Managing and monitoring supplier performance guide

***Managing and monitoring supplier performance guide***

|  |  |  |
| --- | --- | --- |
| **Version** | **Date** | **Comments** |
| v1.1 | November 2018 | Published |
| v1.2 | September 2025 | Minor updates made – highlights:   * DHPW corporate branding * Machinery-of-government changes * Document date updated * New version history log and ‘Administration’ section added * Updated document title * Removed contextual policy information |

**The State of Queensland (Department of Housing and Public Works) 2025.**

Creative commons logo

[http://creativecommons.org/licenses/by/4.0/deed.en](https://www.arthritis.org.au/)

This work is licensed under a Creative Commons Attribution 4.0 Australia Licence. You are free to copy, communicate and adapt this work, as long as you attribute by citing ‘Managing and monitoring supplier performance guide, State of Queensland (Department of Housing and Public Works) 2025’.

**Contact us**

We are committed to continuous improvement. If you have any suggestions about how we can improve this document, or if you have any questions, contact us at [betterprocurement@hpw.qld.gov.au](https://disabilityawareness.com.au/).

**Disclaimer**

This document is intended as a guide only for the internal use and benefit of government agencies. It may not be relied on by any other party. It should be read in conjunction with the Queensland Procurement Policy, your agency’s procurement policies and procedures, and any other relevant documents.

The Department of Housing and Public Works disclaims all liability that may arise from the use of this document. This document should not be used as a substitute for obtaining appropriate probity and legal advice as may be required. In preparing this document, reasonable efforts have been made to use accurate and current information. It should be noted that information may have changed since the publication of this document. Where errors or inaccuracies are brought to attention a reasonable effort will be made to correct them.

**Administration**

Version 1.2 of this document replaces all previous versions of this document and takes effect immediately.

Table of Contents

[Introduction 4](#_Toc208466654)

[Purpose of the guide 4](#_Toc208466655)

[How is the guide to be used? 4](#_Toc208466656)

[How does the Queensland Procurement Policy link to this guide? 4](#_Toc208466657)

[Why monitor and manage suppliers’ performance? 4](#_Toc208466658)

[Keep suppliers informed and involved 5](#_Toc208466659)

[The role of the contract manager 5](#_Toc208466660)

[Developing a contract management plan 5](#_Toc208466661)

[Sample contract management plan format 6](#_Toc208466662)

[What is effective supplier performance monitoring? 6](#_Toc208466663)

[How to monitor and manage a supplier’s performance 7](#_Toc208466664)

[Performance monitoring approaches 7](#_Toc208466665)

[Useful performance monitoring and management tools and techniques 8](#_Toc208466666)

[Establishing key performance indicators (KPIs) 10](#_Toc208466667)

[Developing a system for performance measurement 10](#_Toc208466668)

[Dealing with poor performance 11](#_Toc208466669)

[Dispute resolution 12](#_Toc208466670)

[Reducing the likelihood of a dispute 12](#_Toc208466671)

[Checklist for dealing with poor performance 12](#_Toc208466672)

[Using past performance in future procurement decisions 13](#_Toc208466673)

[Supplier performance management checklists 13](#_Toc208466674)

[Delivery 13](#_Toc208466675)

[Pricing 14](#_Toc208466676)

[Customer service 14](#_Toc208466677)

[Product 14](#_Toc208466678)

# Introduction

Supplier performance monitoring can be a complex area. This guide provides only basic information and should be used only as a starting point. Officers should seek specialist assistance and advice whenever issues of supplier performance management arise.

# Purpose of the guide

Government buyers are operating in an increasingly dynamic commercial and technological environment. Effective procurement planning and monitoring of supplier performance is critical to controlling the risks and costs involved in procurement.

This guide has been developed to provide information about simple, practical tools for developing supplier performance monitoring strategies. It explains the concept of supplier performance monitoring and provides helpful hints on when and how it should be implemented.

## How is the guide to be used?

This guide should be read in conjunction with the Queensland Procurement Policy andyour agency’s procurement procedures.

## How does the Queensland Procurement Policy link to this guide?

Managing and monitoring suppliers’ performance is necessary for an agency to assess whether it is achieving value for money in line with the Queensland Procurement Policy.

