

Managing supplier services through governance



An ad-hoc approach to handling outsourced services can lead to significant project delivery issues, value leakage and exposure to new areas of risk. Here are the key ways to be on the front foot.

Outsourcing of services gained traction in the late 80s to early 90s, with a common aim to deliver non-core functions at a better cost. While this still plays a part, outsourcing has evolved significantly and is now just as focused on providing additional capabilities to the organisation and a better customer experience as it is on cost reduction.

The way contracts are designed has also changed. Large scale service requirements across IT or business process were traditionally contracted to one provider. Now organisations, from government departments to corporate businesses, are likely to engage specialist suppliers for each service pillar they require. This could include on-shore and off-shore suppliers of all sizes, across many industries.

This multi-supplier approach often leads to management complexity, and therefore requires strategy and planning to successfully deliver. It is essential to set in place the right combination of experience and skills for governing relationships, and to ensure tactics for correcting value leakage and managing risk.

A set of issues that are often prevalent in organisations struggling with supplier governance are centered on the confusion around the role and scope of the contract and commercial management functions. In many instances where structure is not in place it results in a small group of individuals holding the purse strings to a large amount of spend. Without adequate levels of process rigor and control these individuals can then expose the organisation to new levels of risk and unmonitored procurement.

Managing multiple suppliers

The establishment of multiple outsource supplier environments operating under new product, service and commercial models has significantly increased complexity. There is no longer one single party that is accountable - rather in many instances there is a rich tapestry of different suppliers engaging across the organisation.

Suppliers now have direct relationships with the different business units and are no longer kept at arm's length. Many suppliers are now fully integrated into the business and are a vital part of its success.

With this new elevated position, the performance of the outsource supplier has become more visible and open to wider scrutiny. Through their direct interaction with the business, suppliers have also been able to establish new procurement channels. This is not necessarily a bad thing in today's fast-paced world, but is an area that needs to be actively managed.

This also brings to the forefront the need to review the supplier governance function holistically and assess if it needs to be centralised or de-centralised. The model selected will have a profound effect on how suppliers are engaged and processes that need to be embedded within the business, both operationally and strategically.

Why is supplier governance management essential?

It is widely accepted that the key pillars to supplier governance are: Contract Management, Performance Management, Financial Management, Relationship Management and Risk Management.

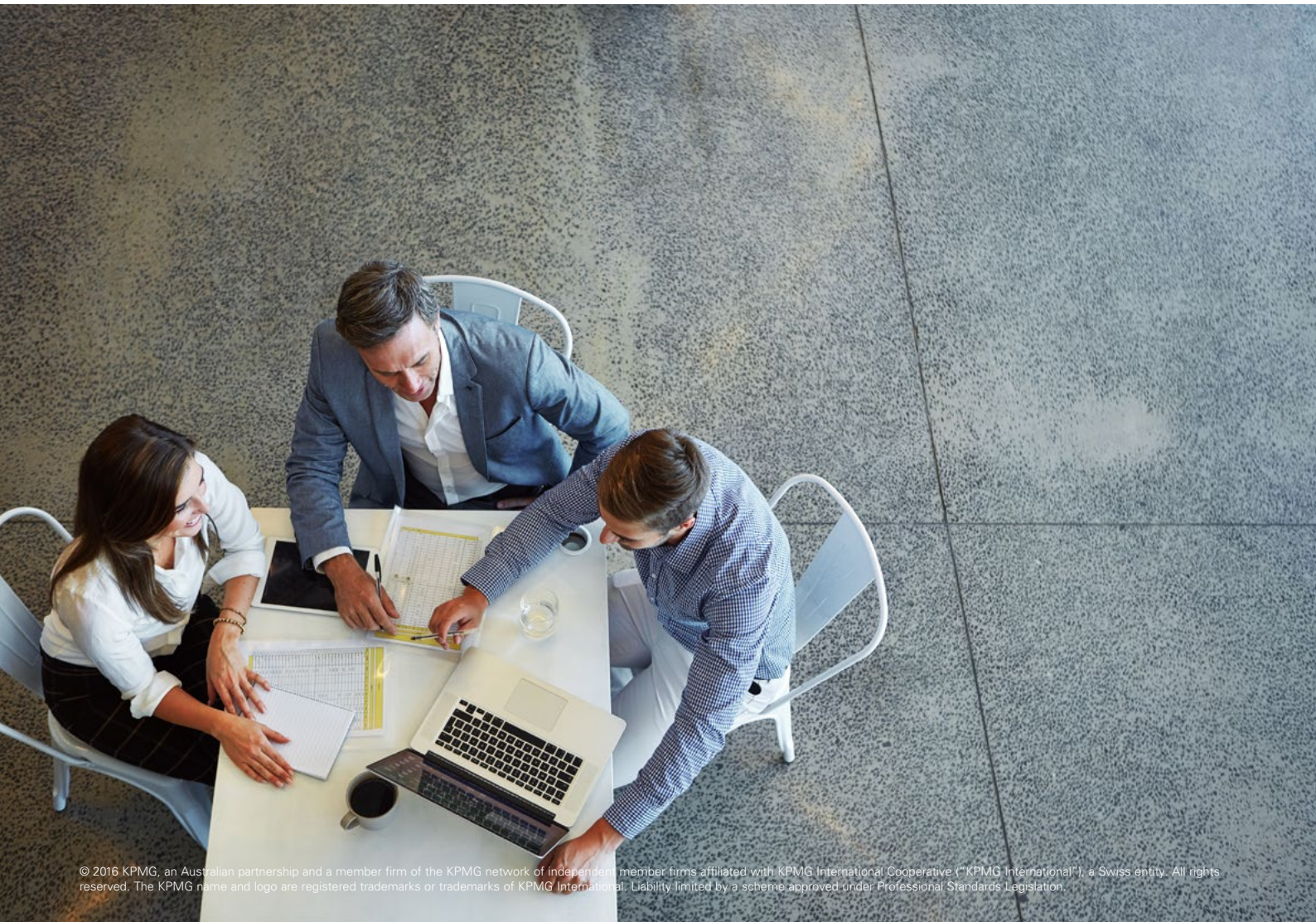
Without the effective management of these key pillars, organisations can find that the services delivered by their suppliers fail to meet their expectations and the targeted business outcomes. The challenge organisations have is managing these areas efficiently. How many supplier management teams do you know that spend most of their time in spread sheets "checking on" suppliers? Experience tells us that this often accounts for up to 80 percent of their time. Moving out of this low-value activity is essential to moving to leveraging outsourced arrangements to meet strategic business objectives.

