

# Establishing a Subcontracting and Partnership Exchange (SPX) Centre

An implementation guide



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

## **UNIDO Subcontracting and Partnership Exchange (SPX) Programme**

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# I. Preamble and background

## Introduction

- 1.1 Over the last 25 years, UNIDO has established Subcontracting and Partnership Exchange (SPX) Centres in more than 20 countries worldwide<sup>1</sup>, thereby creating a global network that aims to effectively support domestic enterprises to become integrated into local, regional and international supply chains and to better meet the challenges of globalization. Over the past years, the SPX concept has been subject to substantial improvements and, since 2009, UNIDO has been partnering with a number of institutions, public agencies and/or private sector associations in various countries establishing a new generation of SPX Centres.
- 1.2 The purpose of this document is to provide host institutions implementing the UNIDO SPX Programme, SPX Team Members and SPX Practitioners alike, with an implementation guide aimed to provide advice, reference and guidance in the process of establishing and implementing SPX Programme initiative in their respective countries and jurisdictions. This guide has been formulated taking into account best practices, insights and knowledge of SPX operations emerging from already established SPX Centres around the world. The over-riding objective of this document is the formulation of a hands-on implementation guide that serves as a reference to SPX Practitioners, project managers and stakeholders in view of the programme implementation efforts. This implementation guide should be therefore viewed as a contribution to explain in a certain level of detail what are the main components and implementation dynamics of a successful SPX Programme. This guide also serves to define the basic 'building blocks' for successful SPX implementation, an aspect which is deemed particularly useful in terms of operational support during the initial months of SPX programme implementation.
- 1.3 This implementation guide is divided into six main parts. This Section introduces the document. Section II refers to aspects related to the SPX organizational framework comprising the setting up the SPX Centre and the engagement of SPX Team with specific roles and responsibilities. Section III delves deeper in the necessary steps to prepare for SPX implementation. Section IV takes the task to formulate a sustainable SPX work plan taking into account the various stages envisaged in the process. Section V provides an overview of specific SPX processes notably the buyer opportunity development and the matchmaking process. The final Section, Section VI concludes with reference to the importance of developing a supplier development support framework. At the end of each Section, reference to the key issues is highlighted. The document also contains a number of Annexes including support materials that can be used throughout the implementation process. Although the various topics discussed in the different sections are organized and presented in a sequence reflecting the different stages and components of SPX programme implementation, there are nonetheless obvious and unavoidable overlaps and cross references in each Sections. This implementation guide has been formulated in a way that it can be used as one complete guide, to be read through from the first to the last Section, or alternatively to be used in a modular manner with Sections serving as stand-alone references for the particular topics or set of topics. In order to provide a complete and exhaustive support knowledge basis, the information and topics contained in this implementation guide should be complemented by other available SPX information resources referenced within. This complementary knowledge base delves deeper in the more specific aspects of the SPX programme component tools and resources. This implementation serves the purpose to 'scratches the surface' of the depth of information and resources available under the SPX Programme. Its ultimate aim is to provide the reader with an immediate broad overview of the many aspects associated with the implementation of the SPX Programme.

## Background

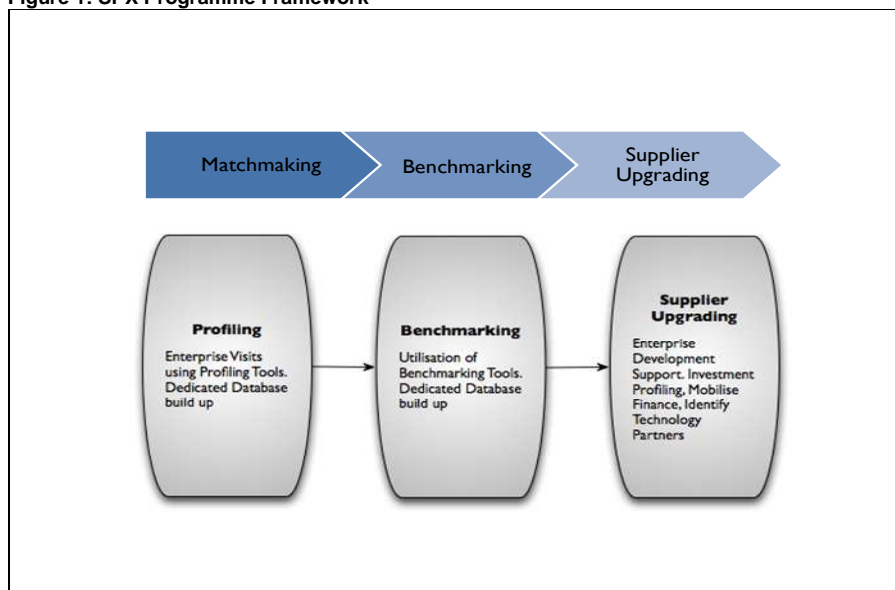
- 1.4 What is an SPX? SPX stands for Subcontracting and Partnership Exchange. It is a UNIDO technical cooperation programme that links domestic enterprises in developing countries to the supply chains

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<sup>1</sup> Refer to Annex I for a comprehensive list of SPX Centres around the world.

of large domestic or international companies. The aim of the UNIDO SPX Programme is to develop local small and medium sized enterprises' (SMEs) capacity to meet buyer needs and in doing so, to identify profitable business opportunities for them. The SPX Programme is implemented within established national SPX Centres and/or Offices which are normally hosted in public sector bodies or in the ambit of private sector associations. An SPX Centre will assist local SMEs to develop their technical and managerial capabilities so that they can become competitive suppliers and sub-contractors to major buyers. This is done through the deployment of a range of tools and expertise based on global best practice. The SPX programme framework consists of a methodology of approaches covering the following main components: (i) Matchmaking, (ii) Benchmarking and (iii) Capacity Building for Supplier Development and Upgrading. Figure 1 illustrates the main components of the SPX programme. Each component is vital for the successful implementation of the successive component. As a result, profiling serves as the basis for successive enterprise benchmarking and cumulatively, enterprise profiling and benchmarking serve to unearth the potential matchmaking possibilities which in turn reflect demands for supplier upgrading mechanisms.

Figure 1: SPX Programme Framework



## SPX Matchmaking

- 1.5 Within each national SPX Office, a local team, supported by UNIDO, works to link buyers to both current and potential suppliers and sub-contractors. The SPX Team develops profiles of the skills and capacities of local companies to be promoted among buyers, and provides customized support to buyers looking for competitive local suppliers. The service provided by the SPX Office include: building a database of local enterprise capacity, developing a technical support team, collating requests for quotations (RFQs), routing quotations from suppliers to buyers, organizing subcontracting fairs and providing a gateway to international information resources whilst providing hands-on advisory services at the level of the shop-floor to local companies committed to improvement and upgrading.

## SPX Benchmarking

- 1.7 SPX Benchmarking compares the operational performance (its results) and practices (how to does things) of a company against those of other companies of a similar size and type. This enables companies to objectively assess their businesses, to see clearly where they stand in relation to international practices within their sector (nationally, regionally and globally), and where they need to upgrade to meet buyer requirements. The UNIDO SPX programme works with leading international partners to ensure that companies have access to the best systems and the best and most upgraded



plant-level data when they undertake this process. SPX also develops strategic partnerships with major buyers to determine their purchasing and procurement requirements in order to guide local SMEs in their path to becoming competitive suppliers of those products.

## Supplier Capacity-building

- 1.8 Where SPX Matchmaking helps identify new buyers for its supplier clients, and SPX Benchmarking provides a diagnosis of where they need to upgrade to meet buyer requirements, SPX Capacity-building supports them in upgrading to meet these requirements. It assists them to formulate investment proposals, mobilize financing and identify technology partners. The local SPX team can mobilize locally-available support organizations for enterprise development and investment promotion and assists companies in getting access to finance to respond to the needs identified by the benchmarking diagnosis.

## Establishing an SPX Country Programme

- 1.9 The process of establishing an SPX Country Programme necessitates a number of steps and stages, as follows:
- The identification of a UNIDO partner institution willing and able to host an SPX Centre to implement the programme at the respective country level. Normally, SPX Centres are instituted within either Investment Promotion Agencies or within Private Sector Associations and/or Chambers of Commerce;
  - UNIDO providing training to SPX personnel and to other Stakeholder representatives in SPX methodologies including SPX Enterprise Profiling and SPX Benchmarking;
  - The development of an SPX database of enterprise profiles reflecting a technological capability assessment in terms of an accurate classification of what these enterprises can produce, the company's plant and equipment, intermediate inputs sourced, technical skill components, resources utilized and prevailing standards for quality certification, etc.
  - Providing contractors and buyers with the facility to use SPX services to generate requests for quotations (RFQs) that can then be channelled to supplier enterprises in the SPX database who can subsequently prepare for quotations;
  - A proactive working relationship between the SPX Office and large buyers (TNCs, SOEs) in the country so as to ensure more strategic partnership and to integrate SPX activities, whenever possible, into corporate social responsibility (CSR) programmes
  - Target the 'attention' and focus on SMEs in countries where the small enterprise sector is not sufficiently well developed.<sup>2</sup> The SPX programme acts as a development agent tool in the engagement of SMEs facilitating their awareness in terms of what is required for achieving the minimum competitive levels required to penetrate international supply chains. In this sense, SPX methodologies are also 'flexible' in adapting to the contextual industrial and economic context of the country in question and thereby act as an enterprise development programme assisting SMEs in assessing their competitive positioning and helping them address their weaknesses;

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<sup>2</sup>SME development is also spearheaded through other UNIDO programmes such as the Enterprise Development and Investment Promotion Programme (EDIP). The prime function of EDIP is to stimulate the emergence of new and growth of existing enterprises that produce goods and services for trade, provide employment and income thereby contributing to poverty alleviation and overall economic growth. The EDIP programme has two main components: Enterprise Creation and Enterprise Growth. A third component of the programme aims to develop institutional capacity to handle these two elements as well as to build up strong networks to ensure the programme's long-term sustainability.

- Providing additional SPX services that go beyond a purely sub-contracting exchange function for a limited number of sub-sectors, to become more of a supplier - buyer exchange tool covering a wider range of sub-sectors that can be of more interest to the particular industrial/sectoral context of less developed economies;
- Bringing forth an international network of SPX Centres with a central co-ordination unit providing tool and methodologies, certification, training updates, strategic partnerships with major international buyers, a central profile database and standardized approaches to engage with buyers and suppliers.

1.10 In addition to the importance of the matchmaking function between buyers and suppliers, the other main cornerstone of the SPX Programme is domestic enterprise benchmarking aimed to assist their management in assessing respective competitive positions and to provide enterprises with recommended action plans suitable for industrial upgrading and investment. Benchmarking is designed as a facilitated self-assessment, where the company's operational performance and practices are compared with global values and best practices. This SPX component provides the management of an SME with a view of its competitive position, identify the strengths and weaknesses of the company and list remedial actions most likely to improve its competitiveness. The benchmarking methodology also looks at the level of the company in terms of its maturity compared to what the buyers of their products are looking for. This is critical because the company can take different routes of upgrading and investment strategies depending on the product group characteristic and buyer requirements. The SPX Benchmarking approach involves not only undertaking the benchmarking exercise (which assists in 'diagnosing' problems and/or operational inefficiencies) but also helps in identifying and delivering the treatment (as cure and ways how to address the problems). Addressing diagnosed problems would invariably involve mobilizing service providers, technical and management support, financing opportunities and joint venture partnership arrangements. To this effect, the SPX Programme presupposes the interaction with many service providers and entities within respective countries as well as with other UNIDO and international services.

1.11 Three models of benchmarking are being incorporated into a single SPX Benchmarking Model; notably:

- International performance benchmarking;
- International best practices benchmarking;
- Alignment of capacities with buyer requirements for different categories of products and services;

UNIDO has partnered with renowned international service providers with proven and tested methodologies in the compilation of international databases of benchmarked companies that allow meaningful international comparisons. In this context, partnerships are being forged with buyer partners to other non-manufacturing sectors to link into the extractive sectors and agro-based industries (for example, in some countries this means building partnerships with investors in the mining, oil/gas and agro-industry sectors).

## The Value Proposition of the SPX Programme

1.12 At the outset of delineating this document, it is fundamentally important to emphasise the value proposition of the SPX Programme. Through its implementation, the SPX will enable the leverage of large investors and public procurement (especially through subcontracting by State Owned Enterprises) to become drivers of SME development. The purpose of the SPX Programme is to link local enterprises – as suppliers and sub-contractors – to large buyer organizations. SPX Programme supports potential suppliers in improving their competitive position through their upgrading and international promotion with joint venture partners. The SPX programme aims to provide a response to the need of large investors to find qualified local suppliers and develop local suppliers.

1.13 More specifically, the value proposition of the SPX Programme stems from the value added and benefits generated and accrued to the various economic agents and stakeholders involved and/or linked to its implementation, namely SMEs, government institutions and the buyer community<sup>3</sup>:

- **To SMEs:** SPX provides assistance, know-how and support to SMEs and potential suppliers to become SPX-certified suppliers that are able to meet the state of the art international standards of large domestic and/or international buyers. Less technologically advanced and capable SMEs can benefit from the SPXs in that they stand to be linked to other small and medium size enterprises, including domestic ones, at the lower tiers of the supply chain. The SPX Programme gives SMEs an opportunity to benchmark their operations against the requirements of key local and regional buyers as well as related international standards for their product grouping. The programme also provides domestic suppliers with access to local and international experts aimed to provide support and assistance in defining and implementing improvement programmes. The SPX programme provides enterprises with an important means to market their organisation and their capabilities to a wider range of local, regional and global buyers through the broader UNIDO SPX network. Last but not least, the SPX Programme provides enterprises with an important overview of the prospective local or regional demand available in the region which sets a concrete milestone for quality improvement and upgrading.
- **To Government and public institutions and/or agencies:** The SPX programme serves to contribute to the economic and technological advancement of locally based economic agents thereby creating a sustainable local supplier base. SPX Benchmarking services allow public agencies to tailor and prioritize their services with regard to the actual upgrading requirements of the respective supplier companies compared to providing standard and off-the-shelf solutions having less impact. In addition, there are a number of institutional benefits emanating to public agencies such as policy advocacy leverage, inputs to improved enterprise impact assessments and through SPX implementation, the promotion of investment portfolios.
- **To Buyers:** The SPX Programme enables large buyers to identify and support the development of local supplier capacity in compliance with the highest industry standards and buyer specific requirements. Buyer can gain visibility and recognition by host country stakeholders by assuming the role of agents for industrial development. The key value proposition for buyer organisations is that this assistance in developing local and regional suppliers will translate in economic and corporate gains. The SPX Programme helps buyers identify suppliers from a broader pool of prospective suppliers with the aim to work with these suppliers to develop them to a stage where they meet the minimum standards required by the buyers. As a result, the SPX Programme is beneficial to the buyers who often lack the resources and time to gather and access information about the wider supplier market especially for low priority purchases. Although buyers may have good sourcing and supply chain management capabilities, they often lack the enterprise development capabilities needed to help upgrade their supplier base. It is anticipated that the buyers will benefit from an increase in the quality and the number of local suppliers resulting in an increase in local content, reduction in imports and reduction in the costs and associated risks of procuring from a regional supplier. Buyers will acknowledge the major saving in the cost of maintaining supplier data and doing supplier audits. They see the potential for a reduction in long-term procurement costs through collaborative supplier development initiatives. Buyer firms can mitigate the risk through ongoing visibility on a broad supplier base and emphasize their role

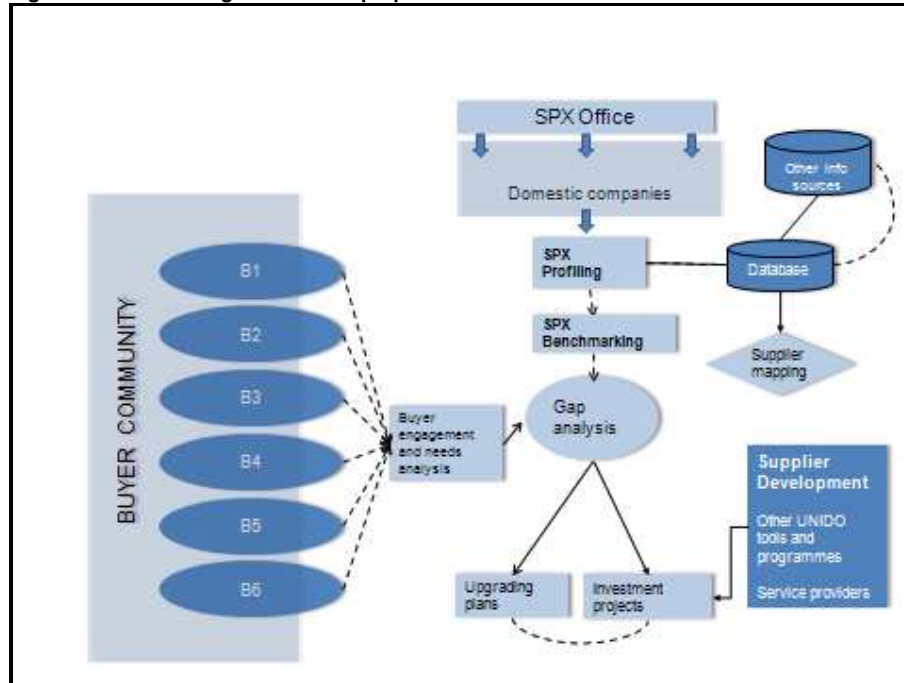
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<sup>3</sup> From the UNIDO point of view, the implementation of the SPX programme enables the organisation to explore various programs' interdependencies and aggregate resources to maximize SME development impact in the various countries. In this sense, the SPX Programme should be seen in the context of overarching framework of its Investment Programme including ITPO, Investor Surveys and the Investment Monitoring Platform initiatives. In particular, through its international network of ITPOs and SPXs, UNIDO will support international promotion activities such as partnership promotion forums, reverse and sub-contracting fairs, and investment financing promotion in support of technology transfer agreements. Whenever possible and applicable, study tours to selected SPX Centres and ITPOs around the world are encouraged so that exchange of information and experience among SPX staff would be enhanced and relationships with suppliers of innovative technologies are being maintained and expanded.

as vehicles for effective social responsibility procurement at the national and the international level. Buyers do not need to deal with multiple institutions but can use the SPX Office as one single contact point for subcontracting opportunities on local and global level.

