



**Government  
of South Australia**

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State Procurement  
Board

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# ***Procurement Better Practice Handbook***

## **Processes and Systems**

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## Table of Contents

<b>1. BACKGROUND</b> .....	<b>3</b>
<b>2. INTRODUCTION</b> .....	<b>4</b>
<b>3. PRINCIPLE 4.1</b> .....	<b>4</b>
<b>4. PRINCIPLE 4.2</b> .....	<b>7</b>
<b>5. PRINCIPLE 4.3</b> .....	<b>10</b>
<b>6. PRINCIPLE 4.4</b> .....	<b>12</b>
<b>7. PRINCIPLE 4.5</b> .....	<b>14</b>
<b>8. PRINCIPLE 4.6</b> .....	<b>15</b>
<b>9. PRINCIPLE 4.7</b> .....	<b>17</b>
<b>10. PRINCIPLE 4.8</b> .....	<b>19</b>
<b>ATTACHMENT - GLOSSARY OF TERMS</b> .....	<b>22</b>

## 1. Background

The accreditation framework for public authorities with a procurement authority of \$1.1 million or greater, as issued by the State Procurement Board, is based on five high level performance categories against which a public authority's procurement capacity and capability is assessed. These categories are:

1. Leadership and Strategy
2. Organisation and People
3. Governance and Performance Management
4. Processes and Systems
5. Relationships – Internal and External

For each of these categories, procurement principles have been defined which describe high performing procurement operations.

*The Better Practice Handbook is provided as an example of what better practice is. It provides information to public authorities as to what is better practice at each level of procurement authority. It is not meant to be definitive and it is acknowledged that public authorities may meet the principles via other strategies.*

This Better Practice Guide has been developed for the category *Processes and Systems* to highlight better practices.

This category *Processes and Systems* includes the following principles:

1. There are efficient and robust systems and processes to support procurement activity including purchasing, sourcing and contract management.
2. There are rigorous quality processes for developing and managing category/commodity/project strategies for significant procurement spend within the public authority.
3. Quality outcomes of environmental sustainability are sought within the procurement framework.
4. Procurement structures and people are integrated into the overall procurement and financial management processes to ensure end-to-end process effectiveness and oversight.
5. Post sourcing reviews take place for significant procurements to identify lessons to be learned from the procurement process.
6. Post contract reviews take place to identify lessons to be learned from the contract and to determine whether planned benefits and value for money were achieved.
7. Adequate and timely research is undertaken to ensure required goods and services are appropriately specified.
8. The supply positioning tool or a similar matrix based approach is utilised to segment the supply market and to develop appropriate procurement strategies.

This category is about having appropriate processes and systems in place to ensure that procurement activities are efficient and effective and that an appropriate internal control environment is maintained.

## 2. Introduction

Public sector procurement needs to achieve complex outputs on behalf of government, whilst also ensuring that the procurement processes that underpin the delivery of outputs are transparent, and do not expose the government to reputational risk. Procurement processes cannot be 'bolted on' to an organisation; processes need to be 'hard wired' into 'business as usual' so that day-to-day activities support good procurement practice.

As an example, if the processing of low(er) value purchase orders is managed poorly, scarce resources will be focused on transactional procurement, rather than acquisitions with more complexity. This will result in inefficient processes and resource utilisation. It follows that appropriate procurement processes and systems need to be in place to ensure that procurement activities are efficient and effective, and also maintain an appropriate controls environment.

Good practice involves developing systems that are appropriate for the public authority's spend portfolio. For example, a small public authority with few major acquisitions might address low value low risk acquisitions through setting up local panel arrangements, or using purchase cards to reduce clerical routines for acquisitions below \$5,000. A public authority with a multi-million dollar portfolio of major contracts to manage might develop a contract management system to assist with standardising contract management and reporting.

Each principle will now be discussed to highlight better practice.

## 3. Principle 4.1

Principle 4.1 states:

There are efficient and robust systems and processes to support procurement activity including purchasing, sourcing and contract management.

This principle requires public authorities to ensure that:

- effective processes and systems appropriate to the size of the organisation and the scale and extent of their current and anticipated procurement activities are utilised;
- processes should be standardised as far as possible and integrated into an end-to-end process; processes may vary for different types of procurement but the required procurement policies and standards should be integrated into business processes and systems to ensure compliance and consistency of application;
- an appropriate balance between efficiency, effectiveness and internal control in processes and systems is demonstrated;

- an appropriate use of technology in its procurement processes is demonstrated; this should include illustrating how integration is achieved between the operational systems and financial systems;
- financial systems should support provision of appropriate management information to the procurement function; and
- there are defined processes for measuring and reporting on procurement and contract management performance with the objective of improving this performance year on year.

