things.

How We Helped

Grosvenor approached the project in a collaborative manner by asking three questions: 'Is it possible?', 'Where should we focus?' and 'How do we make it happen'?

A series of workshops and stakeholder consultations gave us the answer to 'Is it possible?'. We made sure to understand what each stakeholder expected from a successful approach to contract management.

We then conducted seven in-depth contract health checks, using our proprietary contract health check tool, to understand where gaps to better practice existed. These also serve as a baseline to measure future improvements.

Finally, we developed the frameworks based on the understanding gained and described how they should be implemented. We provided 32 tools and templates and an in-depth change management plan.

Results

The project resulted in practical tools and guidance on how to drive supplier performance. From our research we know that the impact on performance can be up to 29% improvement when the supplier relationship is well managed.

The new tools and the people capability uplift led to a common language and a more consistent way of managing contracts.

Ausgrid CPO: "We trained over 150 people in the new Contract Management Framework and received great feedback. Collectively we are working more collaboratively with our external partners, lifting the brand of Ausgrid and the profile of Procurement. The team at Grosvenor facilitated and engaged all procurement and business stakeholders throughout the project – the entire experience from initial engagement to handover has been pragmatic and professional."

Why Grosvenor?

Grosvenor Procurement Advisory brings together expertise, experience, and ethics to collaboratively craft solutions that solve your biggest challenges and provide you with exceptional outcomes. We not only do great work, but we're great to work with. You need the right experts to help shape your long-term success. And we are committed to always doing the right thing along the way – without attitude.

25+

Over 25 years' experience consulting to major public and private sector organisations.

60%

of our clients are repeat clients.

57+

Our Net Promoter Score is unsurpassed in our industry.

100%

Every client gets our MD's mobile number.