Perhaps one of the main aspects of the SPX value proposition remains that it enables SPX host institutions to promote and place themselves at the forefront of enterprise service provision, providing a wide array of value-added services to their clients, members and respective jurisdiction in terms of more specialised interventions at the enterprise level. Indeed, through close enterprise interventions and interactions, the SPX Programme invariably equips and validates host institutions' ability to identify major business climate constraints of groups of industrial suppliers and serve to propose and implement potential ways to address these constraints also through active policy advocacy.

**Figure 2: The SPX Programme value proposition**



As depicted in Figure 2, the SPX Centre effectively sits between the needs of buyers and the capabilities/capacities of domestic companies as suppliers. As such, the SPX Team has to have the dexterity to reach out and promote the SPX value proposal to both potential suppliers and buyers with each category of clients having different aspirations and objectives and operational contexts. It is important that SPX Team members keep in mind the 'bigger picture' of the SPX Programme whilst focusing on the single programme component: be it profiling, benchmarking, buyer engagement or matchmaking. In particular, the SPX Manager must assume the leading role in pursuing a strategic resolve to fulfil the SPX Programme objectives with each component constituting a tool and a means to an end: the ultimate goal being that to generate more subcontracting arrangements in the country and attain supplier development goals.

### *Key points to remember:*

1. *SPX Programme phases with emphasis on matchmaking, Benchmarking and Capacity Building for Supplier Development;*
2. *The value proposition of the SPX Programme in the country.*





## II. The SPX Organizational Framework

### The SPX Host Institution

2.1 The SPX host institution - as a stand-alone organisation with specific mission objectives, strategic interventions, project portfolio and subcontracting related activities - constitutes a crucial component in the overall SPX organizational framework. As mentioned earlier, an SPX Centre is generally hosted within an institution and/or organisation that can be either public or private. UNIDO establishes SPX offices within institutions according to well defined governing structures and parameters. The identification and status of the respective SPX Centres is determined by an exploratory process which boils down to a mutual understanding between the host institution and UNIDO, specifically outlining the type and extent of the respective inputs to the programme and very much depending on the funding possibilities prevailing in the SPX start-up phase. These mutual shared inputs range from financial and expenditure cover, to 'in kind' contributions; e.g. SPX human resource expenditure cover, office infrastructure and consumables, transport facilities and services, the provision of training, SPX promotion organization of fairs and related miscellaneous activities. Joint provision of inputs and cost sharing determines the establishment of an SPX Office based on sustainable implementation parameters signifying that when over time UNIDO's inputs is withdrawn the SPX Centre continues to function without problems fulfilling its basic purpose of bringing together enquiries for and offers of subcontracting work and outsourcing.

The importance of selecting the right SPX host institution refers to a number of additional considerations, as follows:

- The organisational structure of the institution and its national presence through satellite offices, agencies etc, can prove to be an important advantage for SPX implementation in terms of national coverage, logistic support and effective enterprise outreach. The organisational strength of the SPX host institution - in terms of breadth and width of main stream activities - is expected to play a fundamental role in, for example, ensuring the optimal quality and up-to-date maintenance of the company databases and business directories, in the identification of synergies in the organisation of large scale promotion (utilising various media channels, publications and periodic initiatives) and stakeholder activities and in emphasising the relevance of subcontracting and the promotion of supporting industry through policy advocacy and links with country government structures;
- The depth of and varied nature of the host institution's operational activities (e.g. functional departments) as well as the overarching agenda and portfolio of activities, tend to provide an important platform complement for SPX programme implementation and presents a unique leverage opportunity for further programme development and promotion. In particular, enterprise development initiatives, SME support services and/or subcontracting partnership assistance being undertaken by the host institution may provide a much needed head start – in terms of market intelligence and situation analysis – to general SPX programme implementation. This context will ensure that the SPX Team carefully identifies synergies and complementarities with mainstream organisational activities provided by the host organisation to benefit SPX programme implementation;
- Equally important is the infrastructure provided for the implementation SPX operations. Adequate office space needs to be provided for the SPX Centre. Allocated space for training and conference facilities represent an important infrastructure asset in the wake of the numerous training activities to be organised as well as business to business meetings sessions hosted. The host institution should also provide for coverage of office running costs and other consumables including IT service. Normally transport facilities would need to be provided. From the outset preparations would need to be made for the setting up of a country SPX website which could also be linked to and/or part of the host organisations' main world wide web presence.

## SPX Team Members

- 2.2 An SPX Centre cannot function nor exist without the support and contribution of a designated manager and a team of specialists/experts who have as their main aim the successful implement of the SPX Programme in the respective countries. In this sense, the basis of a successful SPX Programme in any country context firmly lies on the calibre, experience and capability strength of the SPX Personnel being engaged. Basically, an SPX Centre is normally run by three (3) main personnel roles each of which covering specific tasks but complementary tasks. These roles refer to the SPX Executive Manager, the SPX Profiling Specialist and the SPX Benchmarking Specialist.
- 2.3 The SPX Executive Manager is responsible for the planning and management of the SPX activities in close interaction with UNIDO SPX project management. At the outset, the SPX Executive Manager must manage the SPX Centre and drive all aspects of programme implementation. He/she must ensure that identified SPX stakeholders work together and effectively synchronize their activities whilst taking a pro-active role in sensitizing local and international buyers with the intention to build sustainable strategic partnerships. He/she must also engage the local supply sector to provide basic company data, which will then be promoted through the SPX Centre. In subsequent steps, the SPX Executive Manager encourages local suppliers to carry out recurrent benchmarking studies with the aim to formulate structured upgrading plans. Whenever applicable, the SPX Manager must co-ordinate and integrate SPX programme activities within the ambit of respective country Implementation Committee set up to implement UNIDO's Investment Programme<sup>4</sup>.

Specifically the role of the SPX Executive Manager is the first one to be delineated and this is so for a primary purpose: he/she is the person selected to act as the lead person to identify, short list and appoint the rest of the SPX Team. He/she will have the primary task to organize the first training workshop for supplier benchmarking and subcontractor-contractor matchmaking together with the international SPX Experts. He/she is expected to formulate and design a marketing plan for the SPX activities and prepare/create promotional materials for SPX such as leaflet, brochures, web pages, thereby undertake the initial steps to develop the SPX brand in the country. An important role of the SPX Executive Manager is also to organize information and sensitization workshops with large transnational corporations (TNCs), large domestic and state-owned enterprises (SOEs) in a bid to establish strategic partnerships with buyers and link their local procurement requirements in the SPX framework.

The important role of the SPX Executive Manager reflects the responsibility assigned to it in determining the strategic focus of the SPX Programme in the country. It is the Executive Manager who is expected to co-ordinate the plant-level visits of SPX engineers to collect basic technical information (e.g. raw materials sourcing, technology and machinery, product types and industrial classification) from supplying enterprises. He/she is expected to ensure the establishment of an accurate SPX database as well as to supervise the process of holistic performance and practice benchmarking through periodic re-visits of SPX staff to selected enterprises. The SPX Executive Manager is responsible to create a sustainable, value adding local entity that will support local enterprises in their upgrading process and in their resolve to capture new markets and increase sales whilst building their capacity and capability. These over-riding responsibilities, place the SPX Executive Manager at both the back-end and the front-end of the SPX Office and country programme set up.

- 2.4 The SPX Profiling Specialist is entrusted to oversee the profiling of the skills and capacities of local companies to be promoted among prospective buyers. He/she oversees the building up of a database of local enterprise capacity and coordinates the advisory services that national or international SPX Experts would provide to local companies in their quest to enter into subcontracting arrangements. The role of the SPX Profiling Specialist starts with actively engaging in the process of entering supplier firms onto the Profile Database utilising the UNIDO SPX Profiling Tool (Refer to Annex I). This entails marketing the Tool to relevant suppliers, meeting them and capturing the company details and

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<sup>4</sup> These *fora* ensure the organization of periodic meetings and reflect the ability and possibility of multi stakeholder groups to speak through a common platform and utilizing and sharing information sources, analysis and policy instruments. This is particular important in view of the potential for policy advocacy and common voice in terms of industrial policy and investment promotion matters. The Implementation Committee structure may represent an important element in drawing up of synergies that can help the SPX Office in providing solutions for upgrading processes. Normally, Memorandum of Understanding between the SPX institution and other public or private organisations are set to formalize relationships between institutions.



ensuring that the information is accurately entered into the SPX Management Information System, the newly developed software that succeeds the previous software systems used by the SPX Programme and which is aimed to improve day-to-day work of the SPX office enabling officers to better perform tasks and responsibilities assigned to them. The SPX Profiling Specialist must oversee the accuracy of the information uploaded on the profiling database.

The key responsibilities of the SPX Profiling Specialist would therefore include the following:

- Identify and market the SPX Programme to relevant suppliers in the country;
- Meet with companies and gather relevant information from the Profiling Tool;
- Upload profiles on to the SPX Profiling Database and regularly update and verify quality of information in the system;
- Meet the targets and deliverables in terms of number and quality of suppliers to be entered into the profiling application;
- Maintain strict confidentiality of supplier enterprises.

The Profiling Specialist is expected to assume a crucial role in the identification of target buyer enterprises as well as public procurement bodies since he/she will be the SPX proponent to seek to obtain buy-in from buyers and collect request for quotations. After having built a comprehensive SPX database for matchmaking purposes and overseeing supplier firms' profiling and benchmarking process, the Profiling Specialist should facilitate the process of engaging buyers' interest through the extraction of supplier lists and assisting the RFQ generation process. The SPX Profiling Specialist is expected to attend training workshop(s) for supplier matchmaking and identify enterprises with relevance for subcontracting and supplier development objectives from existing databases. In the case of other formal matchmaking events, he/she is expected to assist suppliers to prepare samples of their products, promote themselves to the buyer community as well as support these in business plan development.

- 2.5 The SPX Benchmarking Specialist is assumed to become the main SPX Centre specialist in matters related to the utilization and application of the UNIDO SPX Benchmarking tool aimed to support suppliers in the assessment and scoring of the performance and practices. He/she then has to convert the data into a results report that will assist the supplier in identifying and addressing key aspects of their respective businesses that should be improved.

The key responsibilities of the SPX Benchmarking Specialist would therefore include the following:

- Market the Benchmarking Programme to gain participation of relevant suppliers and SMEs in the country;
- Provide preliminary training to participating suppliers;
- Assist suppliers in the self-assessment phase of the benchmarking process;
- Conduct the facilitated management team assessment phase;
- Consolidate and input the results of the benchmarking exercise onto the web-based application;
- Advise the supplier on relevant industry comparative analyses;
- Convert the comparative analysis results into a detailed analysis of suppliers' relative strengths and weaknesses and identify key next steps for improving the company's performance;
- Provide a detailed presentation to the supplier on the findings of the report;
- Maintain strict confidentiality of suppliers generated benchmarking reports.

The SPX Benchmarking Specialist would need to be trained in UNIDO SPX Benchmarking methodologies and fully capable of using the tools for supplier benchmarking and development. The benchmarking component involves intensive plant-level visits to undertake enterprise benchmarking and additional meetings/workshops would need to be facilitated to undertake enterprise self-assessments and to ultimately present benchmark report findings. Benchmarking questionnaires are to be collected on a periodic basis and the Benchmarking Specialist has the role to check the accuracy of benchmarking data provided and drive the process towards expected results. The Benchmarking Specialist is not to be considered as an auditor but as a facilitator who seeks to create consensus within the firm on certain practices and performance parameters. The Benchmarking Specialist could eventually be asked to play an important role in contributing to the compilation of

enterprise development plans and assist in the implementation of upgrading proposals. To the extent possible and in line with demands, he/she undertakes and delivers training to other stakeholder groups to enlarge circle of users of the benchmarking model. In this manner, the Benchmarking Methodology is expected to be adopted and deployed widely in the country. An important task for the Benchmarking Specialist refers to the building up of an SPX database for tailor made supplier development programmes. This would constitute a first step towards the facilitation of services aimed to further support individual supplier development plans, including *inter alia* mobilizing finance from interested financial institutions, undertake promotion at local or specialized international fairs (For more specific details refer to Section VI).

## Technical support available to the SPX Centre

- 2.6 Once an SPX Office is established and the required human resources engaged, the SPX organisational framework can draw upon a wide range of internal and external technical support. The SPX Office can draw upon technical support and resources made available by UNIDO and to resources made available internally by the SPX Host Institution.
- 2.7 The SPX Programme Management Centre at UNIDO HQ provides the overall strategic, technical and implementation advisory support and back-stopping to the various SPX offices across the globe. Over the years, this role has been transformed, assisted and reflected into various resources compiled and prepared for the purpose of continuous supervisory and technical support and following the experience of establishing and implementing the Programme in various countries worldwide. These resources, *inter alia*, comprise training material, methodologies, software and tools which have been developed and implemented by UNIDO's team of consultants and experts. A non exhaustive list of such material, manly in English but some of which also in other languages, is referred to hereunder<sup>5</sup>:
- For the SPX Profiling Component, there is a comprehensive SPX Profiling material comprising of the SPX Profiling Tool, related SPX Profiling Training Materials, Profiling Work Component implementation manuals and relevant power-point presentations. UNIDO has also developed and implemented an SPX Management Information System Stage 1 (SPX MIS) which is based on a Software Requirements Specification document. The SPX MIS also comes with a set of documents describing manual of procedures and help functions<sup>6</sup>;
  - For the SPX Benchmarking Component, there is extensive material starting with the UNIDO SPX Benchmarking tool for both manufacturing and non-manufacturing enterprises as well as training documentation comprising case studies, power-point presentations and implementation handbooks<sup>7</sup>;
  - In the pipeline, there is a buyer requirement tool that outlines and prioritizes buyer needs for a particular item to be sourced locally, places these needs in relation to the benchmarking results of the supplier in the form of a structured gap analysis;
  - A comprehensive SPX support material, ranging from introduction to SPX Programme as well as detailed overviews of its main components, is collated in a series of video lessons which will be soon available for dissemination and use by SPX network members on a dedicated Electronic Platform (SPX E-Platform)<sup>8</sup>.
- 2.8 Being located in an already established institution, the newly founded SPX Centre would be able to draw upon other administrative, operational and strategic activities undertaken by the host organization and/or institution. In particular, the SPX Executive Manager must be well aware of the complementary activities, synergies, possible competition of the SPX Programme with other projects/activities being undertaken and implemented by the host organization. For example, the SPX Manager can:

<sup>5</sup>This implementation guide is also to be considered as part of the documentation support provided to the UNIDO SPX network.

<sup>6</sup> For a representative list of SPX Profiling Tool questions, please refer to Annex 2.

<sup>7</sup> For a representative list of SPX Benchmarking Tool questions, please refer to Annex 3.

<sup>8</sup> For a comprehensive list of topics and material available in the SPX E-Platform modality please refer to Annex 4.

- Identify the geographical representation of the host institution throughout the country, through regional or satellite offices that can serve to provide support to the diffusion of SPX activities in the country. Regional, provincial, industrial zone focus would help SPX Team to establish a foot hold in establishing the SPX 'brand' and thus motivating active participation from enterprises;
- Identify technical cooperation programmes and/or activities undertaken by the host organization in related areas to enterprise development and subcontracting arrangements, taking into account possible synergies in enterprise management and industrial development projects. Resources such as previous documentation, profiling of enterprises, detailed studies on subcontracting and market research would provide invaluable resources to the SPX Team in its first steps in establishing and proposing SPX as a valuable tool for enterprises;
- Identify enterprise related information that is compiled and collated by the host entity in line with other activities such as enterprise lists, sectoral analysis and studies. The SPX Team would find this information useful when they proceed to short list suppliers and buyers and to identify key sectors to target in their activities. Good paragraph to merge with description of SPX Executive Manager responsibilities

### *Key points to remember:*

1. *The importance of a well functioning SPX Centre with efficient private sector outreach and its proper integration into the day-to-day activity of the host organisation;*
2. *SPX Team members with respective roles and responsibilities;*
3. *The wide array of SPX resources to be accessed internally and externally to the SPX host institution;*



## III. Preparing for implementation

### Overview

- 3.1 This Section focused on the main tasks to be undertaken by the SPX Team to prepare for implementation. By this stage, the SPX Team is well aware of what the SPX Programme is all about, is familiar with the various components and activities, their own respective roles and responsibilities within the Team and also what type of services will be provided under the Programme goals and objectives. Although important, this information is by no means enough to start full implementation. Additional important information is required to this end, in terms of identifying the industrial and sector context of the SPX intervention, the mapping out of SPX Stakeholders and the process of prioritising the SPX Client base. It is worthwhile to recall the key role of the UNIDO SPX Centre; being a function to support the generation of capacity and capability of local suppliers and fostering business to business linkages. This role is expected to be underpinned by a careful assessment and planning of operations based on defined strengths, opportunities for successful SPX implementation. In particular, this means that it is important to identify the country's industrial and sectoral context, whilst carefully assessing the emerging potential opportunities for subcontracting arrangements. Equally vital is the need to identify the number of SPX stakeholder organisations and institutions with a focus on existing and potential SPX clients. Lastly, it is important to prioritise actions in the pursuing of operational roll-out.