Types of outputs that relate to this principle include:

- information on purchasing, sourcing and contract management systems utilised by the public authority;
- procurement process documentation; and
- procurement process documentation/models/flow charts.

#### Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have processes in place to ensure that:

- lower value transactions are managed appropriately, with clerical intervention minimised;
- invoices are approved appropriately and efficiently;
- contracts are managed systematically and consistently, with staff employing common templates, such as agendas and KPI reports; and
- an officer collates aggregate activity levels (such as the number of orders, the number of invoices or the number of contracts under management) and reports on them periodically to the APU (or an equivalent body).

All public authorities will:

- deploy standardised templates and tools for routine procurement tasks such as bid evaluation, KPI review, contract reports etc; and
- initiate local procurement arrangements such as panel arrangements or period agreements that allow officers to buy against existing agreements without the need for competitive processes;

In addition, there may be a focus on improving efficiency, such as:

- benchmarking the total cost of raising a purchase order and paying the resultant invoice against suitable comparators;
- reducing the total number of invoices;
- using reports from contracted suppliers such as stationery, contingent labour or travel services to identify patterns of lower value transactions that might be consolidated; and
- periodic reviews of processes, resourcing and activity levels by the APU (or an equivalent body) for purchase orders below \$5,000 in value, to ensure that the most appropriate balance is struck between efficiency and economy.

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### Better practice for a medium sized Public Authority [\$4.4m] or greater

In addition, public authorities with procurement authority levels of \$4.4m or greater will:

- be able to identify, through the use of tools such as spend analysis or opportunity analysis projects, patterns in the spend portfolio and highlight opportunities for better coordination or aggregation;
- undertake active market research using expressions of interest, requests for information or networking with other jurisdictions; and
- have specific tools for contract management, such as a 'bring forward' system to ensure that contracts are renewed in a timely fashion, or mechanisms to ensure that contract reviews are undertaken in a systematic fashion.

In addition, there may be a focus on improving efficiency and economy, such as:

- identifying transactions with an order value below a certain amount (for example \$200) and taking managerial action to reduce the incidence of recurrence;
- a policy that requires proposed spends above a defined financial threshold (for example \$50,000) to be reviewed by full-time procurement staff, who may choose to intervene if the proposed process is not appropriate;
- identifying suppliers on the vendor file with a total spend of less than \$5,000 per annum and exploring opportunities to consolidate the spend, or, if they are small, regional suppliers, increasing the spend where appropriate;
- measuring and reporting on cash releasing savings made, such as negotiated price discounts on significant acquisitions;
- periodic reports to the APU (or an equivalent body) addressing non-contracted spend and considering which solutions might be most appropriate to address the opportunity; and
- when new projects are raised with the full time procurement team, the team will initiate a face-to-face meeting with the stakeholder, and determine the level of support that the officer requires.

### Better practice for a large Public Authority [\$11m]

In addition, public authorities with a procurement authority level of \$11m will:

- have a system to manage workflow of significant projects in terms of procurement and/or contract management;
- undertake active market research, for example 'meet the buyer' or other initiatives to stimulate market interest;
- manage significant projects in a consistent way, deploying appropriate expertise commensurate with the complexity of the project, including some staff that are qualified in procurement;
- measure the effectiveness of sourcing events through the review of purchase recommendations;

- report on suppliers who are delinquent in terms of performance; and
- secure continuous development through the capture of lessons learned from sourcing and contract management.

In addition, there may be a focus on improving efficiency, economy and effectiveness, such as:

- translating lessons learned into improvement activities, such as customised staff development or reviewed guidance for other officers;
- profiling suppliers in terms of contract performance and leveraging this information in bid evaluation frameworks and processes;
- benchmarking the procurement operation against other comparable organisations;
- measuring and reporting on a range of measures, including efficiency measures, economy measures, (such as the benefits claimed in terms of cash-releasing benefits, cost avoidance and other value adds) and effectiveness measures, such as relating the outputs of the procurement process to the strategic goals of the public authority; and
- stakeholder engagement and consultation and/or surveys to gauge user feedback on the procurement function and/or procurement process, and evidence of capture and implementation of development activities.

## 4. Principle 4.2

Principle 4.2 states:

There are rigorous quality processes for developing and managing category/commodity/project strategies for significant procurement spend within the public authority.

This principle requires public authorities to ensure that:

- an appropriate project management strategy and methodology for managing procurements defined as complex and high value is defined and implemented; and
- standard commodity procurement is managed in a collaborative manner across the public authority or is centralised.

