

White Paper

# Contract Award Procures a Promise; Supplier Performance Reviews Help Deliver the Promise

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Executive summary

## Why customer-supplier relationships go wrong after contract award, and what progressive organisations are doing to address the issue.

It is often suggested that the exciting phase of procurement projects is the bid evaluation, culminating with the award of contract. The evaluation is typically characterised as a short frenetic period of high activity, in a process very close to the money.

Relevant experts are brought in to assess bids, carefully probing them for weaknesses, inconsistencies and non-compliance. The evaluation team's goal is to award a contract to the supplier who demonstrates that they have the best understanding of the risks that would impact the delivery of the project.

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## AWARD – the end of the beginning

Project managers are kept awake at night worrying that the right decision is going to be made, and worry they should; most strategic procurements commit significant spend over many years. At some point in time, the contract is awarded and the evaluation team go back to their day jobs. An output of a robust evaluation process will be a full audit of the team members' assessments, their scores, and the rationales that led to the award decision.

The question should now be: will the same level of scrutiny and probity be applied in the delivery phase? In essence, all that has been procured to this point is an expectation and the promise to deliver the required capability, not the capability itself.

Surely then, the delivery phase does merit robust and continuous scrutiny to ensure that the customer is going to get what they are paying for.

**“At contract award, the customer’s expectation is set.”**

Surprisingly, the attitude to performance review during the delivery phase is often that “the supplier owns the risk now, so they should monitor the delivery” or “the supplier’s bid response satisfied us sufficiently that we don’t feel we need to micro-manage the delivery”. In one sense, this sentiment is correct. Contracts should not be awarded unless the customer is satisfied that the risks and their impact are understood with mitigation plans in place.

Further, a contract will almost certainly contain key performance indicators (KPIs) that the supplier must meet in order to receive milestone payments and so on. In general, KPIs measure technical aspects of the physical delivery: for example, in a construction project, the measure of the supplier’s ability to resolve build defects; or, in a software development, the need to deliver screen refresh rates of under a second. KPIs are numeric in nature, easy to measure, and straightforward to interpret.

**“The supplier’s hitting all their KPIs but we’re not happy.”**

But do KPIs represent the delivery in its totality? Put another way, if the supplier achieved all the KPIs, is it still possible that the customer might not be satisfied and the project be at risk?

## Measure customer satisfaction

Partnership contracts are awarded on the premise that both parties want to enter into a commercial relationship, fostering open and honest dialogue, delivering increased value. Both parties enjoy the wins and are prepared to share the losses. For the partnership to work, it is vital that the delivery is assessed holistically. Although KPIs are important, measuring the 'soft issues' completes the picture of customer satisfaction.

## Customer satisfaction

Examples of soft issues include the degree to which the supplier integrates with the customer's organisation, the speed with which the supplier takes management action when needed, and the supplier's active participation in gainshare. Soft issues are not typically measured numerically; they are expressed as the degree to which they are being met. Unfortunately, this introduces subjectivity.

Stakeholders may have differing opinions of the supplier's performance on soft issues. Nevertheless, although it is difficult to measure soft issues, you cannot have the full picture of overall customer satisfaction without doing so.

When the delivery phase is on track, customer satisfaction is where it should be – high. Performance measurement is not needed; you know when all aspects of the delivery are going well. However, complex projects are rarely in this position, as the team is continually reacting to change.

In reality, a robust performance measurement system should be seen as a management tool of choice, identifying those aspects of the supplier's performance that might have a material impact on the deliverable.

**"You can only change what you measure."**

Without holistic performance measurement, issues may be allowed to continue, exacerbated perhaps by information lag. As a result, the partnership will suffer and, in extreme cases, will cause the project to implode due to finger pointing and a 'them and us' mentality.

Ideally the customer would approach the supplier in the spirit of honest and open dialogue, taking joint responsibility to 'nip problems in the bud'. A robust measurement system will ensure that the partnership is constantly aware of the material issues, and not relying on anecdotal evidence.

To summarise, delivery teams should implement a performance measurement mechanism that probes achievement of contract KPIs and reviews the soft issues. This will gauge overall customer satisfaction and ensure that risk to the end deliverable is understood and managed through the delivery phase. Evaluation is exciting, but delivery is the necessary path to the ultimate goal.