### Identifying the industrial and sector context

- 3.2 At the outset, it is important that there is a thorough understanding of the national industrial and sectoral context in which the SPX Programme will be operating in as well as the need to identify potential opportunities for subcontracting arrangements and benchmarking service provision in the constituent base. In this sense, prior to formulating an implementation plan, the SPX Team must have a good understanding of the country's economic sectoral performance, in particular the competitive strengths of local enterprises and industries. It is also important that the SPX Team is well abreast of the key issues facing manufacturing and industrial sectors (e.g. macro and micro economic trends, competitiveness issues, industrial upgrading potential) as well as clear understanding and knowledge of foreign direct investment (FDI) activity and performance in the country.
- 3.3 Particularly, it would be of great advantage to the process of preparing the SPX implementation plan if the SPX Team is aware of or can draw upon anecdotal and/or documented empirical evidence concerning the nature and extent of backward and forward linkages in local industry. This information should be collated for both domestic and foreign enterprises and should ideally focus on a thorough situation analysis of local content strategies of major buyers (including foreign investors) as well as to the nature and extent of supporting industry in the economy. This specific information invariably provides the SPX Team, with a reasonable 'head start' in terms of identifying the *status quo* in subcontracting arrangements in the country and would be extremely helpful in establishing realistic goals and objectives. If such studies and information are available, then the next logical step would be to rank industries, sectors or even single out enterprises in terms of potential supplier and buyer engagements and determine respective propensities to benefit from the programme. On the basis of this situation analysis, the SPX Team would be able to produce a detailed short-list of:
- key sectors more tenable to establish backward linkages and/or forward linkages to identify potential suppliers and buyers in the country;
  - enterprises ranked in accordance to their local content strategies, their existing and potential subcontracting arrangements;

This empirical evidence and information may be available either internally or externally and as a result, the SPX Team should gather as much information as possible about the country's status quo

in terms of subcontracting arrangements prior to start of full programme implementation<sup>9</sup>. UNIDO can definitely assist in this process, drawing upon a myriad of related information consisting of data, studies and empirical analysis both at the country and at the regional level. An important source of information is information gathered in the ambit of UNIDO's Investor Survey being undertaken in the respective country. The UNIDO Investor Survey data cover the topic of backward and forward linkages and enterprise level data is available to identify country trends and characteristics in this sense. Other reference might be given to various sources of data and information available at the national level (e.g. studies and analysis, local business directories, dedicated enterprise lists).

## Identifying Key National Stakeholders in the SPX framework

3.4 An important task that the SPX Team must undertake is the identification of key SPX stakeholders. To this end a simple, straight forward Stakeholder Planning/Mapping analysis can be utilized. The first step in the Stakeholder analysis is to list all potential SPX Stakeholders. As part of this task, the SPX Team must consider all the economic agents (enterprise, associations, public agencies, Ministries etc) who might be affected, directly or indirectly by the SPX Programme, those who have influence or power over the SPX Programme or else who might have an interest in its successful or even unsuccessful implementation. Although stakeholders may be both organizations and people, ultimately the SPX Unit can only communicate with individual people. To this end, it is extremely important that the right individual stakeholders and focal points are identified within a stakeholder organization. Once a list of entities is prepared, Stakeholders should be listed according to Power/Interest criteria and ranked according to their power and interest in the SPX. The respective potential position on the grid would then identify the actions that need to be taken, *inter alia*:

- High Power, High Interest Stakeholders would be those with which the SPX Team must certainly and fully engage with;
- High Power, Low Interest Stakeholders would be those in which the SPX Team should invest time and effort to keep them interested in the Programme but not so much to 'scare' them off from possible future involvement;
- Low Power, High Interest Stakeholders would be those with which the SPX Team must keep an adequate information flow on SPX activities;
- Low Power, Low Interest Stakeholders would be those with whom the SPX Team should engage the least keeping them in the loop of information but not bore them with excessive communication.

To summarise, in this initial stage of familiarisation with the organizational institutional framework for SPX Programme, SPX Team needs to know more about the key Stakeholders, their reaction to the Programme and related activities and an understanding of how best to engage these stakeholders in the SPX activities and appropriately set communicate with them. Key questions that can help understand Stakeholders could be the following:

- What financial or other interests do these Stakeholders have in the outcome of SPX Programme? Is this positive or negative?
- What are their motivations and objectives?
- What information do they want from SPX?
- How do they want to receive information from SPX? What is the best way of communicating the SPX message to them?
- What is their current opinion of SPX Programme? Is this based on good information?

<sup>9</sup> If such a situation analysis is not undertaken prior to starting implementation, it definitely has to be determined during the implementation phase.

- If Stakeholders are not likely to be positive, what will win them around to support SPX?
- If SPX is not able to win the participation of Stakeholders, how will SPX manage opposition?

A very good way of answering these questions is that the SPX Team engages in talks and meetings directly with Stakeholders. This might constitute a concrete first step towards building a successful relationship with these entities.

- 3.5 An important Stakeholder group to consider refers to potential partners and/or collaborators to the SPX Programme. Partnerships or alliances would invariably help the SPX Team achieve its goals. It is important to identify these entities that could bring benefit to their members by working with the SPX Programme. Another important group of Stakeholders refers to potential competitor organisations that may be already engaged in the subcontracting game through similar programmes or projects. To this end, the SPX Team should be looking for competitors to the SPX initiative in the country. It is important to understand if such competing entities can be turned into SPX partners or allies and find ways to collaborate to maximise benefits for local enterprises. Clearly this engagement is very much dependent on the stature of the SPX host institution in the national institutional landscape and the extent of leverage it has to influence development initiatives. In this context, it is important to identify other organisations/institutions in the country that may be targeting suppliers or buyers, understand their services, their offers and who is benefiting from their activities. Indeed, identifying SPX competition provides an insight into the key areas that the SPX should focus on and the clarification of the country's SPX potential strengths and weaknesses. On the important issue of competition to the SPX Programme, competition might result from similar programmes in the subcontracting partnership that help foster linkage programmes and establish more business to business linkages. These competing programmes could be administered either by institutions (local or international) with the participation of local partner organizations and private enterprise or could be initiated and governed by large buyer (MNEs or SOEs) directly. Other competition to the SPX also emerges from the prevailing subcontracting relationships that large buyers (domestic or foreign) might have already established before the SPX came into being in the country.

An important partner in the process is represented by Government and public agencies. It is fundamentally important that the SPX Programme shows how it can support Government in its SME development policy framework. If the SPX can convey the benefits of the SPX in this context, two main pillars of the programme: i.e. opportunities and SME development will be put firmly on the map.

## Identifying SPX Client Base and prioritising

- 3.6 A key conclusion from the Stakeholder Analysis should be the ultimate recognition that the SPX Programme 'sits' between two distinct but interdependent stakeholders, namely the Buyers and Suppliers. In this sense, it is more apt to refer to Buyers and Suppliers as constituting the main SPX Client Base. Both have different needs, requirements and objectives and it is important to understand these different characteristics when dealing with each group. The SPX Client Base would also need to reflect the sectoral short list of sectors more tenable to establish subcontracting arrangements in the country. Once a short list is identified this need to be disaggregated with information on suppliers and buyers. It would be useful to prioritise among suppliers and buyers in an effort to identify where the SPX Team can get the most immediate, positive results from working with enterprises in the short to the medium term.
- 3.7 With respect to Suppliers, a thorough examination must be undertaken to list and intuitively group potential supplier enterprises into any of the following main broad categories:
- Enterprises with some or plenty of 'real' experience in subcontracting arrangements with large domestic buyers and/or foreign enterprises. These buyers may be leaders in the domestic market or may even be established export-oriented enterprises. Their interest in the SPX Programme would stem from their desire to expose their reputation, capacity and capability to other buyers in a bid to increase their market activity and presence. Given a certain path dependency, these enterprise might also be more rapid in embracing industrial and technology upgrading as required by new or current buyers;

- Supplier firms with no or limited experience in supplying to larger buyers, but nonetheless who are interested in such arrangements and are prepared to be introduced as potential suppliers to high end buyer enterprises and undertake upgrading partnerships comprising supplier development programmes and

Although this might not be an exhaustive list of possible categories, it nonetheless reflects the most likely scenario in the country.

- 3.8 One of the key roles of the SPX Programme is to match buyers to appropriate suppliers – the so called SPX Matchmaking process. To do this effectively, there is an active need to first interact with the Buyer Community. Although this topic will be elaborated more in Section V in this guide, at this stage, it is sufficient to highlight that the SPX implementation plan necessitates the constant identification and reach out to buyer firms, especially their respective key focal points/decision makers in procurement and local content strategies. Some of these buyers might represent ‘champions’; i.e. key industrial/manufacturing enterprises in the country with which the SPX has to interact and engage on a systematic basis. The SPX Team should make its utmost to engage these ‘champions’ as a reference to the SPX role in the country’s industrial landscape. In addition, buyers should be ranked with reference to their respective sectors. This ensures a more targeted approach for engagement with large buyers. Different sectors often value different business characteristics therefore it is useful to understand the differences before engaging with buyers. With the basic information on who the key buyers are, the scale of their business, the sectors they are interested in and a view on their openness to work with the SPX Office, once can then move on to formulate the SPX implementation plan.

### *Key points to remember:*

1. *Understand the key industry and sectoral context of SPX operations;*
2. *Map out and analyse the SPX Stakeholders;*
3. *Identify the SPX Clients base, distinguishing between Buyers and Suppliers and prioritise/shortlist.*



## IV. Formulating a sustainable work plan

### Establishing a SPX Work Plan

- 4.1 Once the organizational framework is identified and a strategic plan on SPX Client Base delineated, the SPX Team can proceed with formulating an SPX work plan. The drafting of the SPX implementation plan must be based on a rigorous identification of the different phases of activities, clarifying the intervention logic of the activity and enlisting the sources of verification/deliverables in the process. Such an approach borrows from the broad aspects of the Logical Framework Approach identifying activities with a rigorous bottom-up checking process to make sure that activity lists are comprehensive. As such, the SPX project inception plan has to take into account five (5) different stages of implementation, carefully distinguishing between their respective intervention logic and expected deliverables. It is important to highlight that although the SPX work plan must reflect successive stages in the implementation process, it is ultimately dependent and influenced by the country context (shaped by the characteristics of the SPX host institution, the Client base, key Stakeholders and the type of industrial sectors operating in the country). What follows is therefore a normative overview of the different stages in SPX implementation which a Work Plan ought to reflect. The Stages approach described hereunder may be undertaken in succession. Implementation stages may overlap. Stages may even be implemented concurrently.

It is important to distinguish between three Stages of the SPX Work Plan: Stage 1: Contact client base and promotion, Stage 2: Training and Stage 3: Full SPX Operations.

### Stage 1: Contact client base and promotion

- 4.2 In Stage 1, implementation should start the initiation of formal activities; with the process of establishing contact with the list of potential buyers and suppliers and plans and organization of SPX Promotion initiatives. A distinct decision must be taken with which clients to work first: which buyers to start engaging and which suppliers to contact for profiling. This target client base refers to the prioritised list of potential suppliers and buyers identified in Section III. In this regard, a targeted approach helps the SPX Team to better plan who to visit and contact to explain the benefits of the SPX Programme and how these plans will be deployed in the short to medium term. There is a need to define and clarify the key targets and objectives for visits to suppliers and buyers. The SPX Team should contact enterprises and make appointments and allow time in their schedules to discuss progress, ideas after an initial period of week(s) activities of client contact. It is the task of the SPX Executive Manager to coordinate this process and take decisions in accordance to prescribed objectives. The other SPX staff members are equally responsible to deliver and cooperate with the Executive Manager in this important initial stage.
- 4.3 Before proceeding to contact suppliers and buyers, the SPX Team should find out as much as possible about each of the enterprises being targeted. For example, a detailed buyer profile sheet for prioritised buyers is advised. Detailed list of supplier firms from national business directories, UNIDO Investor Survey or other sources should be prepared. It is strongly suggested that the SPX Executive Manager takes the lead in visiting enterprises to formally present the SPX Centre and the Programme as well as to highlight the SPX service value proposition. If a key buyer group is 'won over', the task ahead for SPX implementation will become somewhat simpler in terms of attracting further supplier interest. Vice versa, the more suppliers are profiled, the more concrete would the SPX matchmaking proposition to buyers become.

- 4.4 The SPX Team must realise that they will be starting the SPX Programme from scratch. Empirical evidence from other countries suggests that it is often useful to focus on a small number of sectors and work to identify which sectors are relevant for SPX activities. It is important to get close to those involved with Sectoral Associations, representative bodies or trade associations. It can often be useful to work with such groups as one can quickly get a reasonable number of clients who want to engage with SPX on matchmaking and benchmarking activities. It can also be that this focus on selected sectors can lead to the identification of group needs that can often act as a source of further work for the SPX Centre. In summary,
- Selecting the companies from the host institute's database;
  - Selecting the companies from other partner institutions' database;
  - Selecting the companies from the open source database and directories;
  - Selecting the companies who are already suppliers for the buyers we are in contact with;
  - Selecting companies who are already a sub-supplier of an SPX member
- 4.5 Enterprises must be contacted and proposed the consolidated SPX offer comprising Matchmaking, Benchmarking and Supplier Development support services. In this sense, the objective is to secure appointments with enterprises so as to capture their basic capability information, to engage them as a Matchmaking client, to offer them the benchmarking service and to inform them of the SPX development process and plans. Experience with SPX roll-outs across the globe shows that there are usually enterprises who are early adopters and whose management is open to new ideas. There exists therefore an immediate potential to target these enterprises and work through the SPX process with them. These enterprises can become key references which the SPX Team could start using as real local examples of the benefits of engaging with the SPX process. An added potential would be private associations which would have been identified as allied partners to the SPX process. It is important that the SPX Team gets to share with these organisations the work plans and benefits to be had as a result of working with the team. As the SPX Team develops the roll-out action plan, support materials such as brochures, presentations and case studies will help support the value proposition for the SPX. These materials should be prepared and developed in a way that it is 'comfortable' to use with the targeted clients. As a start, the Team would be promoting an idea, a concept of what the SPX Office can do to help Buyers, Suppliers, Agencies and the National Government without concrete examples of local results. SPX Team can provide examples of other companies in other countries that have used the service and achieved significant new business, savings and efficiencies. This information can be accessed through UNIDO data and information sources. The SPX Team would then have to sift through the stories which are deemed relevant to the specific country circumstance and specific local industries.
- 4.6 The local and the national media have the potential to help the SPX Team with getting the message out to both Clients and Stakeholders. Newspapers will often be looking for material for their specialised pages. The SPX Team should focus on the positives that will be achieved by participating enterprises. A format for generating press releases should be prepared identifying the key points that need to come across; i.e. what is happening, where, when and what are the key outcomes. In addition, there should be an exploration of the opportunity to spread the message in the relevant local media. Brochures need to be distributed as widely as possible to potential targets. After the initial contact with enterprises and the promotion measures, the SPX Team may need to move on to ensure constant engagement with enterprises. Most enterprises are usually interested in short term benefits, and are always interested in accessing help to find new markets. The SPX Centre can be further introduced as a 'trade house' where the SPX Team can act as matchmaking specialists for local SMEs, focused on their interests and the development of local capacity and capability. The SPX office can also act as a source of information for local and foreign buyers. The SPX Team is engaged in the challenging task of collecting updated company information from a wide range of companies. This is not an easy task and can be a very useful service to and support for buyers.

The live data being captured by the SPX office is also valuable information for institutions, both at the local and international level. Such bodies need access to reliable and timely information if they are to do their jobs properly. The SPX Team are a good resource for accurate and up to date

information for company data in manufacturing sectors with detail on such subjects as products, processes, machine parks and other related topics. The SPX Office can also be of interest to both SMEs and buyers who are interested in benchmarking themselves or their suppliers. The SPX Office can provide helpful information to companies to help them find out their weaknesses and strengths versus the sector competitors and make plans to improve their capacity and capabilities.

In the context of SPX promotion, the SPX newsletter is an essential marketing tool and should be sent out on a monthly basis to all key stakeholders such as government, SOCs, other buyers and the supplier community. The SPX should ensure that it generates a comprehensive database for the newsletter recipients. The newsletter should be distributed to the wider audience to showcase the SPX benefits and activities, ideally containing case studies and containing links to opportunity alerts with links to the SPX MIS where buyers can register. Figure 3 refers to some of the main activities foreseen in Stage 1.

**Figure 3: SPX Programme implementation, Stage 1**

<b>Stage 1: Contact and Promotion</b>	
<b>Objective</b>	<b>Key activities</b>
Establish contact with the client base and start SPX promotion	<ul style="list-style-type: none"> <li>▪ Start initial contact with enterprise short list of potential buyers and suppliers;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Organize an SPX Promotion, perhaps an SPX launch event, with the active participation of enterprises and other Programme Stakeholders. Such an activity would include a mission of UNIDO Technical Expert(s) for basic sensitisation and explanation of methodologies during the SPX launch event;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Organize and set up meetings between UNIDO Technical Experts and key representatives from the host institutions to formulate the SPX Strategic Plan and assist SPX Team in the Stakeholder Mapping and identifying key buyers and suppliers;</li> <li>▪ Undertake sectoral and enterprise short list(s) and identify pilot enterprises for further contact;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Formulate list of potential buyers and sellers and establish contact with potential buyers and suppliers and identify a number of pilot companies for technical SPX Profiling missions;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Coordinate and organize SPX Promotion activities through the establishment of a Shop window, personal visits, mail shots, brochures, flyers, articles in specialized press;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Organize a number of meetings between key buyers/suppliers and HQ experts and start preliminary contact with 'champion' buyers ;</li> </ul>

## Stage 2: Training

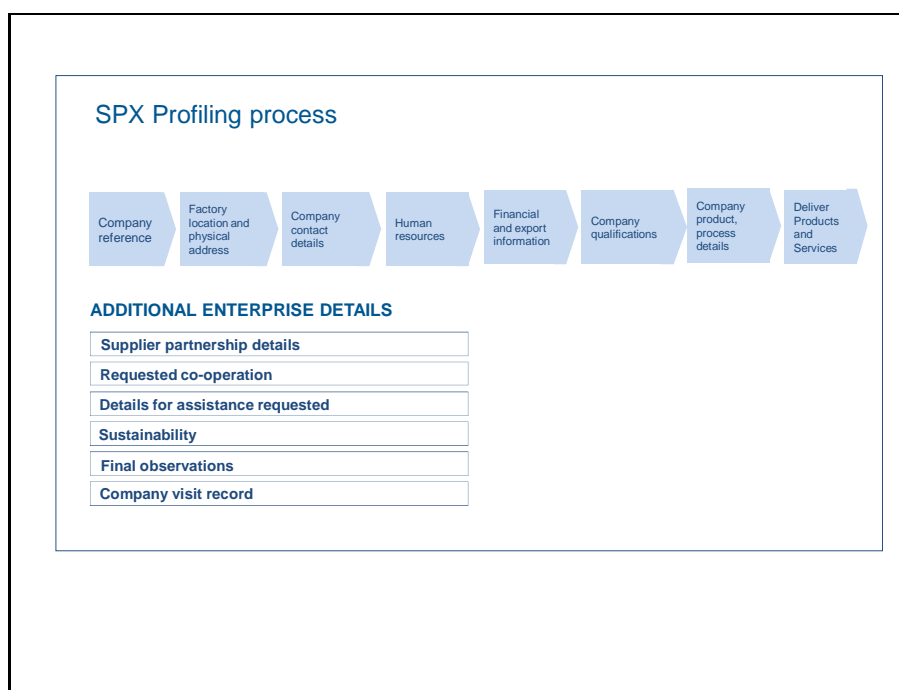
- 4.7 Training is a fundamental aspect of the UNIDO technical support provision to SPX offices and it characterises Stage 2 of the SPX implementation process. SPX training mainly comprises training in methodologies of enterprise profiling and benchmarking. Training is normally provided by UNIDO Technical Experts in coordination with the SPX Centre and takes place before actual deployment in the field. Over time, the training delivered has been perfected and augmented in scope and content following innumerable activities held in various countries and cooperating experiences with various stakeholders.