Types of outputs that relate to this principle include:

- documentation of the project management approach;
- project management plans for complex and high value procurements; and
- category/commodity based acquisition plans or procurement strategy documents.

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### Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have processes in place to ensure that:

- significant acquisitions are defined in a systematic and appropriate way, using the State Procurement Board's complexity framework, or some alternative model and not just by the value threshold;
- a variety of potential market approaches are considered, and are subject to a reasoned and objective decision making process to select the most appropriate market approach
- there is a periodic review of upcoming significant procurements, no less frequently than annually;
- senior officers make explicit choices about the resourcing of the procurement process for significant acquisitions, ensuring that the level of capability deployed to support acquisition planning, market engagement, bid evaluation and subsequent contract management is commensurate with the complexity of the project;
- there are mechanisms in place to give early visibility of planned significant procurements, such as participation by APU members in capital planning and other senior-level decision-making and planning forums;
- the business case (and any other antecedent events for the acquisition of significant procurements) is commenced in sufficient time to allow for the procurement process to be completed without compromising project timelines;
- decision makers are informed as to the lead time that needs to be allowed for the procurement process, and they factor those lead times into their project plans; and
- common spend across two or more divisions with the public authority are identified and co-ordinated, for example, the larger procurer may create a procurement arrangement harnessing both the spend of their own division and that of the other users within the public authority, or a public authority wide approach is implemented.

In addition, there may be additional support secured, such as:

- the APU (or an equivalent body) may seek support from the State Procurement Board to discuss potential market approaches at an early stage;
- the project team for the significant acquisition may network with other jurisdictions in Australia and/or New Zealand and explore the solutions used elsewhere; and
- acquisition planning may be supported by subject matter experts, recruited on a project basis from outside of government.

### Better practice for a medium sized Public Authority [\$4.4m]

Public authorities with procurement authority levels of \$4.4m or greater will ensure that:



- there is proactive review of the public authority's spend portfolio, at a frequency not less than annually, in order to identify uncontracted spend;
- there is a pipeline of potential categories that might be subject to local procurement arrangements, and are subject to systematic review, for example opportunity analysis;
- there are defined control points or 'gates' at which the procurement planning process is monitored by the senior management team and/or APU, so as to ensure that the project timelines can accommodate a compliant procurement process; and
- a cross-functional team is convened at an early stage so that stakeholder participation is secured at an early stage.

In addition, there may be:

- networking mechanisms to create opportunities for users of common categories (not already subject to agreements negotiated by other entities within the government) across the Department, and potentially with other departments with similar requirements, to meet and discuss standards, supplier performance, synchronisation of any existing procurement arrangements and potential for collaborative procurement;
- a project status reporting system that allows early identification of project slippage and potential threats to expending the budget in the appropriate financial period;
- specialisation of officers in specific categories, so that there are some officers (either full-time procurement practitioners or otherwise) who develop category expertise; and
- retention of knowledge about specifications, markets, or contract management practices by subject matter experts.

#### Better practice for a large Public Authority [\$11m]

Public authorities with procurement authority levels of \$11m will ensure that:

- there is a systematic and logical rationale that underpins the allocation of staff to categories, for example some staff may specialise in certain categories;
- category portfolios are based on complexity rather than value, and are based on the principle that as few buyers as possible should interact with the same supply market;
- governance mechanisms will include examples of good practice in acquisition planning, especially in terms of a library of specifications, templates, and market reviews;
- category strategies will adopt time horizons beyond the duration of the next contract period, and be discussed and agreed with stakeholders who will support the objectives and planned methods;
- proposed market approaches will be subject to peer review, and a number of quality assurance mechanisms;
- there are common and effective systems, possibly systematised, to monitor procurement planning on behalf of the senior management team and/or APU,

so as to ensure that the project timelines can accommodate a compliant procurement process;

- there will be a repeatable process to convene and facilitate cross-functional teams so that stakeholder participation is secured at an early stage;
- the category managers will have a pre-agreed role in procurement teams, whether as a team leader or facilitator, and the teams will employ common tools and processes; and
- contract management mechanisms may be systematised, with an established workflow to monitor contract reviews, contractor performance and the performance of the contract in terms of meeting the contract objectives.

In addition, there may be:

- networking mechanisms for ‘category councils’ or equivalent user consultation forums for selected categories;
- review and appraisal mechanisms that capture lessons learned and ‘tacit’ knowledge so that continuous improvement is facilitated; and
- customised development programmes to ensure that category managers are not only capable in terms of procurement tools and techniques, but also develop domain expertise in their category.