**The second half of this paper will outline practical steps that organisations are taking to measure customer satisfaction.**

## Institute regular customer-supplier performance reviews

The first step is to recognise that face-to-face customer-supplier performance reviews need to be routine, with agendas driven by relevant performance assessments.

This is hardly revolutionary, as review meetings are commonplace in major projects. What is perhaps novel is the availability of solid, defensible expressions of customer satisfaction, backed up with evidence: fact not feeling.

### The Supplier Performance Review Process



## What to measure?

The customer's first thought might be to measure every single aspect of the supplier's delivery. This could run to thousands of review points and will need huge resources.

Instead, take an economical approach that measures only those items that could have a material impact on an intermediate deliverable or the end capability.

Take a leaf from best practice evaluation processes: a robust evaluation will have a defined set of criteria that probes bids to determine whether potential suppliers understand the risks, and can demonstrate that they are well placed to deal with them. The same principle should be applied post-award for the delivery phase.

**“Be selective about what to measure; don't measure for measurement sake.”**

The delivery team should ask itself about the significant risks to the project that would impact the deliverable. Brainstorm the potential causes of each risk, which could include failure to deliver against defined KPIs and also soft issues. Finally, define the criteria or questions that reviewers should use to probe the supplier's performance in those risk areas.

The result is a set of questions that should be assessed periodically to determine whether the risk to individual delivery elements and of the end deliverable is changing over time.

Following this process will ensure that the customer is reviewing what matters, without using resources unduly. In theory, evaluation criteria may be reused for supplier review purposes. However, post-award, risks come and go and their probabilities and impact will change. Appropriate review criteria should therefore be reviewed periodically.

## Who should measure?

Many contracts require the supplier to provide the customer with regular performance assessments. This can take many forms, but is often presented as a spreadsheet tabling columns of data that can be summarised to determine achievement of KPIs. The degree of scrutiny with which the customer validates the supplier's self-assessment varies in practice from a rubber-stamping exercise through to rigorous cross-checks performed by the customer. Such exercises rarely include soft issues measurement as their primary function is a commercial one, paying the supplier against a set of achievement milestones.

It is recommended that both parties undertake performance review activity in equal measure. From the customer side, representatives should be chosen who are familiar with the delivery elements.

The review may therefore be split up among a qualified group whose consolidated view represents customer satisfaction. As with bid evaluation, assigning more than one reviewer to a set of performance criteria is a good idea; individuals' own experiences and observations are likely to uncover differences of opinion. For example, reviewer 1 might score the supplier poor on a specific delivery element, reviewer 2 might score them as satisfactory. It is unlikely that the supplier is somewhere between the two; it is more likely that reviewer 1 discovered some evidence that led to a poor rating, which the other reviewer missed.

Differences of opinion need discussion and moderation in order to arrive at the consensus view that is taken forward to customer-supplier review meetings. The supplier's self-assessment should also be available in order to draw on any comparisons that may highlight differences in opinion or expectation.

## Measurement strategies

There are many performance scoring techniques available including numeric (0 to 4) and text lists (Excellent, Satisfactory, Poor). One common approach is the 'traffic light system', which allows the reviewer to score performance elements with a red, amber or green, where green represents meeting expectation and therefore customer satisfaction, and red represents significant underachievement.

It is recommended that an additional blue state be used that recognises over achievement against expectations, which would represent high customer satisfaction. Surprisingly, many organisations do not officially recognise over achievement, preferring to rate suppliers' performance with degrees of 'meeting expectation'. Customers have commented that blues are fine as long as there are no added cost implications. Indeed, too many blues should raise alarm bells; outperforming delivery elements may be taking resource from other elements that might therefore put the project at risk.

Having established a suitable scoring mechanism, it is important to provide guidance to the review team so that they are scoring consistently. Each possible score should be defined – for example, by the performance evidence that justifies the score. This will improve the quality of the review process and ensure that, where reviewers score delivery elements differently, they are due to differences of opinion rather than an inconsistent application of the scoring scheme.

Providing a score alone is of limited value in a customer-supplier review meeting. The score will carry far more weight if supported by evidence. It is therefore recommended that reviewers have available the evidence that justifies their scores. Evidence can take the form of reports from operational performance management systems, spreadsheets and paper returns.