4.8 SPX Profiling training mainly focuses on how SPX Offices should profile enterprises and capture relative data and information to be uploaded on the SPX Profile Database. Profiling training mainly focuses on the mastering of the SPX Profiling Tool (understanding how to capture enterprise related information) and how to use the SPX Management Information System to upload enterprise profile on the database. The UNIDO SPX Profiling Tool is one of the primary tools put at the disposal of SPX Centres and officers to enable these to profile companies as prospective suppliers participating in the SPX programme and potentially benefiting from matchmaking process with prospective buyers. The UNIDO SPX Profiling Tool underpins the development of company profiles which are then uploaded on the respective SPX Centre database. SPX Profiling is a pre-requisite component for further SPX services and has been designed to collect information from suppliers/subcontractors as part of a package or "Information System" comprising:

- a standard list of questions which seeks to identify companies and provide further information on company's set-up, structure and potential capabilities;
- a set of standard nomenclatures as the basis for profiling analysis;
- a computer software or program entitled SPX MIS which at the outset serves to host the SPX Profile database

The UNIDO SPX Profiling Tool comprises three (3) main Parts: Part 1 refers to general company identification details such as company references, location and representative, contact details. Part 2 refers to specific company details ranging from information on human resources, financial, turnover as well as company sectors, products and production processes. Part 3 covers additional details which refer to supplier partnership details, areas of requested cooperation, details for further assistance and final observations. Figure 4 depicts the main components of the enterprise profiling process.

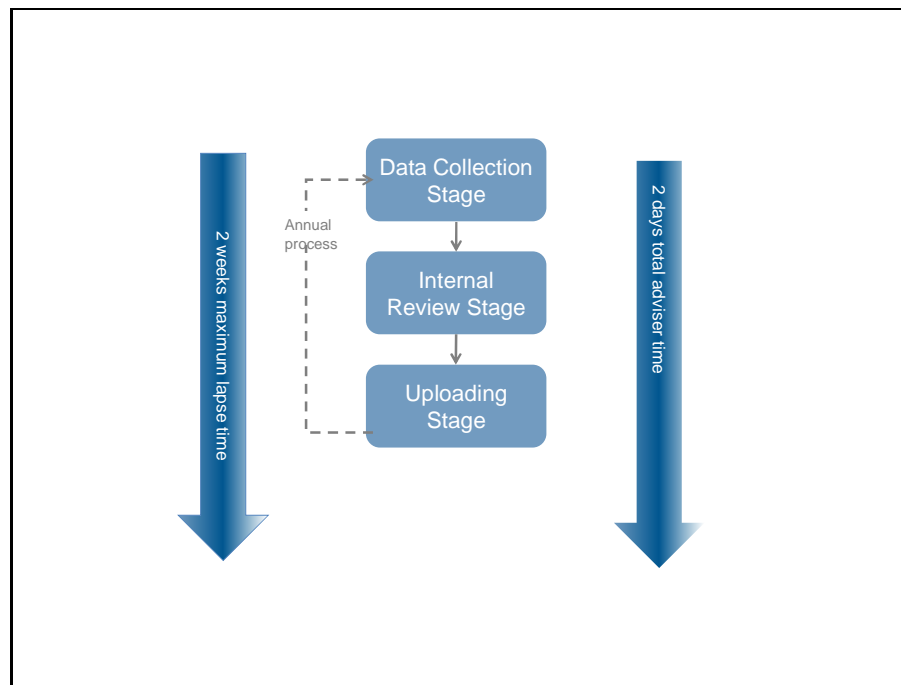
Figure 4: The SPX Profiling Process



The SPX Profiling Specialist is entrusted to oversee the profiling of the skills and capacities of local companies to be promoted among buyers. He/she oversees the building up of a database of local enterprise capacity and coordinates the advisory services that national or international SPX Experts would provide to local companies. The building of the SPX country database is therefore underpinned by effective and efficient utilisation of the UNIDO SPX Profiling Tool. The SPX Profiling Specialist is entrusted with the role to market the SPX Programme to relevant suppliers, meet the

suppliers and capture company details whilst ensuring that the information is accurately entered into the SPX Management Information System. The SPX Profiling Specialist must ensure the ongoing oversight and quality assurance of the information captured by the Profiling Tool. The SPX Profiling Specialist can and must use the Profiling Tool to identify and market the Programme to relevant suppliers in the country. Equipped with the UNIDO SPX Profiling Tool, the Profiling Specialist also assumes a crucial role in the identification of target buyer enterprises as well as public procurement bodies since he/she will be the SPX proponent to seek to obtain buy-in from buyers and collect request for quotations. Ultimately, the Profiling Tool is meant to enable the Profiling Specialist to build up a comprehensive SPX database for matchmaking purposes and extract lists from it for the benchmarking assessment of local suppliers and potential matchmaking with buyers. A key consideration in the utilization of the UNIDO SPX Profiling Tool is the confidentiality of supplier enterprises which needs to be safeguarded at all times before, during and after the process. Figure 5 describes the profiling process and its various stages.

Figure 5: The SPX Profiling Stages



- 4.9 The UNIDO SPX Supplier Benchmarking Tool provides an insight into the performance levels being seen in respective businesses and the practices being used to deliver the products/services offered. The Tool is powered by two globally renowned benchmarking engines, Winning Measures and PROBE, which have partnered with UNIDO to provide measurable business performance and practice services within the SPX Programme. Providing access to literally tens of thousands of company records, from all around the world, the methodology is arguable one of the most internationally advanced and the Tool offer important benchmarking capabilities that aim to support enterprises in performance improvement. Benchmarking training is based on both theoretical and practical approaches and is provided by trained and qualified UNIDO Experts who work with SPX advisers and directly with enterprises to develop specific enterprise action plans for growth. The Benchmarking Tool is a questionnaire divided into two (2) Sections, Part A and Part B. Part A is used to collect the performance data from the relevant functions within businesses. This part of the questionnaire is designed to gather information about business's performance covering financial, customer, process and learning growth topics. Part B Team consensus consists of seven (7) parts covering various aspects of firm practice and SPX Benchmarking Specialists are trained to effectively lead and facilitate such team consensus.

Training also covers the development and delivery of benchmarking performance reports once both

parts of the questionnaire have been completed. The benchmarking report provides the basis for SPX adviser to review areas of relative strength and weakness that can be used as the basis for setting business goals, developing and validating business strategy and prioritizing action plans in enterprises. Training is meant to enable SPX Benchmarking Specialists and other advisers to be able to actively and effectively engage with enterprise representatives. Figure 6 and Figure 7 illustrates the SPX Benchmarking components and stages, respectively.

Figure 6: The SPX Benchmarking Components

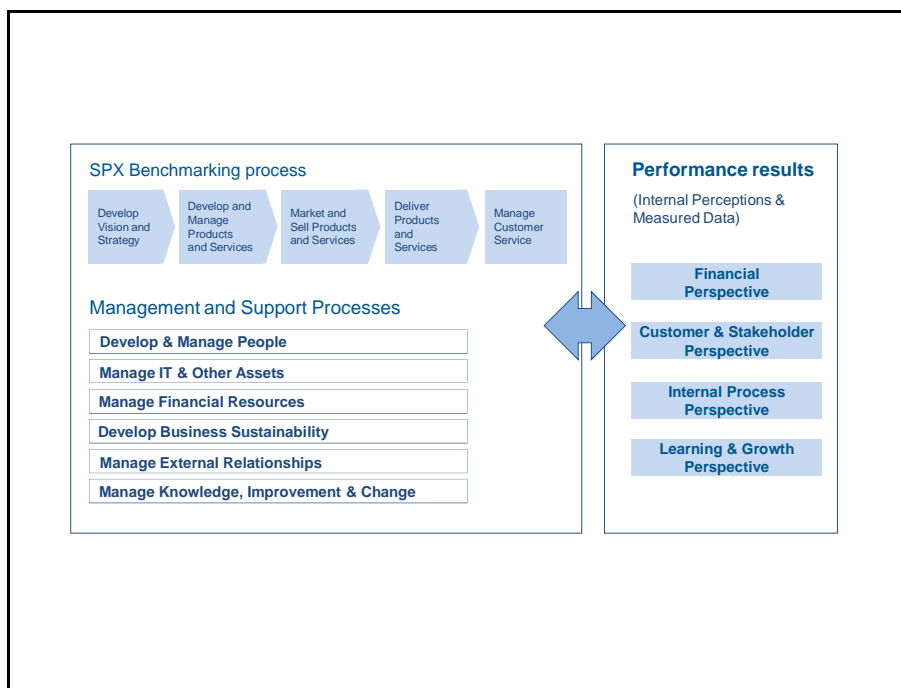
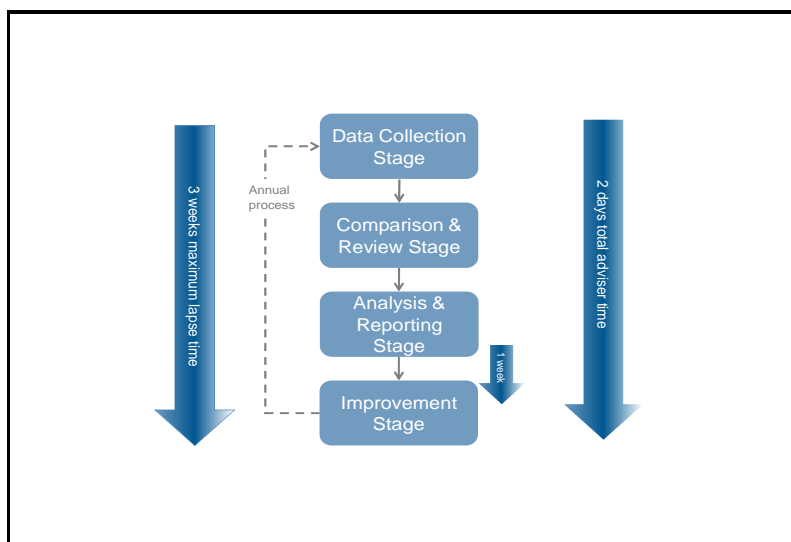


Figure 7: The SPX Benchmarking Stages



SPX Benchmarking Specialists and other associated advisers receive ad hoc training not only on how to present the benchmarking model and interpret the graphical outputs and analysis of

business, but also on how to deliver constructive positive and negative feedback, highlighting strengths and any specific areas for improvement whilst outlining future focused strategic action plans based on benchmarking findings.

- 4.10 SPX Team and other SPX stakeholders would be invited to attend these training activities in view of the importance of the methodologies and approaches envisaged. The area of training and capacity development can also fall into the activity of the SPX Office. The SPX Office can move to develop training programmes and seminars, based on the global SPX networks experience and the UNIDO shared resources. The results of the benchmarking exercises can often highlight company specific training needs. Grouping together the needs of individual companies the SPX office can create a training programme tailored to meet the group needs, in this way providing direct help to local companies to develop their capacity and capability to supply buyers both at the national and international level.

Overall, the training component is an over-riding feature of the SPX Programme. Continuous on-the-job training in the application of various tools is encouraged and this is implemented through utilization of an ever increasing pool of local, regional resource persons as well as experts and associated advisers. Once methodologies are deployed in the field, ongoing training starts to focus more on practical implementation issues as well as how to interpret outputs and improve the feedback process to the client base. Clearly, the growing Global SPX Network makes it possible to internationalise the training process with continuous knowledge exchange, sharing of experiences and intensifying linkages between SPX offices and respective representatives. Periodic international events organised by UNIDO further assist in the dissemination of best practice and further training in SPX methodologies. Figure 8. refers to some of the main activities foreseen in Stage 2.

**Figure 8: SPX Programme implementation, Stage 2**

<b>Stage 1: Contact and Promotion</b>	
<b>Objective</b>	<b>Key activities</b>
Establish contact with the client base and start SPX promotion	<ul style="list-style-type: none"> <li>▪ Start initial contact with enterprise short list of potential buyers and suppliers;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Organize an SPX Promotion, perhaps an SPX launch event, with the active participation of enterprises and other Programme Stakeholders. Such an activity would include a mission of UNIDO Technical Expert(s) for basic sensitisation and explanation of methodologies during the SPX launch event;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Organize and set up meetings between UNIDO Technical Experts and key representatives from the host institutions to formulate the SPX Strategic Plan and assist SPX Team in the Stakeholder Mapping and identifying key buyers and suppliers;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Undertake sectoral and enterprise short list(s) and identify pilot enterprises for further contact;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Formulate list of potential buyers and sellers and establish contact with potential buyers and suppliers and identify a number of pilot companies for technical SPX Profiling missions;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Coordinate and organize SPX Promotion activities through the establishment of a Shop window, personal visits, mail shots, brochures, flyers, articles in specialized press;</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Organize a number of meetings between key buyers/suppliers and HQ experts and start preliminary contact with 'champion' buyers ;</li> </ul>

## Stage 3: Full SPX Operations

- 4.8 Stage 3 effectively refers to effective deployment. As a result of implementing the various components of the SPX programme (profiling, benchmarking and matchmaking), the SPX Team would be principally capturing data and information pertaining to supplier profiles, supplier benchmarks, buyer requirements, service providers that are crucial in the facilitation of supplier upgrading processes as well as the registering of best practice and success stories in subcontracting arrangements. By definition, enterprise short list would preclude the immediate urge of the SPX Team to rush out and visits enterprises. When the SPX Team ‘hits the field’ and starts direct face-to-face enterprise activities as in profiling, this must not be undertaken as an end in itself but as an initial step in the entire subcontracting process including matchmaking, benchmarking and supplier upgrading. The SPX Profiling staff may rush out to the first list of selected companies in selected sectors and request their participation and to collaborate with SPX Office. At the outset, this may seem an attractive option but the enterprise might not be open to participate in such an experience. Attention is therefore required to ensure that all questions and issues raised by engaged enterprises are met with adequate and fulfilling answers.

Figure 9: SPX Programme implementation, Stage 3

Stage 1: Contact and Promotion	
Objective	Key activities
Establish contact with the client base and start SPX promotion	<ul style="list-style-type: none"> <li>Start initial contact with enterprise short list of potential buyers and suppliers;</li> </ul>
	<ul style="list-style-type: none"> <li>Organize an SPX Promotion, perhaps an SPX launch event, with the active participation of enterprises and other Programme Stakeholders. Such an activity would include a mission of UNIDO Technical Expert(s) for basic sensitisation and explanation of methodologies during the SPX launch event;</li> </ul>
	<ul style="list-style-type: none"> <li>Organize and set up meetings between UNIDO Technical Experts and key representatives from the host institutions to formulate the SPX Strategic Plan and assist SPX Team in the Stakeholder Mapping and identifying key buyers and suppliers;</li> <li>Undertake sectoral and enterprise short list(s) and identify pilot enterprises for further contact;</li> </ul>
	<ul style="list-style-type: none"> <li>Formulate list of potential buyers and sellers and establish contact with potential buyers and suppliers and identify a number of pilot companies for technical SPX Profiling missions;</li> </ul>
	<ul style="list-style-type: none"> <li>Coordinate and organize SPX Promotion activities through the establishment of a Shop window, personal visits, mail shots, brochures, flyers, articles in specialized press;</li> </ul>
	<ul style="list-style-type: none"> <li>Organize a number of meetings between key buyers/suppliers and HQ experts and start preliminary contact with ‘champion’ buyers ;</li> </ul>

It is the ultimate objective of the implementation process that an SPX Office becomes *de facto* a clearing house for request for quotations (RFQs) for buyers. The SPX Team would collect and summarise the incoming RFQ responses from potential suppliers, organising them according to the needs and requests of buyer clients. There may also be the need to translate RFQs, if there is a language disconnect between buyer and supplier. Once the buyer has short listed the potential suppliers your office is again well placed to add value for the buyer by facilitating the next steps in the buying process. In this sense, the SPX Centre can assist by arranging meetings between buyers and potential suppliers and/or by providing support to enable buyers to visit the production



facilities of suppliers. Such services can be very helpful to buyers in a practical sense and can also help develop deeper professional interaction between the buyers and the UNIDO SPX Office. Enterprises capture the number of deals done with buyers and begin to get successes from answering RFQs as deals done with buyers. Feedback from clients, both suppliers and buyers, is important for the ongoing SPX team work. In this sense, the SPX Management Information System (MIS) captures the necessary data and produces the required reports and facts in an automatic manner, provided that basic data is entered as required. Once an SPX Centre develops such encompassing functionality, it becomes an invaluable source of information in the country and possibly the region. The SPX Team would be capturing real-time information on the state of local industry and this should be supplemented with additional general information on the area to make the SPX Centre a One-Stop-Shop of choice for buyers looking to do business in the respective country. Figure 9 refers to some of the main activities foreseen in Stage 3.