## 5. Principle 4.3

Principle 4.3 states:

Quality outcomes of environmental sustainability are sought within the procurement framework.

This principle requires public authorities to ensure that:

- environmental sustainability is integrated into the procurement framework and the required outcomes achieved;
- procurement should at least demonstrate compliance with minimum environmental standards and acquisition of goods at a higher standard should be achieved wherever possible; and
- environmental sustainability should be incorporated into disposal processes and procedures.

Types of outputs that relate to this principle include:

- Procurement Framework document/policy;
- sustainability related procurement policies and procedures;
- disposal policies and procedures;
- sustainability plans; and
- acquisition plans and purchase recommendations with a major sustainability focus.

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### Better practice for a small Public Authority [\$1.1m] or greater

All public authorities will have policy, procedures and/or guidance for officers, that includes guidance on incorporating sustainability as a procurement goal in appropriate acquisitions and disposals.

In addition, for categories with significant environmental impacts, the public authority will be able to demonstrate:

- acquisition planning that incorporates sustainability initiatives; and
- how evaluation processes seek to place a value on sustainability as evaluation criteria and weightings.

### Better practice for a medium sized Public Authority [\$4.4m] or greater

Public authorities with procurement authority levels of \$4.4m or greater will ensure that:

- all acquisitions are subject to systematic review for their 'environmental footprint';
- explicit linkages are made between the public authority's strategic goals and the contribution of the procurement process to categories with a significant environmental impact;
- demand management initiatives are in place to reduce consumption of activities that create an increased carbon footprint, such as supplier journeys, fuel consumption and/or staff travel;
- where contracted suppliers offer 'green' ranges, there will be guidance available on the features and benefits of such, by way of informing budget holders of the choices available and the benefits of their adoption; and
- disposals adopt an environmentally responsible approach, for example, requiring responsible treatment of hazardous materials.

For significant acquisitions, the public authority will have:

- evidence that specifications incorporate sustainability issues, such as reducing the carbon footprint; and
- whole of life cost modelling that focuses on economic and non-economic dimensions, including sustainability.

### Better practice for a large Public Authority [\$11m]

The procurement framework will feature:

- metrics tracking value adds that have environmental benefits;
- category plans that specifically address sustainability; and
- APU (or an equivalent body) reports addressing what has been achieved in terms of non-economic criteria, including environmental sustainability.

For significant contracts, the public authority may have evidence of:

- mainstreaming sustainability into routine procurement processes, not just categories with a large environmental footprint;
- subject matter experts who are familiar with the environmental 'footprint' of their category.
- linkages with subject matter experts, environmental groups or sustainability advocates such as EcoBuy; and
- 'beacon' projects that showcase engagement with disadvantaged groups and/or environmental responsibility that can act as exemplars of multi-dimensional sustainability.

## 6. Principle 4.4

Principle 4.4 states:

Procurement structures and people are integrated into the overall procurement and financial management processes to ensure end-to-end process effectiveness and oversight.

This principle requires public authorities to:

- be able to demonstrate that the procurement function is integrated into the overall procure to pay chain and there is meaningful collaboration between teams throughout the process; and
- demonstrate that operational systems that manage procurement are integrated into the public authority's financial systems.

Types of outputs that relate to this principle include:

- Procurement Framework document/policy;
- organisation chart;
- procure to pay/purchasing policies and procedures; and
- purchase card policies and guidance.

### Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have procurement governance arrangements that:

- secure engagement of senior managers in strategic decisions for local procurement governance and management;
- create a scheme of delegated authorities which is compatible with the spend profile of (the divisions within) the public authority;
- promote the most cost effective mechanisms to manage lower-value transactions (below \$22,000); and
- define roles and responsibilities in managing transactions such as raising purchase orders and approving invoices.

In addition, for officers with delegated authorities relevant to the procurement process there will be:

- guidance on how they may exercise their decision-making authority, for example when to approve, reject or seek more information on requests for sole sourcing/direct negotiation; and
- an expectation that officers with delegated authority will attend appropriate training on State Procurement Board governance within the first 90 days of their being granted delegated authority relevant to procurement.

#### Better practice for a medium sized Public Authority [\$4.4m] or greater

Data generated by the procurement process will be analysed and:

- periodic expenditure profiles sourced from financial management systems will be used to highlight recurring patterns of spend with a view to allocating procurement focus appropriately;
- patterns of consumption (for example from stationery, travel or contingent labour categories) will be reviewed as a prelude to demand management initiatives with the aim to reduce consumption;
- recurring one off transactions for the same category will be reviewed to explore if a procurement arrangement should be instituted;
- non system-matched invoices from BASWARE will be monitored and the root causes analysed, as a prelude to management intervention to systematise routing of as many invoices as possible; and
- maverick behaviour by officers in terms of non-compliance with mandated or preferred procurement processes will be identified and investigations undertaken to explore the root causes for their actions.