Dr. Stefan Gassner
Managing Director

Meet our Procurement Team



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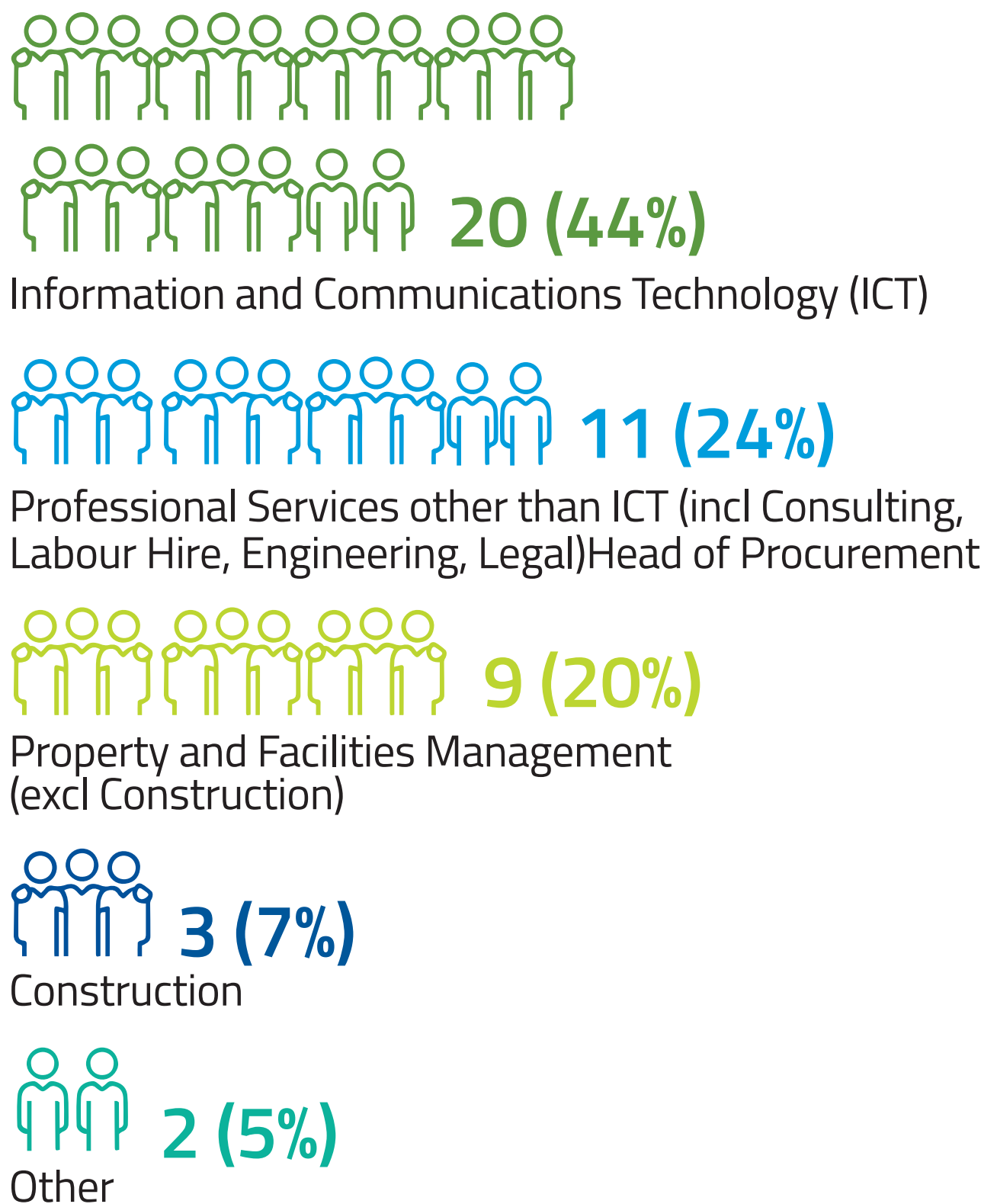
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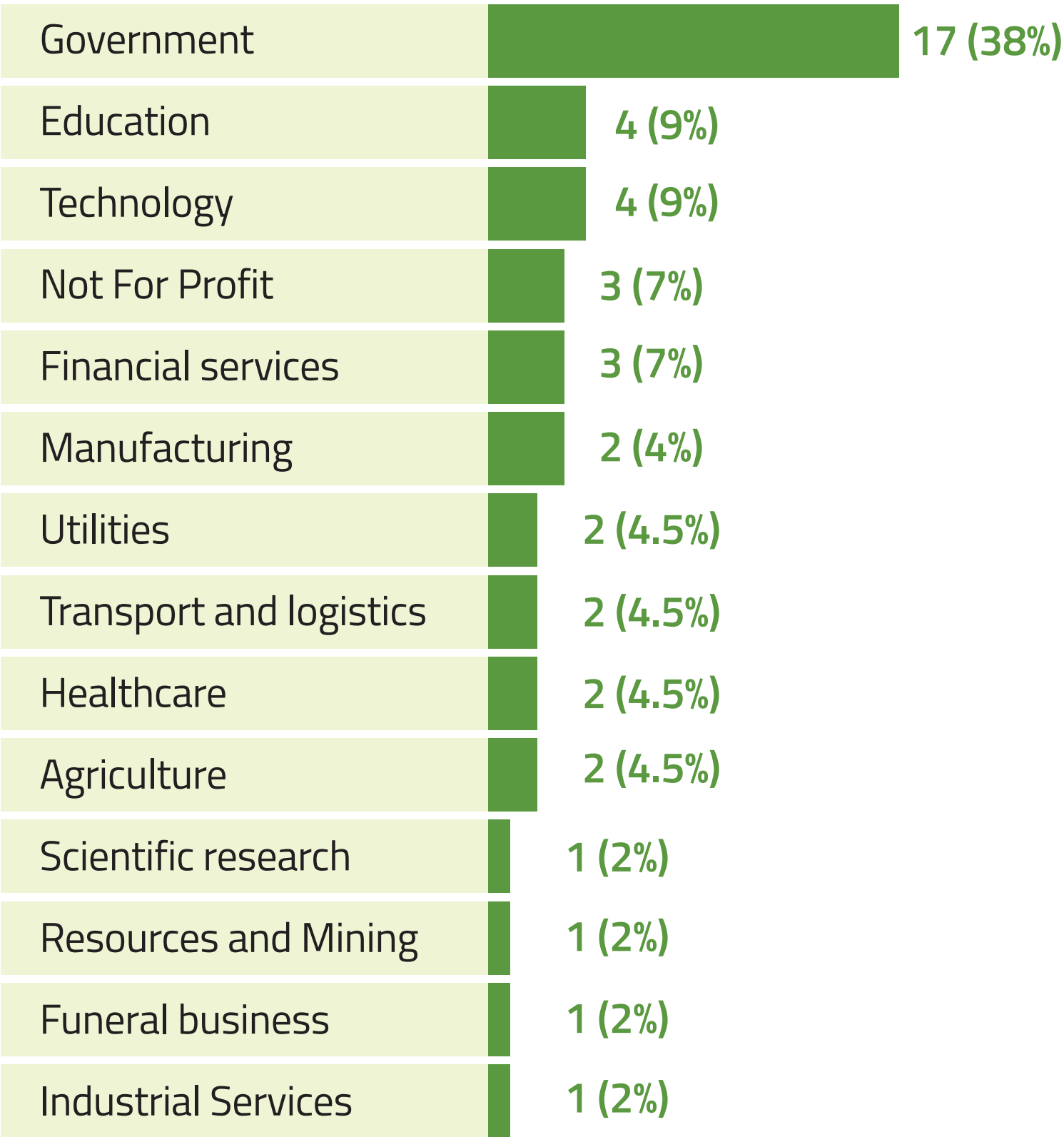
Experts
Without Attitude