### *Key points to remember:*

1. *Establish contact with SPX Client Base (Suppliers and Buyers) and initiate promotion of the concept;*
2. *Emphasise the importance of SPX Training and maximising the opportunities to interact with UNIDO Experts to discuss, seek guidance on SPX Methodologies and their applications;*
3. *Initiate SPX visits to enterprises and capture/upload data, initiate RFQ mechanism and start identifying needs for supplier upgrading.*

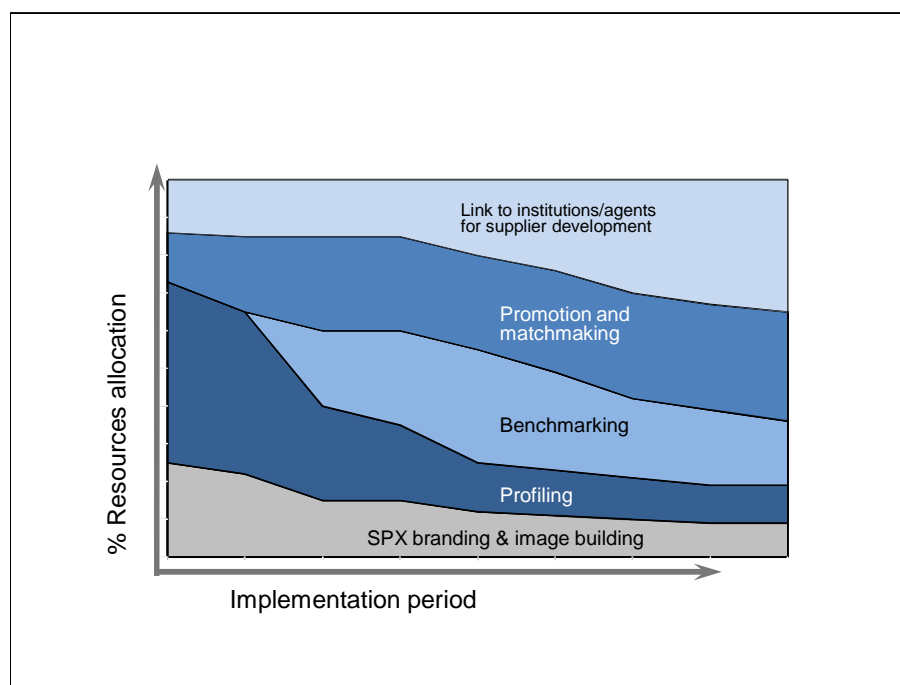
## Ensuring sustainable operations

4.9 In the previous parts of this Section, the focus has been on the process of SPX implementation and highlighting main areas of importance in this process. By now, the SPX Team should have a clear idea of what SPX implementation entails. However an important aspect that the Team must consider is the sustainability of operations over time. This last part in this Section refers to ways and means how SPX sustainability could be ensured. As Figure 10 illustrates, over time the relative importance of the different SPX activities changes with respect to immediate and long term objectives. It makes therefore sense for the SPX Team to devise ways and means how to make sure that priorities at the different stages of implementation are set and goals achieved. The different activities put together in an overall context constitute the basic building blocks for SPX sustainable operations.

4.10 The ultimate goal of the SPX Centre and the Team is to implement a successful SPX Programme in the country. Linked to implementation success is also the steering of SPX initiative along the lines of an autonomous SPX that can foresee implementation even when UNIDO's direct financial assistance is reduced. Primarily, autonomy implies an appropriate budget allocation on a yearly basis, to allow the SPX Office to operate efficiently and independently. In this sense, an important role is obviously played by the host institution in terms of allocation of funds to SPX purposes on a periodic basis as well as in terms of medium and long term planning. Although crucially important in the first years of operation, at some point UNIDO's financial contribution would need to be phased out. In this sense, SPX Centre must strategically address this *problematique* by identifying possible income streams from the provision of SPX services and related advisory support to enterprises. If the SPX Host institution is a private sector association then it would be feasible to start looking at ways how, in the medium and long term, one can promote SPX services to members and non members at a reasonable fee or on the basis of premium services modality. SPX Centre might want to partner with other Stakeholder institutions in the provision of such services. Clearly sustainability of operations is greatly dependent on the extent of funding that can be secured by the host institution to dedicate/allocate for SPX purposes. Whereas the SPX Team must be fully cognisant of the 'ingredients' to ensure a successful SPX Programme in the country, it has to prepare now ensure a sustainable SPX operations tomorrow.

Linked to this, it is extremely important for the SPX Office not to lose sight of the longer term perspective and the overriding objective of the SPX Programme: the so called 'bigger picture'. The SPX Executive Manager must be the strategic leader and the driving force for the delineation of current and future SPX activities. For example, although enterprise visits are important, these should not be regarded as the end of the SPX initiative but just a means, among many, to achieve the end objective. Accordingly, the SPX Programme should add value over and above the individual client visits. Adding value means not only looking at the specific activity but placing that activity in the context of the overall Programme objectives spanning over time. For example, the specific activity of enterprise visits should not be seen as an end in itself but should be complemented by dedicated sectoral workshops, buyer-supplier events that lead to tangible results to enterprises and in turn help develop and embed the SPX brand in the country.

**Figure 10: SPX Programme implementation vis-à-vis resource allocation**



- 4.11 The sustainability notion is also supported by the fact that the SPX Centre will, from the outset of operations, be joining an international SPX Network under the patronage of UNIDO. This international context provides the country SPX Centre with the required scope, platform and opportunity for constant reference to international context. This is in the line with the wider SPX framework and the notion of the 'big picture' at the global level. How is sustainability then supported by the SPX international context? From day one of operations, the SPX Centre will have an opportunity to learn from other offices' experiences worldwide. UNIDO SPX resources provide the SPX Team with an accessible and powerful tool to learn from and share information with other SPX practitioners in other countries. The SPX Team should be open up to suggestions, advice and insights from UNIDO SPX Experts and from other international SPX Centres in identifying opportunities for developing income streams from SPX activities, increase value-added services over time and ways how to establish concrete working and profitable relationships with supplier associations etc. Through the utilization of the SPX resources and tools enterprises have access to the international network and there is a concrete opportunity to take the buyer-supplier engagement up to the international level by forging linkages between enterprises beyond country borders.

Although UNIDO is available to provide ongoing support in this process through the provision of resources, documentation, international expertise and advisory assistance, it requires regular feedback across the difference SPX activity levels. In this sense, the role of the SPX Executive Manager is to ensure that information pertaining to the activities of the SPX Office – in terms of

deliverables, number of profiles. Number of benchmarks, matchmaking potentials, RFQ exchanges - is maintained up-to-date and accurate as possible. Information on what activities have been undertaken, visits to buyers and suppliers, discussions held, workshops arranged and the numbers of attendees are all of interest to UNIDO because these feed in a process of further dissemination and knowledge base pool of available resources. As the SPX implementation process gains momentum, UNIDO HQ would also be very interested to be informed about country successes as well as about practical experiences with SPX roll-out.

### *Key points to remember:*

- 1. SPX Team should ensure sustainability of the SPX Programme, identifying opportunities for potential income streams in the provisions of added services;*
- 2. Never lose sight of the bigger picture of the SPX Programme and always see single SPX activities as a means towards an end of a successful SPX programme;*
- 3. SPX Centre should take full advantage of the international context of SPX activities and interact with the global SPX network as a source of continuously updated reference point, a source of knowledge and expertise and generator of international subcontracting opportunities.*



# V. Buyer opportunity development and matchmaking process

## Preamble

- 5.1 The SPX Programme exists to link buyers and suppliers through matchmaking arrangements. *De facto*, the Global SPX network reaches out to suppliers of goods and services and offers national and international buyers a one-stop opportunity to quickly narrow down their search for credible local suppliers. The SPX Network also enables buyer to invite and receive RFQ responses, to inform themselves about which companies are actively seeking to reach world class standards of practice and performance and to understand the best way how to support supplier business improvement activities for mutual advantage. This Section will look at the various aspects of the buyer opportunity development and matchmaking process through reference to the different stages of buyer and supplier interaction. Contracting enterprises offer work to subcontractors, thus enabling suppliers to conclude contracts with them and, in the case of long-term contracts, to guarantee them a certain economic continuity. If such enterprises want their suppliers to meet their requirements to the greatest possible extent, they will need to support them in their development process.

Whilst actively working at buyer engagement and matchmaking process, the end objective of the SPX Office is to trigger a series of development actions between the buyers and suppliers aimed to help subcontractors meet buyer requirements as regards pricing, delivery times, quality, impact on the environment, etc. Such assistance can take different forms: e.g. jointly conducted research and development activities, technical assistance through the loan of machinery, personnel, patents and licences, financial assistance and/or training. While the SPX, or any other organization, and experts can help firms meet quality, lead time, and other requirements, no entity can entirely replace the contracting enterprise in the daily monitoring of the selected suppliers' development or in dealing with highly technical issues relating to their development. Such assistance from main contractors is especially necessary since SMEs often undertake operations on a short-term basis only. By having the direct support of their client and regular monitoring of their development, subcontractors will be better able to envisage the benefits that they can achieve, will be more motivated to carry out the programme fully and will readily realize that the programme is indispensable irrespective of the local or national economic situation. Large enterprises will, for example, be able to give their subcontractors the benefit of their experiences in reducing costs or increasing productivity. Such cooperation between main contractors and their suppliers will also make it possible to strengthen partnership relations which, as is known, are essential for sustainable development and for achieving mutual benefits.

## Subcontracting Benefits to Suppliers and Buyers

- 5.2 At the outset, buyer opportunity development and matchmaking processes are inextricably linked to the extent of sensitisation and engagement work undertaken by the SPX Team. It needs to be highlighted that buyer engagement and opportunity development, as well as matchmaking with suppliers rests on the extent of SPX Office resolve to provide a clear, coherent and credible service proposition to the business community. The SPX Programme service proposal should strongly refer to the benefits of subcontracting accruing to both buyers and suppliers. Before the SPX Team engages in active buyer engagement aimed to capture buyer opportunities for potential matchmaking, it would do well to reiterate the role that the SPX Programme has in realising these benefits to both supplier and buyers

The main benefits from subcontracting to suppliers firms include the following:

- i. *Higher productivity and efficiency:* The benefits of subcontracting are not to be considered one sided since these can also be plentiful for subcontractors, especially for those in

developing countries. Subcontracting leads to a specialization in the completion of specific activities or specific components or parts and this type of specialization enables the subcontractor to achieve a higher level of efficiency and skill and thereby aiming to achieve higher levels of capital and labour productivities;

- ii. Use of spare capacity: Subcontracting arrangements also enable enterprises to increase the rate of utilisation of the installed capacity and to improve capital and labour productivity. Indeed, very often, such enterprises have under-utilized production facilities. Finding outlets for spare industrial capacity helps increase production thereby raising output and ultimately revenue<sup>10</sup>;
- iii. Economies of scale: By concentrating on a single and specialized activity or discipline, subcontracting service providers can gain economies of scale whilst at the same time further the cost advantages they offer to original equipment manufacturers (OEMs). Scale economies may result from larger facilities, broader and denser networks, and even greater purchasing clout;
- iv. Technology transfer: Subcontracting arrangements act as very efficient mechanisms and tools for the technological enhancement of SMEs. By engaging in an active collaborative agreement with specific customers, suppliers and subcontractors benefit from a large amount of technology transfer<sup>11</sup>. In order to ensure that the inputs required to complete the production of goods meet some standard level, contractors can provide suppliers not just with specifications but sometimes also with assistance in raising SME technological capacities;
- v. Risk mitigation: Subcontracting may also relate to risk mitigation. It is argued that one of the reasons for engaging in subcontracting arrangements is rooted in the need to reduce business risks, such as inventory obsolescence, uncertainty and stock-outs related to volume fluctuations, while increasing the rate of profit through special orders, improved payment conditions and spreading market concentration;
- vi. Financial support: Contractors may decide to provide financial support or improved access to credit to their subcontractors, for instance a contract could serve as collateral for loans. Financial assistance could take the form of advanced payments or low-cost rental of standard factories and even the form of equity participation in the suppliers'/subcontractors' capital;

5.3 On the other hand, the main benefits emanating from subcontracting to the buyer community refer to the following:

- i. Cost reduction: There are a number of reasons motivating companies to subcontract. First of all, companies are driven to subcontract to take advantage of national, regional or international differences in factor costs, notably low wages or materials. For industrialised countries, production or purchasing abroad is in many countries cheaper than domestic production or domestic buying. Ultimately, this enables companies to reduce the cost of the final product and thereby to offer competitive prices<sup>12</sup>. There are a number of reasons why subcontracting helps to reduce costs. Subcontractors tend to have more flexibility as management can take decisions more rapidly whilst production programmes may be changed or adjusted more easily. Highly specialized subcontractors are more efficient in their production processes and undertake these processes in a cheaper manner than contractors.

<sup>10</sup> An additional consequence is that subcontracting may generate the creation of employment opportunities. In fact, contractors, even occasional ones, enable subcontractors to stabilize their orders over a given period of time.

<sup>11</sup> In our context, technology refers to "all forms of physical assets, knowledge and human learning and capabilities that enable the efficient organization of goods and services" (Dunning, 1993, p. 287).

<sup>12</sup> Subcontractors enable main contractors to reduce their costs by attaining increased flexibility, responding more effectively and quickly to market demand and avoiding non-strategic investments. Subcontractors jointly selected by the SPXs, experts and main contractors should analyse their difficulties in meeting their own main contractor's requirements. They should cooperate fully with the SPX so that the SPX can also analyse their deficiencies and advantages on the basis of the sector in which they operate, their special field within that sector and their client's specific needs. They should (unless this has already been done) liaise with their main contractor and with the other subcontractors with a view to collaborating and cooperating in sharing their expertise and technology.

Subcontractors usually conduct little research, marketing and development activities which reduces their costs enabling low overhead and administrative costs. Subcontractors usually have less equipment and machinery as well as simpler workshops than large firms;

- ii. Higher quality: The search for higher quality products with high reliability in a growing sophisticated environment pushes companies to subcontract. Very often, in-house specialists may not match and may not meet the required criteria and as a result companies refer to the specialist skills and higher degrees of competencies available through outside suppliers or subcontractors. Suppliers can be more efficient and more effective and can provide the part, component, assembly or sub-assembly with a higher level of accuracy and precision. The alternative of having to train and upgrade the skills and abilities of the labour force or to acquire the relevant machinery and equipment requires both time and large financial deployments. In this sense, subcontracting represents an excellent process to complement the core activities of a company with high quality components, parts, packaging or other elements. Using subcontracting agreements may therefore enable companies to sustain their competitiveness;
- iii. An efficient mechanism to respond to demand fluctuations: The availability of products/raw materials is an additional reason why companies decide to outsource. In order to meet product demands, companies can increase their portfolio of domestic suppliers. When faced with a temporary increase in demand or a seasonal upward trend, contractors have to decide whether they wish expand their capacities through heavy investments or alternatively subcontract the activities. The former decision however involves the risk of under-utilization of this investment in the future. Expanding the capacities of an enterprise to respond to demand levels induces heavy investments in machinery, equipment and plants and some large manufacturers tend to use plant and equipment well beyond depreciation stage to avoid having to undergo such large re-investment burdens. In contrast, entrusting a subcontractor or supplier with the completion of parts, components, assemblies or subassemblies, is a much more capital-effective way of meeting upward demand fluctuations and avoids excess capacity;
- iv. Accessing regions with potential growth prospects: International subcontracting offers commercial opportunities by penetrating markets with growth prospects. By subcontracting in an emerging economy, companies establish a link with that particular location and penetrate new markets with growing outlets and purchasing power. In addition, by increasing the local content of products sold in countries with trade barriers it is often possible to lower the obstacles for their own products and to lower the breakeven point between cost-benefit and thus to decrease the sales price in this new market.

## The Buyer Opportunity Context

- 5.4 Before actively embarking on a process to identify buyer opportunities, the SPX Team should seek to critically understand the overall business environment in the country impacting on subcontracting arrangements. An SPX Programme operating in a country where the government has created an enabling environment for subcontracting faces a different task to an SPX Programme operating in a business environment where subcontracting is yet to be supported through adequate policies and incentives. To this end, the SPX Team should be constantly aware of the status of subcontracting activity in the country, especially concerning major buyers' local content policies, the country's incentive framework vis-à-vis subcontracting and local procurement mechanisms and related business support programmes aimed to promote subcontracting arrangements<sup>13</sup>. As has been highlighted in earlier Sections, the SPX Team should seek to actively undertake a situation analysis to understand the status of subcontracting activity in the country with specific and direct empirical evidence in hand. A clear understanding of the contextual factors goes a long way to make sure that the SPX Programme goals and objectives as well as related operational plan remain as realistic

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<sup>13</sup> In the absence of such enabling framework, the SPX Office should be at the forefront to influence policy decisions in this respect. The SPX Office should also be aware of other competing programme interventions by the private and public sector alike.

and concrete as possible. More specifically this empirical evidence and context would serve to greatly assist the SPX Team in its outreach and engagement of major buyers in the country.