Managing and monitoring suppliers’ performance is important when procuring goods and services for which there is a high relative expenditure and/or difficult to secure supply. Suppliers’ performance should be managed and monitored before, during and after the establishment of supply arrangements.

## Why monitor and manage suppliers’ performance?

Managing and monitoring a supplier’s performance is one of the tools that can be used in ensuring value for money is achieved. Sound supplier performance monitoring and management strategies offer the following opportunities:

* assist agencies to reduce internal transaction costs associated with procurement
* contribute to effective risk management
* contribute towards the development of strategic relationships with suppliers
* assist in developing supplier capability
* assist in the development of supply chain management strategies
* improve supplier and purchaser performance.

### For what purchases?

The extent to which it is necessary to monitor and manage a supplier’s performance should be determined on the basis of risk management and cost benefit assessments. Monitoring and managing performance should be a priority when purchasing goods and services that are high relative expenditure and for which supply is difficult to secure.

### At what stage of the purchasing process?

The main emphasis on monitoring and managing performance clearly occurs during the implementation phase of the contract which is when the goods and/or services purchased are delivered to the agency. However, effective performance management relies on integrating performance monitoring and management approaches throughout the whole procurement process.

#### Steps before signing a contract

Before entering into an arrangement with a supplier, it is important that the agency has:

* properly analysed its needs, including functional and performance requirements
* clearly defined the outcomes desired for the purchase
* established Key Performance Indicators (KPIs) for the purchase
* maintained and referred to past supplier performance records
* produced a contract that provides for in-contract evaluations, monitoring procedures
* measurement of performance against appropriate KPIs.

#### Steps when a contract has been completed

When a contract has been completed, as part of an overall evaluation and review strategy before closing the contract/project it is important for the agency to:

* evaluate supplier performance
* provide feedback to suppliers on performance
* maintain records of supplier performance for future reference.

# Keep suppliers informed and involved

Suppliers need to be made aware from the outset that their performance will be assessed and recorded. They must be advised of the performance criteria, how they will be measured, how performance assessments will be recorded and who will have access to such information.

Provide suppliers with opportunities to contribute to the development and implementation of performance management criteria and allow for dispute resolution processes that are fair and just. This mechanism needs to be established before the contract is signed and work commences. Consultation with suppliers in performance assessments is an important element of effective monitoring and management regimes.

# The role of the contract manager

The contract manager is responsible for ensuring that the contracted goods and/or services are delivered in accordance with the specification, and the terms of the contract, that all associated risks are identified and managed and that effective communication is maintained between all parties. The contract manager is also required to make arrangements for the routine contract administration functions, such as processing requests for variation to the contract, handling bank guarantees and security deposits, and processing claims for payment.

# Developing a contract management plan

A contract management plan contains key information about how the contract should be managed. A contract management plan is an essential tool in the proper management of contracts. The contract manager should regularly refer to the contract management plan and should ensure that the plan is amended if the circumstances change. Like all plans, it should be a living document that changes to reflect any changes in circumstances during the operation of the contract.

The contract management plan should initially be developed during the procurement or project planning phase. It is usually further developed and refined during contract formation activities and may continue to be modified throughout the period of the contract to reflect changing circumstances. The initiation of the contract management plan during the contract planning phase ensures that due consideration is given to how the contract will be managed from the outset and not just following the award of the contract.

A contract management plan should also reflect cost/benefit principles, that is, it is not cost effective to draw up a detailed and complex contract management plan unless the nature of the procurement indicates that this level of management is appropriate. For smaller and more straightforward procurements, significantly less information needs to be included in the contract management plan.

|  |
| --- |
| Hint |
| A formal contract management plan is not usually required for low relative expenditure and easy to buy goods and services. For significant procurements, a contract management plan assists in managing the risks of the procurement and provides an audit trail of documentation to support and justify important contract management decisions made during the life of the contract. This can be especially useful if decisions need to be made about a supplier who is failing to meet the expected standard of performance. |

## Sample contract management plan format

There is no standard format for a contract management plan. This sample contract management plan format should be adapted to suit the particular purchase and to reflect the work area’s priorities. It is intended to indicate the types of information that should be included rather than be prescriptive about content.