For lower value acquisitions below \$22,000, the public authority will:

- review periodically the 'tail' of lower-value suppliers who are one time vendors or who have a total annual spend of less than \$5,000 (or less than \$10,000); reviews will explore opportunities for consolidation, or to support local/regional businesses, and/or to support small and medium sized enterprises;
- ensure that the acquisition mechanism (purchase order, purchase card, standing order etc.) is appropriate for the spend profile to minimise transaction costs;
- explore opportunities to use distributors or to consolidate deliveries or to reduce the number of orders, invoices and/or suppliers; and
- deploy tools to manage acquittal processes of purchase card acquisitions in order to simplify and systemise the acquittal process.

#### Better practice for a large Public Authority [\$11m]

The procurement process will be supported by systems that ensure:

- spend analysis of the spend portfolio using UNSPSC or other taxonomy to inform systematic analysis creating a spend cube of suppliers, categories and divisions;
- transactional purchasing processes through systematising the workflow of requisitioning, purchase order generation that interfaces with the general ledger and/or other financial systems; and
- ad hoc reporting to inform category management or specific research on acquisitions, suppliers, and/or patterns of spend.

The public authority may also be considering acquiring or using (software as a service) solutions to support:

- online market events like RFIs or RFPs through e-sourcing solutions;
- decision making during the bid evaluation process; and
- knowledge capture, storage and sharing during the end-to-end sourcing and contract management processes.

## 7. Principle 4.5

Principle 4.5 states:

Post sourcing reviews take place for significant procurements to identify lessons to be learned from the procurement process.

This principle requires public authorities to:

- have systematic processes for the undertaking of post-sourcing reviews, for significant procurements, which are documented by the public authority; and
- demonstrate that post sourcing reviews are retained and the lessons learnt from post sourcing reviews are utilised to improve the procurement process.

Types of outputs that relate to this principle include:

- documented post sourcing reviews;
- policies and procedures for undertaking post sourcing reviews; and
- documented continuous improvements based on lessons learnt.

### Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have processes in place to ensure that:

- all contracts are subject to periodic review, and on closure, a report should be prepared;
- purchase recommendations evidence the capture of lessons learned; and
- minutes of APU (or an equivalent body) meetings evidence discussion of opportunities for improvement surfaced from market approaches.

In addition, for significant learnings the public authority can point to continuous improvement that has occurred following identification of opportunities for improvement.

#### Better practice for a medium sized Public Authority [\$4.4m] or greater

- full time procurement officers share lessons learned with peers, discuss issues that may have arisen and share potential solutions; and
- acquisition plans for recurring arrangements feature evidence of continuous improvement.

In addition, for significant projects:

- the benefits of the sourcing phase may be assessed and related to the specifics of the market approach, in particular the specification, market character and level of competitive tension; and
- when potential risks are identified from a sourcing event, if the risks are significant enough, the public authority may consider reviewing procedures and/or policy to reduce the likelihood of a recurrence.

#### Better practice for a large Public Authority [\$11m]

Public authorities with procurement authority levels of \$4.4m or greater will ensure that:

- periodic summaries of transferable lessons learned are discussed at the APU (or an equivalent body) and the most important issues circulated to other officers as appropriate; and
- when appropriate, lessons learned are incorporated into guidance material to highlight the potential pitfalls or good practice.

For recurring acquisitions or procurement arrangements, category plans are updated with tacit knowledge about the category, the market approach and the evaluation process.

## **8. Principle 4.6**

Principle 4.6 states:

Post contract reviews take place to identify lessons to be learned from the contract and to determine whether planned benefits and value for money were achieved.

This principle requires public authorities to:

- have systematic processes for undertaking post contract reviews, for significant procurements, that are documented by the public authority;

- have contract management processes that include performance indicators to enable supplier performance to be measured in an objective manner;
- ensure post contract reviews are retained and the lessons learnt from post contract reviews are utilised to improve the procurement process; and
- ensure that documentation will include evidence of improvements being identified and incorporated into contract management processes and procedures by management; this process would include improvements being incorporated into contract renewals.

Types of outputs that relate to this principle include:

- documented post contract reviews;
- policies and procedures for undertaking post contract reviews; and
- acquisition plans for contract renewals utilising lessons learnt from past contract reviews.