- 5.5 The success of buyer engagement and opportunity identification also is an implication of the nature and extent of SPX Programme promotion and marketing within the business community. As has been highlighted in earlier Sections, it is extremely important that adequate and targeted SPX promotion is undertaken via all the relevant communication channels at the disposal of the SPX Team, *inter alia* i.e. use of newsletters, presentation of SPX success stories through general media (print/electronic/radio), Government departments' press releases, SOEs newsletters/websites, and other public agencies' communication networks. The more enterprises get to know what the SPX is and what it can mean to them, the more these will start using the services and as a result, the relatively easier it becomes for the SPX Team to reach out to buyers in their engagement process. Again, the core message that needs to be transmitted rests firmly on the value proposition of the SPX Programme to buyers. It is imperative that each member of the SPX Team ensures that this message is always presented, defined and explained in a coherent and consistent manner throughout interactions with the business community. In view of this, the SPX Team should highlight that the SPX Programme benefits buyers in the following distinct ways:

- It generates major savings in the cost of maintaining supplier data and doing supplier audits;
- It mitigates buyers' business risk through on-going visibility on a broad supplier base;
- It reduces long-term procurement cost through collaborative supplier development;
- It emphasizes buyers' role as vehicles for effective social responsibility procurement;

The basic message to kept in mind is that prior to reaching out to buyers, the SPX Team has to have a clear grasp of the country's buyer opportunity context and its active SPX programme promotion based on a coherent value proposition message are prerequisites

## Identifying and reaching out to Buyers

- 5.6 Within the process of identifying and reaching out to buyers, first and foremost, the SPX Team needs to analyze and identify the buyer community in the country. Different levels of the supply chain fall under the following prevailing descriptions: (a) Tier 1 Companies who supply Integrated Systems; (b) Tier 2 who supply sub-systems and (c) Tier 3 and 4 supplying single components for Tier 1 and 2. Broadly the buyer sectors can be divided into two categories:

- State-owned procurement: Government direct procurement, such as in public procurement programmes, and Government indirect procurement, such as through state-owned enterprises (SOEs) procurement programmes in diverse sectors such as transport/aerospace/marine/ports/oil and gas/energy/infrastructure/communications. SOEs should notify the SPX Office of the awarding of tenders so that the SPX Office can inform and engage potential vendors<sup>14</sup>;

<sup>14</sup>In some countries government implements procurement obligations to promote localisation. In this context vendors have certain obligations to procure from local suppliers once they receive a government tender. The SPX programme can assist the vendors to fulfill their obligations by identifying local suppliers for them. The public sector framework creates a *de facto* local procurement context through the various localisation policies of pertaining entities. It is therefore vital that public sector agencies and organizations be made aware of the SPX programme and that they stay involved. The message to government should be that the SPX programme can assist them to deliver on their SME and localisation policies. Equally important is the need for the SPX Team to be aware of all the procurement and SME Development policies in the host country. If a close relationship is ensured and the SPX delivers on its mandate, the SPX programme can be written into the policies as a service provider for the government. This will ensure sustainability and could potentially lead to future funding. The public sector framework creates a *de facto* local procurement context through the various localisation policies of pertaining entities. It is therefore vital that public sector agencies and organizations be made aware of the SPX programme and that they stay involved. The message to government should be that the SPX programme can assist them to deliver on their SME and localisation policies. Equally important is the need for the SPX Team to be aware of all the procurement and SME Development policies in the host country. If a close relationship is ensured and the SPX delivers on its mandate, the SPX programme can be written into the policies as a service provider for the government. This will ensure sustainability and could potentially lead to future funding. Advantage of procurement obligations: In some countries government implement procurement obligations to promote localisation. In this context vendors have certain obligations to procure from local suppliers once they receive a government tender. The SPX programme can assist the vendors to fulfill their obligations by identifying local suppliers for them.



- **Private Buyers:** These buyers could be either large private corporations, such as Multinational Enterprises (MNEs) operating in the economy or other foreign or domestic small buyers with large long-term contracts;

A very important avenue for identifying buyers and/or buying opportunities is to closely monitor the issuing of tenders, through informal networks or through reference to public media and related information channels. Buyer identification can therefore emerge from the scoping of large investment projects and programmes in the country, through periodic monitoring of notification of tenders and through participation in subcontracting fairs at the national and international level.

5.7 Direct contact and engagement with buyers is an important approach to be actively pursued by the SPX Team. Face-to-face meetings with buyers, be they in the public or private sector should be arranged and premises visited. The SPX office should make sure there is a systematic process of buyer identification and contacts since direct contact with buyers constitutes the main channel for the SPX Team to promote the programme and undertake buyer engagement. The activity of reaching out to buyers necessitates a clear focus and planning in terms of identifying ways and means how to capture the attention of major buyers and get them engaged in the SPX Programme. In this sense, success stories presented by the SPX team to prospective buyers, represent an important 'marketing' tool and should be included in any form of buyer engagement/reaching out process. It is important that each member of the SPX Team is able to present and promote SPX success stories along the following lines:

- **Refer to activity:** A description of the activity/task that was executed: e.g. *OEM identified via the UNIDO SPX process and UNIDO engaged with this OEM as part of its mandate to assist them in achieving their localisation obligation;*
- **Explain planned outcome.** The expected outcome of the activity /task is described: e.g. *to assist the OEM via the SPX programme to reach at least a 35 % localisation target;*
- **Describe result(s) achieved.** The actual achievement is described and elaborated on: e.g. *the OEM in question reached a 65% localisation target;*
- **Describe overall success.** The 'success story' is then explained: e.g. *via the direct SPX Programme the OEM has achieved a higher localisation figure i.e. 65% vs. 35%;*

## Defining opportunities

5.8 In principle, any information on buyer opportunity should be described in terms of its feasibility and business case. A clear and concise description of buyer opportunities should aim to refer to the following criteria:

- **Options appraisal:** the economic case, evaluation of the investment model (e.g. Joint venture, partnership, wholly-owned);
- **Commercial aspects:** the financial case in terms of the assessment of the investment and feasibility of the project in the context of national and international competition;
- **Affordability:** the viability case in terms of the evaluation of the viability, taking into account price, volumes, market, etc;
- **Achievability:** this refers to SPX driven 'project management case' evaluating of the complexity of the project.

In addition, the SPX Team should be aware of buyer opportunity characteristics and the associated supplier requirements. Figure 11 and 12 illustrate a simple framework of analysis to determine these aspects. In particular, a definition of buyer opportunity should reliably lists all the requirements expected from the supplier, in terms of cost, quality, delivery, innovation, reliability, flexibility, sustainability and type of relationship.

Figure 11: Buyer Opportunity Characteristics

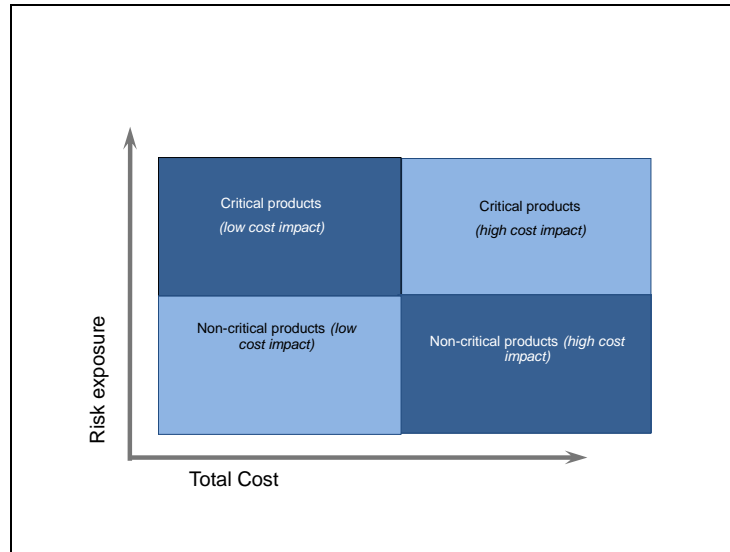
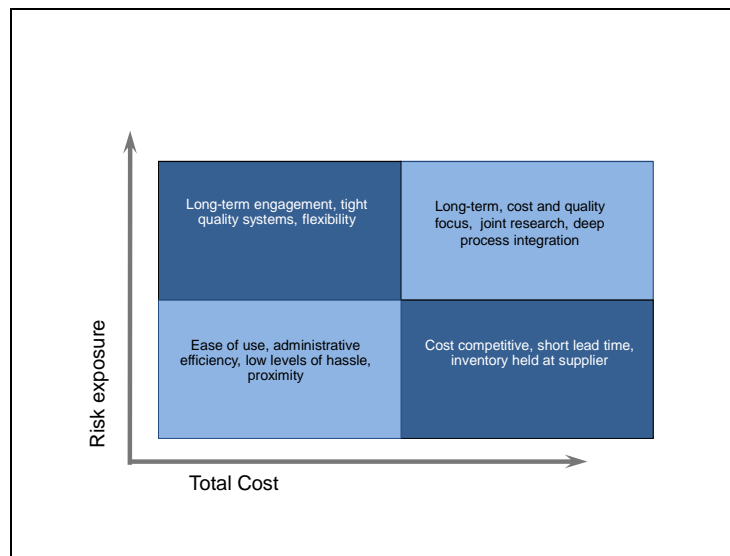


Figure 12: Supplier Requirement Categorization



5.9 To summarise, a broad approach to buyer opportunity development should refer to the following approaches:

- Seek to engage with government procurement, SOEs and other buyer sectors to identify prevailing opportunities and set up individual meetings with key large buyers to sell the SPX approach and get them to see the SPX as a partner;

- Keep in mind that high level government expenditure programmes create the context for localisation;
- Ensure that SPX Office is close to government procurement programmes by means of information channels and subcontracting networks in the country;
- Meet directly with OEMs to develop a short and long-term listing of specific components and opportunities and to generate databases of their buying opportunities for lower tier suppliers that can be brought into the SPX process<sup>15</sup>;

## Deploying opportunities through short-listing

5.10 Once buyers are identified, the SPX Team will need to start engaging with them to formalize the buyer opportunity. To this end, the SPX Team will meet the identified buyers regularly and engage in constant communication. This interaction will lead to intensive and wide ranging technical discussions with the buyers' procurement department and the main objective would be that to understand their procurement criteria, examine buyer parts list and extract from them information related to Bills of Material (BOM). A BOM is a very important tool through which the SPX office will now engage further with the buyer and supplier community. The BOM should at least contain a brief but clear explanation of the part to be sourced, relative volumes per year, brief specifications and/or technical drawings. The level of detail of BOM's is important in order to ensure that the further engagement is meaningful and that the SPX Team can gauge the potential to find adequate suppliers that can be matchmade to such an opportunity. At this juncture, Non Disclosure Agreements (NDAs) may be drawn up by the buyers so that these protect their intellectual property rights<sup>16</sup>.

The objective of the SPX matchmaking exercise is to assist the large buyers to get to an initial supplier shortlist as soon as possible. At this stage, an effective and efficient, timely response to buyer expectations can enforce or destroy the SPX Programme value proposition. Therefore the utmost emphasis should be given to the response action of the SPX Team to present the most relevant companies as shortlist from the SPX Profiling database. This action is greatly assisted by a clear understanding of what are the buyers' expectations and this aspect is also determined by the realistic, coherent service presentation made by the Team during initial meetings. In the light of buyers' expectations and requirements, the SPX Team should put forward and devise an evaluation framework in order to highlight the main contractors' priorities from among considerations of production costs, delivery times, product and service quality, expertise, technical resources and geographical proximity. All these factors are naturally important and, rather than produce figures and percentages to indicate the importance of one factor in relation to another, it is preferable to draw up a table classifying the needs of the main contractor. This information follows the underlying opportunity characteristics and supplier requirements described earlier and illustrated in Figure 1 and 2.

5.11 This process would normally lead the SPX Team to extract potential supplier short lists directly from the SPX Profile database to further validate its ability to meet the buyer requirements. Once supplier shortlists are drawn, buyer needs are discussed during successive meetings and contacts in terms of a number of important considerations such as, the number of suppliers which the buyers would like per opportunity. It often happens that a buyer requests only one supplier per opportunity. Otherwise, a buyer could also require that the SPX office identify possible other opportunities on the list for the same supplier. At this stage, generic Request for Quotations (RFQs) could also be issued

<sup>15</sup> In SPX South Africa, rhythm meetings are utilized to facilitate discussions between top-level buyer companies and some of the key industrial and sector associations and this is done to identify and follow up opportunities to form direct linkages that support industrial manufacturing activity. Such meetings also provide an overview, update and coordination of the SPX South Africa programme in support of local content activities. The Rhythm meetings which are only attended by UNIDO, industry associations/agencies, SOEs and Government representatives, are a pre-competitive nature where sensitive information is shared by the key stakeholders. It is the responsibility of the associations to convey the important information that was shared in the meetings to respective enterprise constituents. More importantly, these meetings cover several important themes such as opportunity status updates, SOEs' localisation feedback, progress on existing sourcing projects, identify new pipeline opportunities, and other general matters of importance to the Associations.

<sup>16</sup> Once the SPX office prepares a supplier shortlist, the SPX Office may send out the NDA to the shortlisted suppliers for these to sign. Afterwards, the SPX Office has to follow up and ensure that all signed NDAs are returned to the buyer who will counter-sign.

by the buyer to assist in the process of best selection of potential suppliers<sup>17</sup>. Timelines are important. The SPX Team needs to verify how soon the shortlist is needed. If applicable, the Team should also verify what the timelines for the RFQs consist of. At this early stage, a buyer is specifically asked about its mode of involvement: i.e. to what extent does the buyer want to be involved as for example in deciding to conduct site visits or otherwise. From its end, the SPX Office needs to establish what hard requirements (e.g. technical capabilities with reference to the opportunities, capacity in terms of equipment and previous experience) and soft requirements (e.g. quality systems, skills and logistics) are demanded by the buyer. This information makes the process of supplier short listing much more straightforward and efficient.

## Source for Supplier Shortlist

- 5.12 The SPX Profiling Database serves as the main source for supplier shortlist and this database constitutes a major component of the SPX MIS<sup>18</sup>. The SPX database is the main source of information and building block which underpins the Programme objectives and value proposition to buyers. The Profiling database allows SPX Officers to search for specific suppliers and to shortlist those in the light of the buyer opportunities received. This database becomes crucial when RFQs start to be posted directly by buyers onto the SPX MIS with only suppliers on the database will be able to receive such RFQs. As mentioned in earlier Sections, the SPX Profiling process is based on a rigorous process of enterprise data and information gathering aimed to develop enterprise profiles to be matchmade to buyer opportunities.
- 5.13 Another source for supplier shortlists are the SPX Benchmarking Reports. Enterprise benchmarking data and information provides additional information to the profiling information. The benchmark reports provide information about the practices sustainability of the company. It compares the company to other companies in the same sector and provides an indication how these compare with world class practices. The benchmark measures practices in four main areas: financial, customer and markets, operations and learning and growth<sup>19</sup>. The full report may not be shared with the buyer without the company's consent. It is thus imperative that the consent of the shortlisted companies is sought before sharing any information. Empirical evidence suggests that when a company is shortlisted and has the opportunity to potentially discuss subcontracting arrangements with a major buyer, it has no issue not to share the benchmark information. Indeed, benchmarking related information potentially becomes very useful when the company has made it through to the final shortlist since this complements the buyers' validation assessment. The SPX Team should ensure that all final shortlisted companies should have benchmark reports and if they have not yet done a benchmark, this would need to be done as soon as possible. Benchmarking reports provide more detailed information to the buyer, providing a better 'feel' of the performance and practice sustainability of supplier firms' operations whilst providing crucial comparative indicators. In some cases the buyer makes it a prerequisite for the suppliers to undertake a benchmarking exercise prior

<sup>17</sup> The main elements of an RFQ include: relevant deadlines, non-disclosure agreements, drawings and specifications, order size, lead time and price range and certifications requested.

<sup>18</sup> The SPX MIS helps SPX Managers interact better with suppliers whilst providing more transparency and straightforward exchange of information that facilitates SPX Centre terms of engagement and collaboration and greatly facilitating the interaction of the country SPX with its supplier network, thereby providing an interactive platform for exchange of ideas, commercial links and business opportunity scoping. The international linkage would also augment the possibility of receiving more RFQs and UNIDO SPX HQ will actively support SPX Centres in the RFQ exchange process and to actively market the Global SPX network. Through the new system, SME Suppliers would be better positioned to validate their existing company information in the system and manage RFQ / Quotation procedures. Concurrently, buyers can also manage search and RFQ process through the system. It is envisaged that through the SPX MIS system, there will be an increased awareness of the needs of buyers and suppliers in the manufacture and sourcing of products, technology choice, partnership options and investment requirements.

<sup>19</sup> Within the Benchmarking report, Part A examines business performance, with regards to the numerical data submitted. The results are presented graphically and cover the vision, financial, customer, learning and growth and internal process aspects of your business. This compares how enterprises are performing against a chosen sample of companies, which is agreed with the SPX Adviser who performed the review. Part B reflects the results of the team consensus exercise, which examines the perceptions of how well the business manages key processes. This part looks at "practice" elements – the way these processes are carried out – and also offers a view of the impact of these practices. The report concludes with a summary of findings as well as a suggested action plan for business growth and development.

to further discussions. In this sense, the SPX Team should always make a point to stress that undertaking a benchmarking exercise may actually enhance the possibility of being linked to a buyer opportunity.

- 5.14 One of the most important benefits of establishing the SPX programme in various countries around the world is the vast network that is created and the potential spin-offs generated from this. Once an SPX Office matures and establishes a more closer relationship with major buyer entities in the country, it can turn to widen its focus to include the wider international SPX network as potential source for shortlists to specific buyer opportunities. It is this global SPX network that would need to be utilized to identify additional suppliers for the opportunities received. The international linkage would also augment the possibility of receiving more RFQs and the UNIDO SPX HQ will actively support SPX Centres in the RFQ exchange process and to actively market the Global SPX network. Through the SPX MIS, registered suppliers are now better positioned to validate their existing company information in the system and manage RFQ procedures. Concurrently, registered buyers can also effectively manage the RFQ process and search through specific supplier database. It is envisaged that through the SPX MIS system, there will be an increased awareness of the needs of buyers and suppliers in the manufacture and sourcing of products, technology choice, partnership options and investment requirements.
- 5.15 As a result of its successful buyer engagement efforts, the SPX Office may be faced with the need to prioritize buyer opportunities. In this instance, the SPX Team would have to look at important criteria such as timelines to RFQ, immediate tenders, current orders and current large national projects. These criteria would assist the SPX Team to prioritize the opportunity pipeline and to choose which opportunities to target first and prioritize accordingly. In terms of quantifying opportunities, monetary values and quantities of opportunities are vital in determining the overall potential value-added to the SPX Programme. It is also important to the extent to which it is an indication of the business case of this opportunity and how it contributes to the feasibility of the opportunity.

## Shortlist finalization and prioritization

- 5.16 Once the initial shortlist is finalized, when all the obvious non-starters are deleted, what would be left would be between one and three supplier companies per buyer opportunity. During initial meetings, buyers would have indicated the SPX Team their preference with regards to the number of suppliers per opportunity. Shortlist finalization would also have to take into account pre-selection criteria such as formal registration, audited financial accounts and basic operational requirements. For example, buyers are very unlikely to become involved in any discussion with enterprises who are not formally registered or that do not keep formally audited financial accounts.