* **Background.** A brief summary of the procurement process that led to the contract.
* **Details of the contracting parties.** This should also include contact information for both parties (that is, the agency and the supplier) and details of who is authorised to issue and respond to notices and initiate contract variations.
* **Details of major stakeholders.** Include the stakeholders’ reason for interest in this contract. Document the nature of any intra-agency relationships.
* **Contract details summary.** A summary of information contained in the contract.
* **Contract management strategy.** Include the desired objective and methods or procedures to be followed and references to and location of any useful source documents.
* **Document register.** Provides an up-to-date list of all relevant documents (including purpose, current version/amendment status, location and synopsis).

# What is effective supplier performance monitoring?

Effective supplier performance monitoring and management requires the contract manager to:

* regularly check the supplier’s progress to ensure that contractual obligations are being met
* conduct regular random inspections of the supplied goods and/or services during the contract period to ensure that they meet specification and are of a suitable standard
* check that all conditions and clauses in the contract are acted upon; the contract manager should be aware of any breaches of contract and be prepared to take action (after seeking legal advice) if any non-conformance with the contract occurs
* advise the supplier in writing if dissatisfied with any aspect of performance under the contract
* act immediately if a problem occurs and involves senior representatives of both the procurer and supplier to solve any identified problems as soon as appropriate
* develop effective mechanisms for obtaining feedback from stakeholders about the procurement
* keep adequate, written records of all dealings with the supplier and of the administration of the contract (e.g. file notes of inspections, telephone conversations, records of meetings and documented invoice processing)
* perform regular inspections of work to ensure compliance with any applicable legislation, contract conditions, quality provisions; or workplace health and safety – depending on the nature of the procurement, its complexity and associated risks, this could be on a daily, weekly or monthly basis.

# How to monitor and manage a supplier’s performance

A key issue in contract management is the monitoring of the supplier’s performance to ensure all standards are met in accordance with the contract. The extent of performance monitoring applied to a supplier should be determined by the level of risk involved in the procurement and the nature of the goods or services provided. Good monitoring of contractor performance progressively anticipates, identifies and facilitates correction of shortcomings before the relationship with the supplier is adversely affected and before value for money is compromised.

## Performance monitoring approaches

An important issue in monitoring a supplier’s performance is deciding who is best placed to actually monitor that performance. The supplier’s performance must be assessed objectively against criteria that are pre-determined, clearly understood and agreed by both parties in the conditions of contract. Sound performance monitoring techniques must be applied. These approaches may include direct monitoring by the procuring agency, regular reporting by the supplier, monitoring by customers, independent monitoring or some combination of these.

### Direct monitoring by the procuring agency

This approach ensures that the agency is in control of the monitoring process. This may increase the cost to the agency but will allow timely resolution of any problems that are detected.

### Monitoring devolved to the supplier

Even if the responsibility for monitoring performance is devolved to the supplier, accountability for contract outcomes remains with the agency. Information provided by the supplier should be regularly audited to ensure its accuracy and reliability. It may be necessary to test the accuracy of supplier reports through follow-up, site visits, spot checks or other forms of audit.

### Monitoring by customers

In this approach, supplier performance is monitored by regular follow-up with customers. This approach can be most effective in gaining an accurate perception of the real quality of a supplier’s performance under actual service delivery conditions. However, it can be costly and time-consuming to apply.

### Independent third party monitoring

Independent third party monitoring can be performed directly, by giving the responsibility over to an external monitoring body, or indirectly through an accreditation process. In an accreditation process, service standards are set, reviewed and monitored normally through an independent body. This approach is often used by the community welfare sector. Accreditation programs can be expensive for the agency to implement. Potential costs incurred would need to be weighed against the potential benefits of accreditation to determine if this monitoring method is the most appropriate for a contract.

### Combination of monitoring methods

A combination of monitoring methods can be used effectively to ensure that contract outcomes are achieved. For example, accreditation may be used to provide a front-end quality screening of potential providers, but further ongoing monitoring by the agency may be required. This ongoing monitoring may include input from stakeholders, such as client representative purchaser and provider representatives.

## Useful performance monitoring and management tools and techniques

### Setting key performance indicators

Before offers are invited, the agency needs to determine which activities are critical to the success of the procurement and what a good performance by the supplier would actually look like. From this understanding of the dimensions of a good performance, key performance indicators (KPIs) should be developed. The supplier’s actual performance over the life of the contract can then be measured against these KPIs.