#### Better practice for all Public Authorities [\$1.1m] or greater

All contracts should be subject to periodic review, and on closure, a report should be prepared reviewing at least the following elements:

- Did the contract achieve the original procurement objectives in the acquisition plan?
- Did the contract achieve value for money?
- Did the suppliers perform satisfactorily?

For significant contracts:

- the post contract review should identify specific opportunities for improvement from both the sourcing phase and the post-award or contract management phase; and
- a report should be submitted to the APU identifying opportunities for improvement in terms of strategy, documentation, specification etc.

#### Better practice for a medium sized Public Authority [\$4.4m] or greater

All contracts should be subject to systematic review, and on contract closure:

- the cash releasing and non-cash releasing benefits should be assessed;
- the benefits realised should be reconciled with the procurement objectives in the acquisition plan, and an assessment made of the opportunities for improvement;
- delinquent suppliers should be identified and feedback given to them on their performance along with opportunities for improvement; and
- suppliers on panel contracts who received disproportionately low shares of the total business should be debriefed with the reasons for the low share explored and documented.



For significant contracts:

- the APU (or an equivalent body) should be advised of contracts that resulted in a significant gap between what was originally intended as procurement objectives and what was realised in terms of procurement outputs;
- periodic summaries of 'lessons learned' should be circulated to other officers involved in acquisition planning and/or contract management to assist in the process of continuous improvement; and
- on the renewal of recurring contracts, acquisition planning should be able to demonstrate that lessons learned have been incorporated into the acquisition plan.

#### Better practice for a large Public Authority [\$11m]

All contracts should be subject to systematic review, and on contract closure:

- in the case of contracts that resulted in a significant gap between what was originally intended as procurement objectives and what was realised, there should be a root cause analysis identifying the underpinning causes;
- there should be a systematic appraisal system for suppliers, that identifies the value of work gained (for panels) and rates the supplier's performance against their achievement of their KPIs;
- suppliers on panel contracts who received disproportionately low shares of the total business should be debriefed and the root causes explored, surfaced and acted on; and
- poor supplier performance should be recorded (with supporting evidence) so that subsequent market approaches for similar acquisitions can take account of the supplier's previous performance.

For significant contracts:

- 'value for money' assessments should be made on the basis of efficiency, economy and effectiveness measures and, distinguish between the potential benefits created from the sourcing phase and the benefits realised during the contract management phase;
- suppliers whose performance is so poor that there are question marks over their continued inclusion in future bid processes, should be given feedback and, if appropriate, offered supplier development opportunities; and
- transferable learnings should be circulated to other category managers to assist in the process of continuous improvement.

## **9. Principle 4.7**

Principle 4.7 states:

Adequate and timely research is undertaken to ensure required goods and services are appropriately specified.

This principle requires public authorities to:

- have a clear understanding by the procurement function of the relevant market segments and the importance of clearly specifying requirements in an effective manner;
- be required to undertake the appropriate research as is documented in policies and procedures and that it has been conducted for relevant procurements including encouraging discussions with potential suppliers; and
- involve the market in the procurement process through various market research methods, for example, a 'Request for Information' process or pre-tender briefing before the actual procurement process commences.

Types of outputs that relate to this principle include:

- policies and procedures on developing specifications;
- acquisition plans for major procurements that include relevant market research; and
- documentation for different market research methods including request for information, pre-tender briefings.

#### Better practice for all Public Authorities [\$1.1m] or greater

Procurement governance and/or guidance should describe:

- types of specifications (such as input and output specifications) and when the use of each type is most appropriate;
- guidance on good practice in specification writing; and
- when and how market enquiries may be used to gather market intelligence in order to inform specification writing.

For significant contracts the public authority should be able to evidence that:

- research was undertaken to validate the choice of specifications;
- the specifications are appropriate for both the category and the supply market; and
- the specification(s) used were consistent with the procurement objectives.

#### Better practice for a medium sized Public Authority [\$4.4m] or greater

Procurement governance and/or guidance should include:

- templates of Expressions of Interest and/or Requests for Information with guidance on their use;
- procedures for early supplier involvement, conducting market briefings, or designing and executing other market research mechanisms; and

- guidance on adhering to good probity practice whilst ensuring that suppliers inform and contribute to the specification development process (when appropriate).

For significant contracts the public authority should be able to evidence:

- acquisition plans that address the linkage between the specification and relevant issues affecting the procurement;
- acquisition plans that discuss the choice of specification with a rationale for the choice; and
- how the performance standards defined in the specifications will be measured.