The final shortlist assessment would need to be based on a number of other verifiable information criteria, such as:

- Quality certifications: The quality criteria will assess the company's formal quality certifications such as ISO or any other industry specific quality certificate. Normally, a formal quality certification is required by buyers before these would even look at the list of suppliers provide by the SPX Office. For example, if a supplier would be in the process of obtaining a quality certification, the buyer may take note of this development. No other issues pending, buyers may even consider to assist the company to acquire the certification;
- Capacity and capabilities: Under this criterion, the actual capacity of the company is assessed. This is formally done during the benchmark exercise or during separate visit to the company. In this case, it is necessary to validate the output capacity in the light of the opportunity and volumes presented. For example, a potential supplier cannot be shortlisted if its productive capacity, in terms of the number and quality of equipment, operating processes and people skills, found lacking.
- Track record: The track record is another consideration which could count favourably for the supplier. The assessment would look at the company's previous or existing clients to establish whether that entity would have previously supplied to similar buyers. This is an

important considering factors since supplying to similar buyers might immediately indicate that all the quality systems within a shortlisted supplier may be already in place.

- 5.17 At the outset, it is of the utmost importance that the SPX Office is seen as being fair to all suppliers when similar assessments are undertaken. All potential suppliers should be treated as such and all companies should be provided with an opportunity to respond as far as possible to opportunity alerts. The methods of ensuring fairness should include all possible avenues and media.

## Buyer feedback about suppliers

- 5.18 Once the supplier short-listing information is shared with the buyer, the latter might request additional information or request clarifications or else identify some aspect which might pose a problem to further discussions. Any issues that are not or cannot be clarified during the SPX Team-Buyer meetings, should be cleared by the Team directly with the company and make sure that they report back to the buyer. The SPX Team may, at any stage during meetings with the buyer, suggest a visit to a supplier. Such on-site visits have a dual objective: directly verify all the presented information and provide the opportunity to start the on-boarding process if all is found to be in place.

During these meetings it is important to confirm progress and the way forward for each of the suppliers on the short-list. The way forward might be any of the following considerations:

- Supplier is not appropriate (due to various reasons, but mainly from the buyer's perspective);
- Buyer needs more information on a supplier;
- Buyer needs more suppliers per opportunity;
- Buyer wants to visit the supplier;
- Buyer wants to start the on-boarding process and to seek further validation.

- 5.19 Depending on the opportunity or the quality of the suppliers, a buyer can decide to start the on boarding and qualification process immediately or it might decide to first conduct a formal RFQ process. At this stage, if it has not done this already, the buyer may supply a copy of their own NDA. A NDA is sent to all the suppliers on the final shortlist. The buyer will not release any detailed part information before the signed NDAs have not been returned. The signed NDAs are returned to the buyer and a copy is kept with the SPX office. After the NDAs have been sent to the buyer, they now release detailed drawings and other part specifications. These drawings and specifications are then sent to the individual suppliers together with an instruction to quote on the parts according to the specifications and volumes supplied. At no stage is an indication of the price provided. Suppliers are welcome to contact the SPX Office for any additional information or clarification. The SPX Office can also involve the buyer to clarify more technical issues. Suppliers return the full and detailed quotes to the SPX Office where these are then logged and saved. These quotes are then shared with the buyer during progress meetings. During these meetings the buyer will indicate whether the price is in line or not. The prices received are also compared to the other criteria of the company to form a holistic picture of the supplier. Once quotes have been received and shared with the buyer, one of the following outcomes can happen:

- *Discard the supplier:* If the supplier's quote is way out the supplier might decide that the discrepancy is too much and that there is no chance that the supplier will reach its base price;
- *Re-contact the supplier:* If the supplier's price is not too far off the base price the buyer might consider giving the supplier a second chance to quote. The SPX Office then contacts the supplier and requests a second quote. Once this is received the quote is once again shared with the buyer, who will make a final decision on the supplier. If the price is in line the supplier will move on to the next phase. If the price is still too far out the buyer will then once again discard the supplier;

- *Supplier moves on to the next phase:* If the supplier's price is in line with the buyer's base price, the buyer will decide to continue with this supplier and initiate the on-boarding process. This will start off with a site visit and a presentation to introduce the buyer's qualification process. The supplier then formally decides to continue the process with the buyer.

The SPX Programme will analyse the quotes of the suppliers who were not successful to establish the reasons for their quotes being 'off the mark'. This will be done in conjunction with the supplier as this intervention might lead to specific supplier development interventions. If the supplier measured up to all the other criteria apart from the price, the SPX Office may want to assist the supplier to improve on any operational and practice weaknesses (e.g. getting them in touch with service providers) so that they might get a second chance to quote on other future buyer opportunities. It may well be that if the SPX Office manages to collate enough robust evidence for lack of success in quoting and it is found that the underlying reasons are linked to macro-economic and/or policy issues, it may well bring this to the attention of the appropriate national authorities and entities, *de facto* lobbying for potential national interventions in support of subcontracting.

## Buyer qualification process

- 5.20 After all the criteria have been evaluated and shared with the buyer the final shortlist is finalized. The buyer is now convinced that the proposed company could become a good supplier. At this stage each opportunity is paired with one supplier. The buyer-supplier relation now starts through the introduction of the buyer validation/qualification process. This process requires various responsibilities from both parties, as well as a continued role of the SPX programme. In order to develop a relationship of true partnership between the main contractor and the subcontractor, based on shared objectives and interests, in a framework of fairness, mutual trust and common benefit, recognizing and observing each other's rights and obligations, the parties shall endeavour to implement the following recommendations.

After the initial RFQ process or when a buyer has decided that a specific supplier has potential they will start their own qualification/validation process. This process can take a number of months depending on the readiness of the supplier. A buyer qualification process can involve various successive steps. Further reassurances about NDAs and the initial RFQ would normally be sought. Having identified a supplier company, steps are taken to assess the supplier's processes, according to the buyer's formalized supplier evaluation processes. Once the appropriateness of forming a commercial relationship with the supplier has been decided, a New Component Introduction (NCI) process can be introduced, which helps ensure that the products made by that supplier will be right the first time and every time. If at any point prior to dispatch the supplier identifies a non-conformant condition that it believes may still be acceptable, the supplier can request permission to dispatch the product, despite its condition, through their respective deviation process.

Once ready, products are transported to the buyer facility in compliance with the requirements of their shipping process, which includes requirements related to packaging, bar coding and other activities. If a nonconformity is found after a product has been shipped, a Discrepant Material Report (DMR) would generally be written against it as part of their Discrepant Material Process (DMP). In cases in which a supplier's defects have significantly adverse consequences, the Supplier Accountability Process (SAP) may be employed. If the non-conformances are severe or chronic, the issue may be more formally addressed with their respective Corrective Action Process (CAP). Throughout the relationship, their CAP helps suppliers continually strive for improvements that achieve higher levels of customer success. Similarly, the Quality Audit Process (QAP) serves to ensure a continued focus on quality improvement to support customer success. Thereafter contract negotiations can start<sup>20</sup>.

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<sup>20</sup> For more detailed checklist please refer to Annex 5.





## VI. Creating a supplier development support framework

### Overview

- 6.1 The previous Sections have touched upon the various aspects related to SPX programme implementation: including the organizational framework, preparations for programme implementation, formulating work activities and action plans. This implementation guide has actively referred to the main activities of the SPX programme implementation i.e. enterprise profiling, benchmarking and buyer engagement. Through all these aspects lies a common thread: the notion of supplier development and how to make this happen. Supplier development is a key question that is contended by SPX Offices, SPX Staff and constituent enterprises alike. The following parts propose some concrete ways how SPX offices can develop a supplier development support framework that sees them playing a leading role in the process. Supplier development is a broad concept aimed at strengthening the performance of subcontracting firms and allowing the buyers to source quality components from local suppliers at global competitive costs. The SPX process starts by emphasizing the profiling, benchmarking and matchmaking components but as the number of sub-contracting opportunities grow rapidly, it is also important to start promoting supplier development initiatives. Such initiatives may be either integrated within the SPX intervention in specific UNIDO Country Programme (although this may be the case in a number of very limited cases) or would have to be carved out by the SPX Office. The scope of the discussion in this Section focuses on the latter case and seeks to provide a guide to SPX Office in the creation of a supplier development support framework.

### SPX directory of service providers

- 6.2 Without an implicit project component dedicated to supplier development, any SPX Office has to define the scope for and explore the ways and means how to create the necessary supplier development framework in conjunction with the mainstream SPX work components of profiling, benchmarking and matchmaking. Through its interventions at the enterprises level and as a result of delivering on its work components, the SPX Programme serves to unearth supplier enterprises' needs and requirements for industrial development and upgrading. For example, the enterprise benchmarking reports provide a direct assessment and diagnosis of what enterprises need to do to improve on performance and relative practices. Otherwise, possible matchmaking potential may identify gaps between requirements and expectations of buyers and capacities and performance of potential suppliers. Service providers at the country level, can provide the advice and training to local enterprises, including SMEs to enable them to improve their skill base, capacities and their competitiveness. In this context, SPX interventions *de facto* places the SPX Office as an exchange broker between the demand and the supply of supplier development services.

To be able to facilitate the referral of companies who have been profiled and benchmarked to available supplier development service providers, an SPX Office should start with generating a comprehensive directory of service providers pertaining to the different areas of business services provided in the country where the programme is being implemented. These service provider entities may be both private and/or public agencies operating in the local business community.

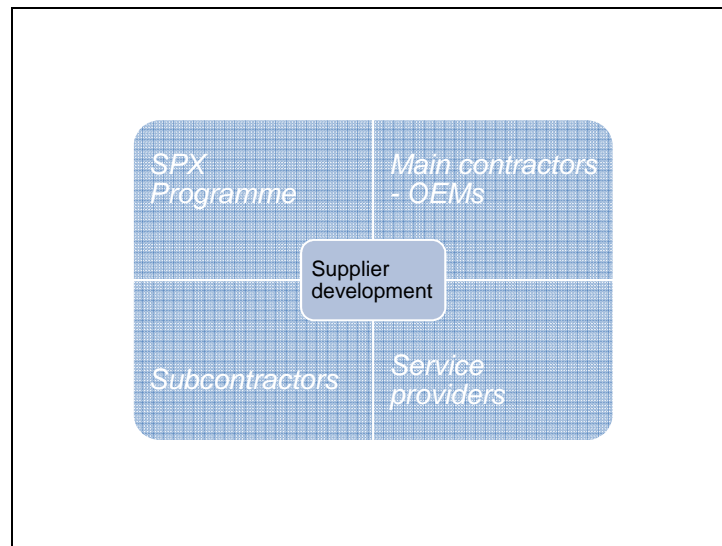
Possible examples of category of services could be the following:

- General business advisory services;
- Finance and assurance;
- Marketing and business development;
- Process and product manufacturing;
- Human resource development and management, training and skills;
- Industrial and engineering services;

- Environmental management, cleaner production centres etc;
- Technology promotion and innovation development, in terms of
  - *accessing technology infrastructure;*
  - *technical know-how and expertise;*
  - *skills development and training;*
  - *technology based services;*
  - *design and tooling support.*

Once such a service directory is generated, information needs to be constantly updated so that this remains valid and relevant as an additional information service provided by the SPX Office. The understanding between the SPX Office and service providers should be that these should act to meet and provide service demands for upgrading services requested by SMEs and supplier firms. Since most often, these needs and demands of enterprises would be reflected as per outcome of the benchmarking process and/or as agreed upon between buyers and suppliers in supplier upgrading programmes, there could be an immediate need for demands for specific services. In order to achieve a higher level of supplier development, enterprises and service providers have to endorse and embrace the concept of partnership. The SPX Office may want to provide an important brokerage role in the process through adequate mediation and facilitation. Figure 13 highlights the inter-dependent building blocks driving the supplier development framework consisting of the results from the SPX Programme, the role of main contractors and subcontractors as well as that from service providers.

**Figure 13: Supplier Development Support Framework**



## Partnership with national institutions and organizations

- 6.3 As supplier development support framework could also be created through partnership agreements with selected national institutions and organizations. In Section II, reference was made on the need to undertake careful stakeholder mapping and identify those stakeholder organisations having a vested interest in the success of the SPX programme. Partnerships with SPX stakeholders can be best formalised through Memorandums of Understanding (MoUs). Within the framework of supplier development initiatives, MoUs are best established with key institutions and organizations with the aim to establish a wider framework of enterprise upgrading assistance in the country. In principle, MoUs can be established with any organization, institution or agency in the country but clearly the SPX Office has to examine carefully all implications of such partnership keeping in mind both obligations and expectations from such agreements. It is most likely that

MoUs are undertaken with entities such as public agencies, Chambers of Commerce and private sector associations, banking and financial intermediaries, national public bodies, educational and training institutes. Careful stakeholder mapping process, carefully listing all organizations and institutions whose mandate, objectives, goals and missions directly or indirectly link with the objectives of the SPX Programme in the country, should lead to the right selection of MoU partner organizations.

- 6.4 Supplier development plays a key role in the process of linking local suppliers to buyer opportunities by enhancing local capacities and competitiveness to match the buyers' requirements. Since SPX supplier development is the ultimate objectives of the SPX programme, the SPX should built important relationships with specific service providers and institutions/organizations in the country to continuously refer benchmarked companies to supplier development opportunities. The objective of supplier development is to increasingly identify and consolidate further supplier development services to help link suppliers to the relevant technical and business development agencies, which can then assist the suppliers in improving their performance and practices as identified in the benchmarking exercise<sup>21</sup>.

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<sup>21</sup> For example in South Africa, the SPX Office has partnered with the country's National Cleaner Production Centres (NCPC) to offer Cleaner Production Audits. The main focus of this cleaner production programme is to measure the suppliers' consumption of resources (energy, raw & packaging materials and water) against their produced outputs (products, by – products, wastes) and propose efficiency improvement solutions. The NCPC completes the audits of SPX benchmarked companies to identify resource efficiency opportunities with potential annual savings. Such a programme may be very effective as the payback-period for the implementation cost is respectively small and after the implementation costs are paid off, the savings will directly contribute to the suppliers' profits. Once benchmarked by the SPX Office, companies benchmarked by the SPX may be referred to the NCPC to undertake such audits

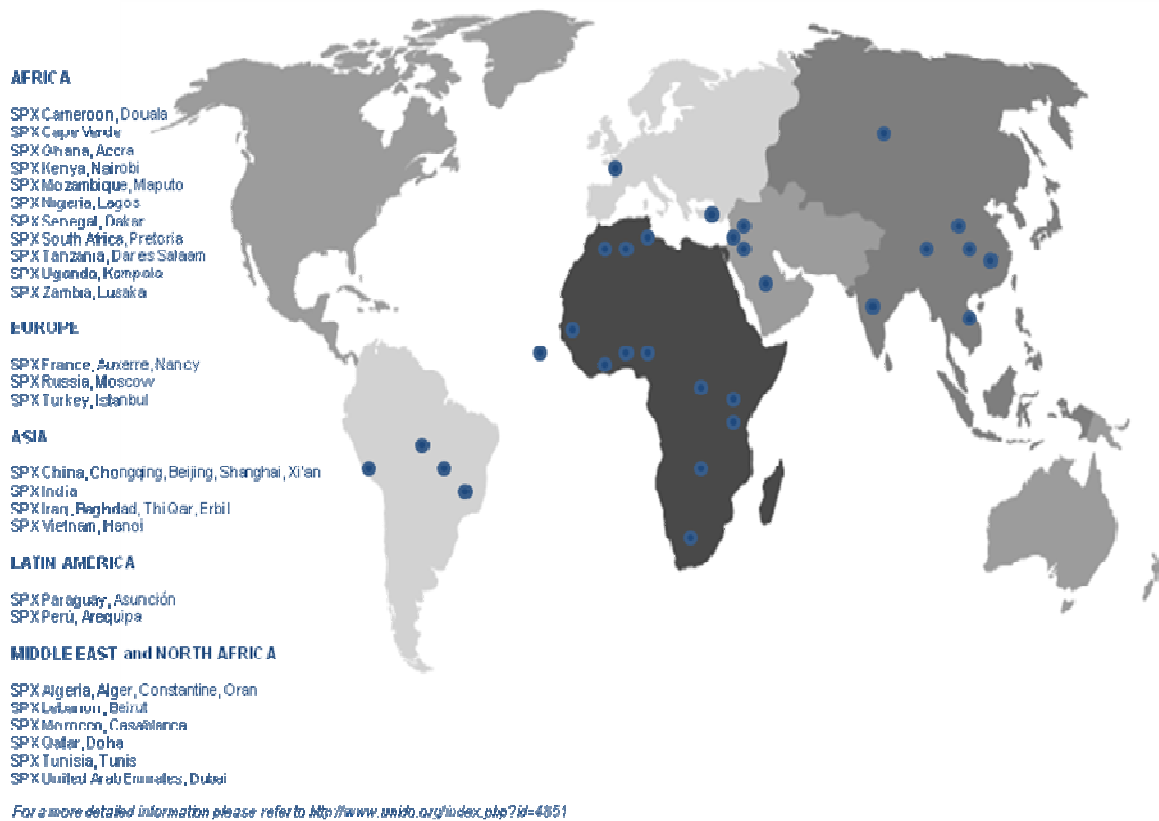


# Annexes



# Annex 1

## The UNIDO Global SPX Network







# Annex 2

## UNIDO SPX Profiling Tool

### List of questions

PART 1: COMPANY DETAILS	
1.1	Company reference
	<ul style="list-style-type: none"> <li>- Company Name</li> <li>- Address</li> <li>- Postal Code</li> <li>- Country</li> <li>- Region</li> <li>- City</li> <li>- Web site</li> <li>- Year of establishment</li> <li>- Business Language(s)</li> <li>- Company Telephone, Fax and Mobile No</li> <li>- Company Email Address</li> <li>- Legal Status</li> <li>- Social Network Details</li> </ul>
1.2	Factory location and physical address
	<ul style="list-style-type: none"> <li>- Country</li> <li>- Region</li> <li>- City</li> <li>- Address</li> <li>- Postal Code</li> <li>- Factory (Tel, Fax, Mobile)</li> <li>- Factory Email Address</li> <li>- Covered Area (in m<sup>2</sup>)</li> </ul>
1.3	Company contact details
	<ul style="list-style-type: none"> <li>- Title</li> <li>- Full Name</li> <li>- Country</li> <li>- City</li> <li>- Contact Telephone, Fax, Mobile No.</li> </ul>
PART 2: SPECIFIC COMPANY DETAILS	
2.1	Human resources
	<ul style="list-style-type: none"> <li>- Total Number of Employees (Managers, Engineers, Technicians, Clericals, Labourers, Other)</li> <li>- Share of part-time, seasonal and subcontracted employees in total (%)</li> <li>- Number of shifts</li> </ul>
2.2	Financial and Export information
	<ul style="list-style-type: none"> <li>- Registered Capital (US\$/other currency)</li> <li>- Invested Capital (US\$/other currency)</li> <li>- Does this company have more than 10% foreign equity ownership? (Y/N)</li> <li>- Major recent investment in the last three financial years (Amount, Year)</li> <li>- Turnover (Amount, Financial Year: Current/Last/Two years ago)</li> <li>- Exports (Amount, Financial Year: Current/Last/Two years ago)</li> <li>- Exports as a ratio of total Sales (%)</li> <li>- Export countries (Country, Ratio of Exports in total Exports (%))</li> </ul>