The KPIs must be included in the conditions of the contract. The specific KPIs and the level of performance required to satisfy them must be clearly defined in the contract documentation in order to properly protect the agency’s interests by ensuring that the supplier performs as expected. More information about establishing KPIs can be found later in this guide.

### Regular procurer – supplier meetings

Regular, scheduled meetings between the agency and suppliers are an important avenue through which supplier (and the department) performance is monitored. They also form one of the cornerstones for building, developing and maintaining an effective relationship between the agency and suppliers. Regular meetings are particularly important for long-term contracts. Ideally, such meetings would complement other forms of performance monitoring.

The scope and frequency of meetings to review contract performance and progress will vary with the nature and complexity of the procurement activity being undertaken. Some of the more common types of contract management meetings include:

* **progress review meetings.** These should be held regularly between key members of the agency’s contract management team and the supplier’s management team. A progress review meeting will typically discuss performance trends, impending contract events or milestones, changes to the contract, proposed actions/responses to current or potential problems and similar matters affecting the operation of the contract
* **technical review meetings.** Meetings of this type can be conducted, when required, between specialist technical representatives of the agency and the supplier’s technical experts to review technical reports and performance data and discuss current technical issues affecting the operation of the contract
* **longer- term reviews and audits.** These meetings aim to determine the extent to which contract requirements are being met and how to address any emerging or anticipated needs for change. Issues to consider in these ‘whole contract’ reviews include the achievement of objectives, achievement of budget relative to provision of goods and/or services, user satisfaction levels and the extent to which value for money is being achieved.

|  |
| --- |
| Hint |
| When contract management meetings take place, contract managers should follow proper meeting procedures. This means that the contract manager should arrange for an appropriate agenda to be distributed and for records of proceedings to be maintained. Aside from providing useful information for all parties, this approach minimises the risk of the parties having different recollections as to what was discussed and agreed at meetings. It also facilitates accountability and an audit trail. |

### Contract-specific audits

Contract-specific audits assist the agency to effectively manage specific risks that may arise from engaging a particular supplier and to take appropriate risk management actions. The necessity for a contract specific audit should be clearly stated in the invitation/request for offer documents as a condition of contract.

Auditing supplier capabilities on a contract-specific basis is necessary prior to engagement unless the procurer has recent knowledge of the supplier’s track record, skills and capabilities. Good records containing details of the supplier’s performance history can also reduce the need for a contract specific audit.

When a contract operates over an extended period, intermittent contract specific audits are a useful tool. These provide the opportunity for monitoring the ongoing effectiveness of the supplier’s quality assurance system (if one has been specified) with respect to the contract and have the secondary benefit of reinforcing with the supplier, the importance to the procurer of good performance.

|  |
| --- |
| Hint |
| A pre-contract audit is appropriate when:   * the supplier is relatively unknown, is a new market entrant, has recently undergone ownership/management changes, has little track record with the agency, or it is felt that the type of work does not fit with their known capabilities * relevant technology is subject to constant or regular change (e.g. information technology, heavy engineering, pharmaceutical and surgical supplies) * the supplier is exposed to extra-ordinary pressures, including technological, operational or market induced * the supplier has failed to deliver in the past. |

Spot checks and inspections

Spot checks and inspections may be necessary to ensure that the goods or services delivered by the supplier conform to the contract standard. Spot checks of supplier performance can be either announced or unannounced. Spot checks and inspections are a powerful supplier performance monitoring tool, but agencies should take great care not to overuse these tools. In particular, over-reliance on unannounced spot checks is likely to damage relationships between agencies and suppliers and make it difficult to build business relationships that are based on trust and mutual commitment to excellence through continuous improvement. Such provisions must be included in the “Conditions of Contract”.

### Contract reports

In some contracts it is appropriate to require the contractor to provide written reports on performance as one of the contract deliverables, for example, consultancies. The reports provide a further mechanism for monitoring and managing the supplier’s performance. It is vital that the contract manager action any such reports in a timely manner, otherwise the performance management opportunity may be lost.