### Better practice for a large Public Authority [\$11m]

Procurement governance and/or guidance should include:

- guidance on networking with other procurement entities to seek information about market standards;
- guidance on the distinction between detailed, functional and performance specifications and their application;
- subject matter experts or category managers who can provide technical support on specific acquisitions/categories; and
- a library of sample specifications for different services.

For significant contracts the public authority should be able to evidence:

- acquisitions featuring the use of output/outcome based specifications to foster competition;
- evaluation plans that anticipate the variation in solution proposed by the supply market; and
- competitive dialogue or other multi-stage acquisition processes designed to inform specification development and stimulate market interest.

## **10. Principle 4.8**

Principle 4.8 states:

The supply positioning tool or a similar matrix based approach is utilised to segment the supply market and to develop appropriate procurement strategies.

This principle requires public authorities to demonstrate:

- segmentation of their key supply categories; and
- a strategy is in place to ensure that interaction with each procurement strategy is tailored appropriately.

Types of outputs that relate to this principle include:

- acquisition plans for major procurements that include utilisation of supply positioning or similar models; and
- policies and procedures on how to develop appropriate procurement strategies including information on Supply Positioning, Supplier Preferencing or similar models.

Better practice for all Public Authorities [\$1.1m] or greater

When conducting periodic expenditure profiles, the public authority will:

- analyse recurring spend categories in terms of both value and complexity;
- use a repeatable methodology to profile the spend, such as a matrix based tool like portfolio analysis or Supply Positioning; and
- use the output of the spend profiling to develop congruent procurement strategies and/or focus procurement resource.

For significant contracts the public authority should be able to evidence:

- acquisition plans that include procurement objectives that are consistent with the matrix based analysis;
- validation through market research that the perceived level of complexity or risk is correct; and
- that resources are focused on high(er) risk/complexity categories rather than lower value categories with large numbers of transactions.

Better practice for a medium sized Public Authority [\$4.4m] or greater

Procurement governance and/or guidance should:

- describe the application of matrix-based approaches to procurement strategising (distinct from the State Procurement Board's Quadrant Analysis);
- describe how the public authority might undertake customer base analysis such as Supplier Preferencing; and
- provide examples of market approaches appropriate for different quadrants.

For significant acquisitions the public authority should be able to evidence:

- acquisition plans that address both the significance of the category to the public authority and the significance of the public authority to individual suppliers in the market;
- reconciliation of the two perspectives to identify particular challenges or opportunities in developing fair and open competition; and
- congruent procurement strategies that take into account the relative significance of the category and the public authority as a buyer.

### Better practice for a large Public Authority [\$11m]

When conducting regular profiles of the pipeline for upcoming work, the public authority will:

- profile known projects using a matrix-based approach such as opportunity analysis, portfolio analysis or Supply Positioning;
- allocate resources based on the current workload, the relative priority of the project and the complexity of the project using the matrix-based approach; and
- match the complexity of the project to the capability of the officer allocated to the project.

For significant acquisitions the public authority should be able to evidence:

- contract management resources allocated on the basis of both the significance of the category to the public authority and the significance of the public authority to the contractor(s);
- KPIs deployed in contract management that are congruent with the quadrant positioning of the acquisition; and
- procurement performance measures that reflect the distribution of the acquisitions across the spend portfolio.

## ***Attachment - Glossary of Terms***

### **APU**

Accredited Procurement Unit – (also known as a Procurement Governance Committee) is a committee comprising nominated senior officers that oversee the purchase of goods and services within a prescribed delegation. It is the role of the APU to support principal officers in procurement decision-making.

### **Category**

Category is a term applied to a distinct grouping of goods or services that are relatively homogeneous. Stationery is a broad category, and within that category there are sub-categories such as writing implements. Professional services is an example of a services category, displaying commonalities between sub-categories such as consultancy services and audit services, and possibly sharing common suppliers.

### **Opportunity Analysis**

Opportunity analysis is the periodic review of expenditure with a view to identifying potential opportunities to release value through changes to the way the goods and services spend is specified, procured, consumed or managed. Typically, public authorities might conduct an annual review of the spend portfolio, including known future projects, and classify the spends based upon a number of dimensions. Typical dimensions are 'scale of benefit' and 'ease of realisation', though other dimensions may be employed. Spends which present a greater opportunity to add value may warrant prioritisation in terms of focusing scarce resources, such as time and people.

Opportunity analysis helps guide the public authority on how and where to focus effort, and can help with scheduling priorities and resource allocation.