## Review periodically

Performing a one-off review has merit, but the real value is derived from performing reviews periodically so that the effect of corrective action can be better understood. The review frequency should be in line with the customer-supplier performance review meetings. There is little value in measuring performance more frequently than on a monthly basis on any complex procurement.

## Review results

An output of a review is to be able to aggregate the moderated opinions across all measurement points to arrive at an overall customer satisfaction score. The customer may have agreed a threshold score with the supplier.

Drilling down into the next level of detail may reveal that, although performance overall is meeting expectations, specific areas are over- or underachieving. This should solicit discussion. At the lowest level in the structure, the performance of each delivery element should be available, which should be used to drive the agenda for customer-supplier review meetings.

**“Share performance results with the supplier. Transparency fuels good partnership, where successes are shared and failures jointly owned.”**

Top of the agenda should be the exceptional red and blue items. With respect to overachievement blue items, the questions should be: is this a one-off or can this overachievement be repeated within the delivery element concerned and within other delivery elements? Is there a gainshare to be recognised? With respect to the red items that represent significant underachievement and high risk: is it a one-off? Will it self-correct or is management intervention needed? What are the lessons to be learnt?

Amber items define the AOB agenda items, representing those delivery items where expectation is not being met but is putting the project at risk rather than having an impact on it.

A simple management review of overall customer satisfaction is merely to count the items of each colour. This will provide a high level dashboard

of the general performance of the supplier. This can be taken further by weighting the delivery elements in order of importance or risk. Remember that the measurement points have been chosen because they represent the significant risk areas, but some may be associated with higher risk and/or probability than others.

Aggregating weighted scores will provide an overall score that recognises this better.

## Conclusion

Continuous supplier performance review is as important as the pre-award activity. In both phases the procured deliverable and the risks of not getting there have to be central to stake-holders' thinking all the way through.

Risks have to be continually assessed and suppliers' performance in those risk areas reviewed. Including the supplier as an integral part of the performance review process will enhance the relationship and solicit a more open partnership for success.

## About Andy White

In consultation with government departments and the private sector, Peter Murrison has developed a pragmatic approach to Supplier Performance Monitoring and Supplier Relationship Management, resulting in rapid and widespread adoption of these processes by many leading public and private sector organisations. The so-called REVIEW propositions have extended QinetiQ Commerce Decisions' delivered value beyond that of Evaluation for which they are highly regarded.

Before joining QinetiQ Commerce Decisions, Peter worked for Artemis International, a world leader in Project and Portfolio Management software and services. He held a number of senior positions during his 18-year tenure including national sales, business consultancy and product management. He was ultimately responsible for the delivery of Artemis' flagship product, generating annual revenues in excess of £25 million.

## About Commerce Decisions

Commerce Decisions has been supporting strategic, high-risk procurements globally since 2001, and is at the forefront of best practice procurement. With a unique focus on complex evaluation, we have unrivalled experience in supplier evaluation and are a trusted provider of procurement services to the public and private sectors.

We deliver a robust and defensible procurement process to our clients, proven time and time again across many sectors including construction, transport, education, health, defence and facilities management procurements – to date, we have supported over 13,000 strategic projects, collectively worth over \$400 billion. This enviable experience and in-depth knowledge has enabled us to develop proven methodologies, supporting clients to deliver the best possible outcome on strategic and complex procurement projects.

Headquartered in Oxfordshire, UK, and with offices in Canberra, Australia, and Ottawa, Canada, Commerce Decisions provides software and services to support the procurement and post contract review processes for both buyers and suppliers. For buyers we improve the efficiency and effectiveness of the evaluation process to make the best buying decision based on all the relevant criteria, underpinned by our AWARD® software. For bidders we improve the quality and timeliness of proposals to best meet the needs of the potential buyer and thereby give them the best chance of securing the contract, underpinned by our ADVANCE™ software.

## About QinetiQ

QinetiQ is a leading international provider of technology-based services and solutions to the defence, security and related markets. We develop and deliver services and solutions for government organisations, predominantly in the UK and US, including defence departments, intelligence services and security agencies.

In addition, we provide technology insertion and consultancy services to commercial and industrial customers around the world.