### Non-conformance reports from the field

Sometimes, non-conformance with specifications is not addressed promptly. Reporting of non-conformance from the field, however, allows rapid responses to problems or potential problems. Information on non-conformance from the field allows strategic and risk managers in the agency to adjust plans and advise the supply chain to ensure strategies can be put in place to minimise and manage potential exposure to time or cost over-runs, and any potential impact on the agency’s own core activities and clients.

# Establishing key performance indicators (KPIs)

It is essential that the KPIs and the performance measurement approach (e.g. supplier assessment, procurer assessment, client assessment) be finalised before the contract price is agreed and the contract signed.

## Developing a system for performance measurement

There are some fundamental qualities associated with good performance measures. Supplier performance targets should be:

* measurable
* achievable
* relevant
* controllable - that is, within the control of the supplier’s organisation.

### Characteristics of good KPIs

When deciding how a supplier’s performance should be measured, agencies should ensure that the KPIs meet the following criteria:

* **complete** - all significant aspects of the goods/service should be included in the measurement of performance
* **provide clarity** - the procurer and supplier should have the same understanding of the performance measures to be used
* **measurable** - performance requirements should be expressed in measurable terms and should be based on data which it is possible to gather in a cost effective manner
* **focused** - specifications should be focused on the agency’s procurement objectives (which translate to outputs and outcomes), not on processes.

### What to monitor and/or measure

Some examples of the dimensions of supplier performance that the agency may want to measure include:

* contractor meets minimum service standards
* number of customer complaints
* reporting against key criteria as required by the contract
* benchmarking of performance with other providers and other comparative performance activities
* quality of regular stakeholder meetings
* financial management aspects
* information technology aspects
* other performance measures specifically applicable to the procurement.

|  |
| --- |
| Hint |
| Managing and monitoring suppliers’ performance will not be effective unless:   * critical areas of performance are identified * KPIs are identified and applied * agreement is reached between the agency and the supplier on what is to be measured and the methods by which measuring will take place * performance is documented for future reference (performance monitoring strategies) and measurement tools are regularly reviewed to ensure continued relevance to the procurement. |

# Dealing with poor performance

There are a number of strategies for dealing with a supplier’s poor performance. These include:

* progress meetings and reviews
* agreed problem-solving mechanisms and dispute resolution processes
* enforcing the terms of the contract, including through legal action
* as a last resort, terminating the contract and seeking damages from the supplier.

Effective performance monitoring should provide the contract manager with a timely warning if the supplier is having difficulty in meeting the terms of the contract or the agreed performance standards. Prompt action must be taken if monitoring reveals that supplier performance does not meet the agreed standards. Early intervention may prevent a potential problem from escalating into a full-blown dispute. It also protects the value for money objective. Suppliers should be made aware of any shortcomings in their performance as soon they occur. For most performance problems, particularly for more serious or recurring problems, suppliers should be given a formal warning that their current level of performance is not satisfactory, an explanation of why this is the case and details as to what changes are required in order to meet the performance expectations. This enables performance issues to be identified clearly and addressed by all parties and provides an opportunity for the supplier to improve performance to a satisfactory level before more serious actions are taken.

Communication between the parties should increase, more frequent milestones should be set and closer monitoring should occur. It may be necessary to renegotiate some elements of the contract. The supplier should be informed, when appropriate, that termination of the contract may be considered and must be made fully aware of any changes in their performance that they are required to make if they wish to avoid having their contract terminated. Legal advice should be sought prior to acting on any breaches of the conditions of contract.

|  |
| --- |
| Hint |
| Take care that you do not encourage a practice of escalating supplier default or poor performance by tolerating small performance problems. Smaller problems can typically escalate, and based on your previous dealings, the supplier may have formed an expectation these will also be tolerated. |

A good performance management process produces good contract management records. These can be used for verification of performance and can be referred to when a contract is ready for extension or renewal. In extreme cases, these contract management records can be used as justification for the termination of a contract due to the supplier’s failure to perform to the standard expected.

|  |
| --- |
| Warning |
| Clear definitions of the performance expectations placed on a supplier are vital if you wish to avoid negative relationships and disputes with suppliers, whilst also ensuring that the agency achieves value for money. You will also have difficulty in enforcing your contracts at law, in the unlikely event that this becomes necessary, if you have not included a clear definition of the standard of performance expected and followed fair process in allowing a supplier time to improve their performance to an acceptable level. |