### **Post Contract Review**

A post contract review is the review at (or near the end of) a contract period to consider how the contract has performed in relation to the KPIs and the original performance goals of the contract. Were the original procurement objectives met? Did the supplier/s meet their KPIs? How did the contract change during the agreement? What was learned that might be used to secure improvement in future contracts?

Contracts typically last for several years, and as a consequence the original intent of the contract (as defined in the acquisition plan) can sometimes be forgotten. For example, contracts may have been varied several times, the market circumstances may have changed, and the contract manager may have changed. A formal contract review helps capture what worked and what did not.

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## Post Sourcing Review

A post sourcing review is a review after the purchase recommendation has been approved evaluating the extent to which the sourcing or tendering phase of the procurement project met the original procurement objectives.

How many bids were received? How many clarification questions were asked? Did the evaluation plan achieve its intended goals? Were the procurement objectives stated in the acquisition plan met? Were the tenders received within budget? Were the responses acceptable? Were there sufficient bidders to secure competition? Was the specification appropriate? What was learned that might be used to secure improvement in future contracts? All these issues may be addressed to secure learning and contribute to continuous improvement.

## Procurement

Procurement can be a process, a department or a job role. Every public authority manages the procurement process whether or not they have dedicated procurement practitioners. In the context of this category of principles, procurement refers to the end-to-end process (not only the tendering phase) that begins with defining the need through to contract management and close out of the supplier, as well as the disposal of the goods.

## Segmentation Tools

Segmentation tools can be used to profile stakeholders, acquisitions or categories and that can differentiate behaviour based on the criticality and/or contribution of the stakeholder or supplier. Such tools create a consistent and defensible rationale for behaviour, and help prioritise, manage and focus efforts where they will have most effect.

## Spend Analysis

Spend analysis is the systematic review of the public authority's spend with a view to identifying opportunities for improvement. For example, many public authorities may be able to list total annual spend by supplier from the vendor file, but may find it harder to list spend by type of acquisition.

A list of spend by supplier including the total value of spend, the number of transactions and the highest and lowest value transactions can reveal opportunities to release value. As an example, it may be that there are uncontracted suppliers with whom the public authority transacts significant values. This may present an opportunity to negotiate improved terms. It may be that there are multiple transactions with the same supplier. This may present an opportunity to consolidate the number of orders and/or the number of invoices, securing benefits for both parties.

A list of spend by type of spend may be harder to obtain. Expenditure codes in the chart of accounts may be defined at a high level. For example, the classification 'consultants and contractors' may often be used loosely, meaning that the total spend in this spend type (or category) contains data which requires cleansing to be used reliably. But this category is likely to be one which spans multiple public

authorities, and represents an opportunity to make savings from demand management, renegotiation of terms, better contract management, or all three.

## **Spend Portfolio**

The spend portfolio is the expenditure profile of a public authority - the total third party or non-pay spend of a public authority with suppliers of goods and services. In some cases, the key suppliers of services by value may be other public sector entities, such as other government departments. But there will also be many hundreds if not thousands of suppliers with whom the public authority spends money across multiple types of spend (or categories).

Key dimensions of the spend portfolio are the total value of spend, the degree of concentration and the number of low value suppliers. The degree of concentration may highlight the proportion of total spend represented by the top ten suppliers, or the top ten spend types (or categories). This may highlight where the opportunity lies to extract value. The number of low value suppliers may highlight the degree of control of lower value transactions. For example, if 50% of all public authority suppliers receive less than \$10,000 a year, it may highlight that there is an opportunity to consolidate some spends. Of course, some of these suppliers may be in regional areas, and as long as the spend allocation is the consequence of deliberate choice, then the public authority will be in control of its spend. Many public authorities find that there is an opportunity in the spend portfolio to address both higher value spends and lower value spends using spend analysis to identify the opportunities.

## **Stakeholders**

Stakeholders are people who are involved in, or impacted by choices that are made during the procurement process. Within public authorities, stakeholders will include end users as well as decision-makers who review proposed acquisition plans, or officers who manage contracts. Suppliers will have sales managers or account managers who are responsible for client relationships, as well as accounts payable staff and staff involved in service delivery.

## **Supply Positioning**

Supply positioning is a matrix which segments the spend portfolio by risk and opportunity. It allows the public authority to develop procurement strategies for different acquisitions based on a repeatable and consistent methodology.

## **UNSPSC**

United Nations Standard Products and Services Code (UNSPSC) is a scheme that classifies and identifies commodities. It supports a strategic sourcing process and gives a uniform means of capturing spend data. Classifying goods and services with a common coding system facilitates commerce between buyers and sellers and is necessary for ecommerce (refer [www.unspsc.org](http://www.unspsc.org)).