Demographics

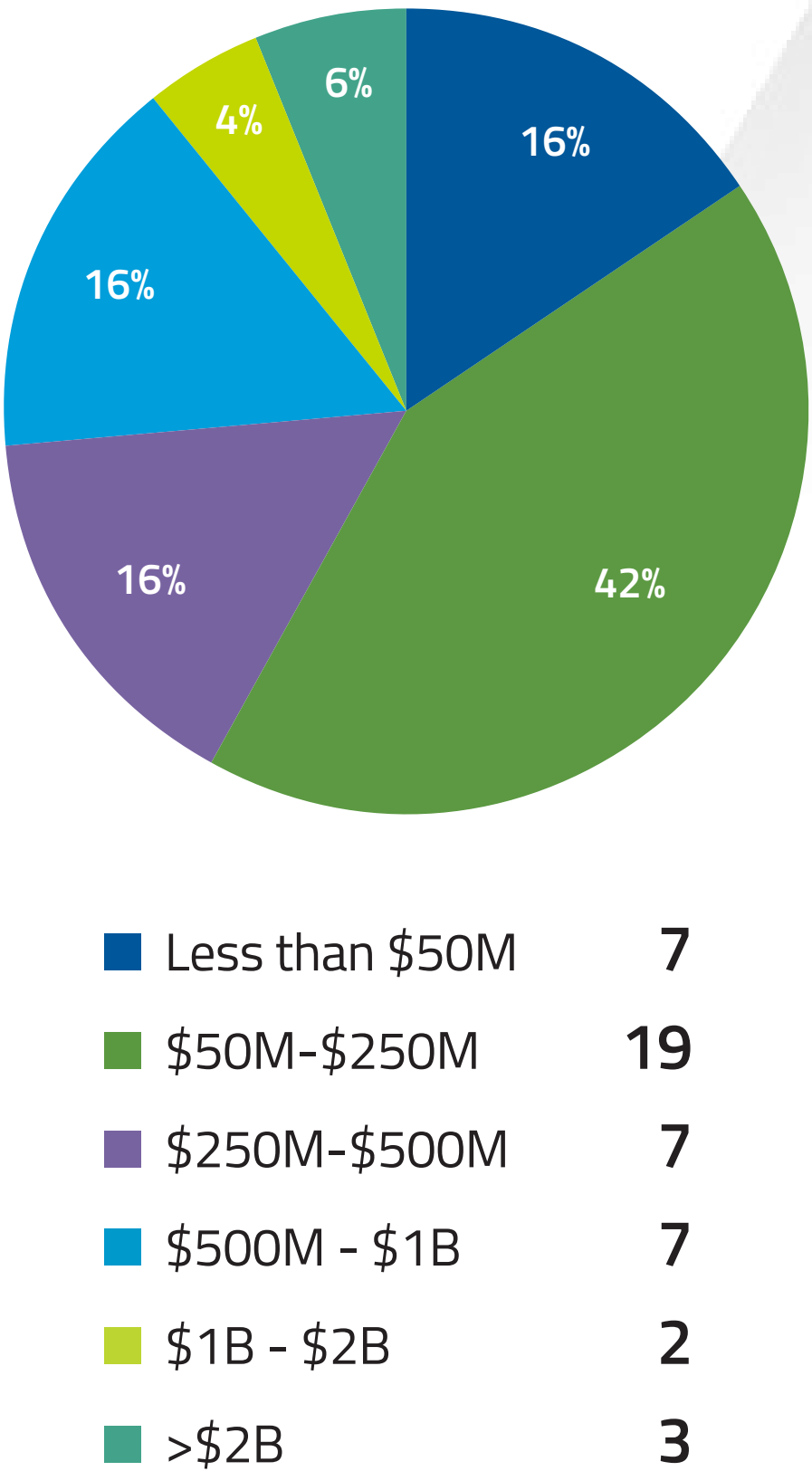
Number of responses received, by category of contract



Number of responses received, by industry of respondent organisation



Number of responses received, by annual procurement spend





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Experts
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