## Dispute resolution

Contractual disputes arise when the parties cannot agree upon areas of contract interpretation. Disputes can occur, for example, over the interpretation of the contract conditions, the project specification, the performance of either party under the contract, or the effects of unexpected events. Contract managers can minimise the likelihood of disputes by ensuring that they maintain close liaison with the supplier throughout the contract period and by effectively dealing with small problems when they arise to avoid escalation. Alternative contractual dispute resolution procedures provide a mechanism to resolve disputes without the expense, delay and publicity associated with recourse to lawyers and the courts. There are numerous alternative mechanisms that can be used to assist both parties to resolve their differences. These include:

* negotiation
* mediation
* expert appraisal/determination
* arbitration.

## Reducing the likelihood of a dispute

The chance of a dispute occurring can usually be reduced by:

* identifying the matters likely to give rise to dispute during the planning stages so that they can be specifically addressed in the contract
* stating the requirements clearly
* using simple, plain and clear language in all contract documents
* regularly reviewing performance and dealing with problems as soon as they arise, before they escalate
* maintaining a close relationship with the supplier in order to assist in dealing with problems when they become apparent
* not allowing a pattern of supplier default to develop (this makes it harder to resolve later disputes as well as potentially reducing the remedies at law).

## Checklist for dealing with poor performance

Once a problem with the supplier’s performance has been identified, the contract manager might consider the following questions:

* is the supplier aware of the problem?
* is there a clear failure to perform?
* has the agency contributed to the failure in any material way?
* how important is this supplier?
* have the goods or services been accepted?
* has the contract been substantially completed?
* what are the conditions of contract?
* does the contract provide for a dispute resolution mechanism?
* can a solution be negotiated?
* what is the cost of resolution?

# Using past performance in future procurement decisions

Using past performance as an evaluation factor in the procurement process can allow agencies to better predict the quality and likely degree of customer satisfaction with future work. It also provides a strong incentive to suppliers to maintain high levels of performance. Effective supplier performance monitoring that is properly integrated with the procurement process can provide agencies with considerable insight into supplier capabilities, strengths and weaknesses.

Past performance measures that can be recorded (preferably on a corporately controlled data base) and referred to in future procurement decisions must, wherever possible, be objective. Some areas of performance that should be recorded include:

* conformance with specifications and standards of quality
* containment and forecasting of costs
* adherence to contract schedules, including administrative aspects of performance
* history of reasonable and cooperative behaviour and overall business-like concern for the interests of the customer
* service to the end user of the goods or services.

|  |
| --- |
| Hint |
| Supplier performance records can provide important information for future procurement decisions. However, due regard must be given to a supplier’s right to commercial-in-confidence dealings, fair process and any *Competition and Consumer Act* requirements that trade not be restricted. Supplier performance information should therefore be handled sensitively to avoid the potential for disputes over its collection and use. |

# Supplier performance management checklists

The following checklists are not exhaustive. They are intended to provide a starting point for the types of issues that should be monitored if a supplier’s performance is to be effectively managed. Officers should add to these lists with additional monitoring issues that are appropriate to the nature of the procurement being undertaken.

## Delivery

Consider whether the supplier:

* delivers on time
* meets due date without expediting
* offers a competitive lead time
* delivers correct items and quantities
* provides accurate documentation and information
* responds to emergency delivery requirements.

## Pricing

Consider the following factors:

* competitiveness
* price stability
* volume or other discounts
* manner in which price changes are introduced.

## Customer service

Consider the following factors for each supplier:

* compliance with contract terms and conditions
* supplier representatives have sincere desire to serve
* provides feedback to the procuring organisation from factory/manufacturer
* effectiveness of sales support
* market insight
* training provided on equipment or products
* support on professional or technical matters
* administrative efficiency (including order acknowledgment and accurate invoicing)
* adherence to their company policies
* adherence to their company quality systems.

## Product

Consider these aspects relating to the product or service being procured:

* meets specifications
* reliability/durability
* product or contract service quality
* quality and availability of documentation, instructions, technical manuals
* packaging suitability, environmental aspects.