Value Leakage

'Value leakage' is also a significant problem, ranging from inaccurate invoices, through to issues arising from lack of consumption management and unnecessary change orders. These leakages can result in up to 40 percent of the value promised to be delivered by the contract being lost. Some leakage can be plugged through more spreadsheet data crunching, but the cost/benefit equation normally fails to balance in the right direction.

Another issue resulting from poor governance is when the original contract is not kept up to date and aligned to the current requirements of the organisation. This is often an outcome of the contract being filed away and no longer being treated as a live document. Obligations contained within the contract need to be visible, with assigned owners and actively managed. This includes both the obligations of the supplier and the client organisation – it's a two-way street.

Finally, lack of governance can expose both organisations to potentially significant areas of risk. This can range from shadow procurement activity right through to extreme examples such as bribery, illegal fees and probity breaches. Increased governance protects all parties.



Five steps to good supplier governance

Improving supplier governance management can be achieved with strategy surrounding skills alignment, leveraging the right technology, rigorous processes, restricting value leakage and embedding risk mitigation into all procurement activities. Here are more details:

1 Ownership and Responsibilities

The first step is to define which parts of the business own the supplier management function, what they are responsible for and how the performance of this group will be measured. It is also important this function resides high enough up the food chain to influence the strategy. Once in place the organisation should have a clear view on how well the supplier management function is performing, at all times.

2 Skills alignment

The next step is to align the skills and capacity of the supplier management function within an organisation with the complexity and scale of the contracts in place. It may be necessary to continually reassess this function as requirements of the contract evolve. Ideally, the governance function should equate to approximately 5 percent of the annual outsource contract value.

3 Leverage technology

Part of any organisational design in today's climate needs to assess technology and how it can be leveraged to automate low-level administration tasks, in this instance freeing up people to focus on strategic supplier management. This means time taken up by tasks such as spreadsheets, checking invoices and supplier performance can be minimised, allowing team members to focus on the more strategic, creative or relational aspects of supplier management.

4 Stem value leakage

It is important to have mechanisms to identify and stem value leakage. This will involve creating processes and practices across all aspects of supplier management. The key to success in this area is ongoing management that focuses on value realisation.

5 Embed risk management

Risks need to be identified, categorised and where possible mitigated across the entire supplier lifecycle. This includes ensuring services are procured through a structured set of processes and protocols, ongoing supplier risk assessment and clear lines of responsibility of the different areas of risk exposure.

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