<b>2.3 Company Qualifications:</b>
<ul style="list-style-type: none"> <li>- Supplier approvals</li> <li>- Supplier labels</li> <li>- Certifications (e.g. quality, environment)</li> <li>- Supplier software (e.g. engineering software)</li> <li>- Supplier licenses</li> <li>- Supplier patents</li> <li>- Membership status</li> <li>- Company reference details (e.g. company name, city, country)</li> <li>-</li> </ul>
<b>2.4 Company Product and Process Details</b>
<ul style="list-style-type: none"> <li>- Company sectors (ISIC, Title, Details, Quantity, Unit)</li> <li>- Company products (UNSPSC, Description, Details, Quantity, Unit)</li> <li>- Company processes (UNSPSC, Description of machinery, Available Processes, Capacity, Capacity Utilisation)</li> <li>- Production Machines (Name, Description, Quantity)</li> <li>- Testing and Control Equipment (Name, Description, Quantity)</li> </ul>
<b>PART 3: ADDITIONAL DETAILS</b>
<b>3.1 Supplier partnership details</b>
<ul style="list-style-type: none"> <li>- If the firm has a Joint Venture agreement, please provide details</li> </ul>
<b>3.2 Requested co-operation</b>
<ul style="list-style-type: none"> <li>- Financial (Equity Participation/ Long Term Loan Facility)</li> <li>- Commercial (Marketing Agreement/ Franchising Agreement/ Distribution Agreement) Technological (License Agreement/ Know-how)</li> <li>- Production (Subcontracting/ Technical Assistance)</li> <li>- Comparative Advantages</li> </ul>
<b>3.3 Details for assistance requested</b>
<ul style="list-style-type: none"> <li>- Investment and Technology</li> <li>- Capacity Building (International Marketing, Managerial Training, HR Development)</li> <li>- Promotion (Raw Material Sourcing , Accessories and Tools, Equipment, Innovation)</li> <li>- Finance (Access to Finance (Loan/Equity), Financial Management, Business Planning)</li> <li>- Project Implementation (Technical Management, Quality Management, Inventory and Supply Chain Management)</li> </ul>
<b>3.4 Sustainability</b>
<ul style="list-style-type: none"> <li>- The senior management of the company is committed to sustainability of its products, process and suppliers</li> <li>- The company is substituting 'scarce' material for more abundant ones</li> <li>- The company is reducing its energy consumption and increasing the proportion of renewable energy used</li> <li>- The company is reducing its carbon footprint</li> <li>- The company is recycling a high proportion of its waste</li> </ul> <p><i>Select one on the basis of (strongly disagree  disagree  neither agree nor disagree  agree  strong agree)</i></p>
<b>3.5 Final Observations</b>
<ul style="list-style-type: none"> <li>- The company has the level of management skill and experience to be internationally competitive</li> <li>- Customers are satisfied with the company's products and services</li> <li>- Employees are actively involved in proving the business</li> <li>- The company achieves consistent quality</li> <li>- The company consistently keeps its delivery promises</li> <li>- The company's main suppliers are very reliable (quality &amp; delivery)</li> <li>- The plant has a good standard of housekeeping</li> <li>- The site is laid out for lean(pull production) workflow</li> <li>- The company is active in creating / improving its a marketing presence (web, brochures, etc)</li> </ul> <p><i>Select one on the basis of (strongly disagree  disagree  neither agree nor disagree  agree  strong agree)</i></p>

<b>3.6 Reference to UNIDO Programme Participation</b>
<ul style="list-style-type: none"><li>- The UNIDO Investor Survey,</li><li>- The SPX Benchmarking process,</li><li>- COMFAR / Investment Project Preparation and Project Appraisal,</li><li>- Other UNIDO Programmes</li></ul>
<b>FINAL ANNOTATIONS</b>
<b>COMPANY VISIT RECORD</b>
<ul style="list-style-type: none"><li>- Date of visit</li><li>- Name of Visiting Officer</li><li>- Further Comments</li><li>- Information Year</li></ul>



# Annex 3

## UNIDO SPX Benchmarking Tool

### List of questions

PART A: PERFORMANCE DATA	
MAIN SECTIONS:	
1	Financial
2	Customer
3	Process
4	Learning and growth
Finance (from profit and loss)	
-	Total Turnover
-	Cost of Sales
-	Operating Profit
-	Profit Before Tax
-	Staff Costs
Finance (from balance sheet)	
-	Trade Debtors
-	Stock
-	Cash in Bank and in Hand
-	Other Current Assets
-	Trade Creditors
-	Other Current Liabilities
-	Short-term Loans
-	Long-term Loans
-	Other Long-term Liabilities
-	Shareholders' Funds
-	Cost of Bought-in Materials and Services
-	Capital Investments
Customer	
-	Number of Customers
-	Number of New Customers
-	Marketing Expenditure
-	Number of Orders Received
-	Number of Recorded Customer Complaints Received
-	Number of Customer Orders Which Were Not Delivered
-	When Promised
-	Total ICT Expenditure
Process	
-	Total ICT Expenditure
-	Total Product Lead Time For All Orders
-	Supplies Which Are Sub-standard on Delivery
-	Supplies Delivered on Time
-	Number of Accidents or Incidents
-	Annual Energy costs
-	Annual Water Costs
-	Waste Disposal Costs
Process (Manufacturing)	

- Quantity of Units Supplied
- Quantity of Defective Units
- Number of Orders Rejected by the Customer During the Specified Warranty Period
- Scrap (%)
- Assembly Set-up Time (Minutes)
- Production Schedule Adherence (%)

### Learning & growth

- Number of FTE Employees
- Absenteeism (Number of Days Per Year)
- Number of FTE Employees Who Leave the Organisation
- Training Expenditure
- R & D Expenditure
- Number of Existing Products and/or Services (#)
- Number of New Products and/or Services (#)
- Turnover From New Products and/or Services (EUR K)

## Part B – TEAM CONSENSUS INFORMATION

### MAIN SECTIONS

- 1 Your plans for the business and capabilities to manage their fulfillment
- 2 Working with employees
- 3 Doing the work
- 4 New markets
- 5 Developing products and services
- 6 Managing money

### SECTION 1: Your plans for the business and capabilities to manage their fulfillment

- Long-term aims
- Developing markets
- Financing plans
- Developing and growing the workforce
- Business skills and experience
- Knowledge of external business environment
- How do our products/services compare with other similar businesses in the eyes of our customers?
- What do we know about our customers?
- How do we know what our customers really want and how do we make sure we please them?
- What do we do about the things our customers are less than happy with?
- How do we know how satisfied our customers are?
- How satisfied do we think our customers are?
- Keeping our promises
- How long do our customers remain our customers?
- Level of business

### SECTION 3: Working with employees

- How much are our employees involved in planning the way the business is going to develop?
- How much are people involved in improving the way we do things?
- What happens when things go wrong?
- How is good work recognized?
- Job training
- Employee satisfaction
- Recruitment and induction
- Employee contracts, conditions and welfare
- Employee discretion

### SECTION 4: Doing the work

- Achieving consistent quality
- Improving the business
- How quickly do I (and/or employees) react?
- How do we measure performance?
- The time it takes
- How do we control the work flow?

- Do we complete the job on time?
- Reliability of equipment and machinery
- How do we choose who we buy from?
- How reliable are our suppliers?
- How do we deal with health and safety?
- How sustainable are our business practices?
- What impact do we have on the environment, and on society?
- Is advice from external experts used by our business?
- Learning from other businesses
- Managing 'moments of truth'
- Productivity
- Operating costs
- Equipment layout
- Pull scheduling
- Batch sizes

#### SECTION 5: New markets

- How do we find new customers?
- How do we develop new markets?

#### SECTION 6: Developing products and services

- Improving products and services
- Planning product/ service changes
- Really new Ideas
- Use of computers

#### SECTION 7: Managing money

- How much do we know about the process of financing a business?
- How good are we at managing the flow of money through the business?
- How often do we prepare a cash flow forecast?

#### Selection criteria (the criteria against which you want to Benchmark the performance of your Organization)

- Countries, Number of employees, Turnover, Business areas, NACE code





# Annex 4

## SPX E-Platform List of topics

MODULE NAME:
Introduction to UNIDO's Subcontracting and Partnership Exchange (SPX) Programme
DESCRIPTION
<p>In this suite of lectures contained in two (2) Modules, the learner will be introduced to the main thrusts of the Subcontracting and Partnership Exchange (SPX) Programme of the United Nations Industrial Development Organization (UNIDO).</p> <p>The course highlights the increasing importance of industrial sub-contracting and local-foreign supply chain integration for the organization of effective international production systems. The basic objectives and the key outputs of the SPX (supplier profiling, supplier benchmarking, supplier upgrading, match-making) are introduced and this is complemented by experiences and success stories of existing SPX Centres that UNIDO has established in the past.</p>
Objectives
The Learner will attain good knowledge about the main framework, objectives and outputs of UNIDO's Subcontracting and Partnership Exchange Programme (SPX). This introductory course will lay the foundation for the Learner to delve deeper and better understand the following technical modules.
Contents
<p><u>Module I</u></p> <ol style="list-style-type: none"> <li>1. UNIDO Investment Programme</li> <li>2. Overview of the Investment Monitoring Platform</li> <li>3. The UNIDO Subcontracting and Partnership Exchange Centre (SPX) at a glance</li> <li>4. SPX - Context and trends</li> <li>5. SPX - Promotion and profiling</li> <li>6. SPX - benchmarking and supplier development</li> <li>7. SPX - Engaging with buyers and working with the UNIDO Management Information System</li> </ol> <p><u>Module II</u></p> <ol style="list-style-type: none"> <li>1. SPX Developing Competitiveness Building Capacity And Capability</li> <li>2. UNIDO - SPX Partnership</li> <li>3. Applied Benchmarking For Competitiveness</li> <li>4. The Diagnosis Of Benchmarking</li> <li>5. The Medicine Of World Class Business</li> <li>6. Preliminary Actions Basic Tools To Improve Competitiveness</li> <li>7. Monitoring Tools And Staff Building</li> <li>8. First Steps For Improvement Lead Time to Reduction</li> <li>9. Production Control System</li> <li>10. World Class Business Tools For Saving Time</li> <li>11. Maintenance Keeping Things Going</li> <li>12. Practical Quality "It Is Cheaper To 'Do-It-Right' The First Time-Than To Have To DO It Over"</li> <li>13. Teams And Team Building</li> <li>14. World Class Sales How To Compete For And Win Profitable Business</li> <li>15. Financial Management</li> <li>16. Supply Chain Management</li> <li>17. Innovation And Design</li> <li>18. Strategic Planning Your Company's Growth And Profitability</li> <li>19. Process Benchmarking</li> <li>20. Approaches and Technique - 1st Part "Tools for the Pursuit of Excellence"</li> <li>21. Approaches and Technique - 2nd Part "Tools for the Pursuit of Excellence"</li> </ol>



# Annex 5

## Subcontract negotiation checklist

### 1. At the time of negotiation of the contract

#### Definition of the general framework of the subcontracting relationship in clear and precise terms:

- Identical understanding of the problems involved and a precise definition, for each subcontracted activity, of the rights and obligations of both parties;
- Preparation of a work plan (including a timetable) appropriate to the mutual collaboration;
- Preparation of (long-term) development plans which, as far as possible, set a schedule for regular and constant collaboration;
- Definition of all the elements and all the conditions for future orders: quantities to be supplied (max. and min.), time limits and periodicity; specifications, standards and qualities required; arrangements for inspection and reception;
- terms of payment and technical assistance requirements;
- Attachment to the contract of all the technical documents necessary for the proper performance of the work (drawings, technical nomenclatures,) if possible countersigned by both parties;
- Definition of the terms in the technical specification or terms of reference, so that they are as complete and precise as possible;
- Seeking a "fair price", i.e. remuneration which, for the best possible quality taking into account the purpose of the product, offers the partners a fair deal in relation to their respective contributions.

#### Definition of the important clauses of the contract:

- Date of the contract (start and end of the contract);
- Duration of the contract: fixed term (unless one of the parties envisages an extension clause, the contract terminates on the expiry of the term agreed by the parties); indefinite term (each party may at any time terminate the contract unilaterally);
- A period of notice should be specified;
- Identity of the parties;
- Preamble: show clearly the title of the contract, the reasons for and the purpose of this subcontracting operation;
- Definitions of the works, product and/or service (cf. Point 1 on the definition of the general framework of the subcontracting relationship);
- Purpose of the contract: stipulate the transaction clearly;
- Obligations of the main-contractor (or client);
- Obligations of the subcontractor (or supplier);
- Delivery terms;
- Arrangements for delivery of the product:
  - Determination of the frequency (even possibly "just in time");
  - Definition of the means of transport and type of packaging to be used;
  - Determination of the terms of the transfer of ownership and of risks.
- Acceptance of the work;.
- Penalties;
- Price: calculation and adjustment of price (reference to a possible indexation clause);
- Terms of payment:
  - When is payment due?
  - What instrument of payment will be used?
  - Payment by installments?
- Payment guarantees (reservation of title clause; collaterals);

- Tax regime;
- Export regime;
- List of models and patterns, manufacturing moulds and jigs, and special tools;
  - Definition of the destination of tools at the end of the contract (who owns what?);
  - Definition of the destination of residual or waste materials and unused stock at the end of the contract;
- Main-contractor's trade marks/brands;
- Subcontractor's patents and know-how;
- Confidentiality;
- Acts of God and *force majeure*;
- Contingencies clause;
- Termination of the contract;
- Assignment of the contract;
- Notification;
- The applicable law;
- Settlement of disputes (judicial; non-judicial);
- Entry into force;
- Contract documents;
- Identity of the signatories to the contract and verification of powers;

## 2. During the performance of the contract

**Development of a relationship of trust between the partners based on:** Mutual information, first to improve the subcontracted products or services and second, to improve the value or the quality/price ratio. Within this framework of mutual information, the subcontractor suggests technical solutions most appropriate and the main-contractor gives credit for this input. Greater cooperation, collaboration with consultants, engineering and production control services is required. Better communication or dialogue is required on the technical specifications (terms of reference) and on all points that allow the subcontractor to define and focus his investment policy (i.e. initial investment; new investment; future investment);

**Development of secure and independent relationships:** In this respect, subcontractors should ensure that they have a sufficiently diversified customer base (at least 3) and only assign a limited percentage of their production capacity to a single contractor. Likewise, main-contractors should seek to share their orders with at least 2 or 3 different subcontractors so as to minimize risks.

### Obligations of the customer (main-contractor) towards the supplier (subcontractor):

**Obligation of careful selection:** To the extent that the subcontracting relationship creates a very close bond, and even interdependency, between the main-contractor and the subcontractor, the managers of the former must consider carefully before deciding on whether or not to subcontract: "to buy or to make" decision. This decision will be of crucial importance to the structure and operation of the two companies concerned. The decision will take account not only of economic factors (rational and objective data concerning the company and its environment) but also human factors. In the same spirit, main-contractors should exercise particular vigilance and care in selecting subcontractors. Only subcontractors who can meet the main contractor's requirements in terms of quantity and quality should be selected.

**Obligation to inform:** The obligation to inform will apply more particularly to the technical and financial aspects of the future order.

**Technical aspects of the order:** Precise description, in writing, of the works or product (technical specifications, possible modifications), forecasting by the main-contractor, who should try to even out order quantities (to avoid piece-meal orders, which involved a risk of over- or under-utilization for the subcontractor), timely information to the subcontractor in the event of amendment to orders.

**Financial aspect:** At the request of the subcontractor (who has concerns regarding the financial health of the main-contractor), the latter may provide him with documents confirming its sound financial health. In return, the subcontractor should undertake to respect the confidential nature of the information received in this manner. In addition, the subcontractor may also try to obtain information from the industrial Subcontracting and Partnership Exchanges (SPX), which are subject to confidentiality in respect of third parties.

**Obligation of stability and security:** In order to encourage the eventual (medium or long-term) development of a real common industrial policy, the main-contractor will try to guarantee the subcontractor stability of orders. Furthermore, the achievement of this objective can be reinforced in legal terms by the insertion of a *preference clause*. The purpose of this is to give priority to the subcontractor, where, for equal quality, his final offer is at the same price as the best price of the other companies consulted.

**Obligation of control:** The control relates to the quality of the product: (a) definition of the subcontractors production control criteria: joint definition of control criteria or involvement of third parties; and (b) drawing up of "terms of reference" (an information file on the product, standards, specifications and other manufacturing details).

**Obligation of confidentiality in relation to techniques (patents) and know-how used by the subcontractor:** Observance of this obligation will be ensured by a *mutual agreement of confidentiality*, either in the form of a separate agreement, or a special clause inserted in the main contract.

**Obligation to pay within a reasonable time, to be determined in advance (reduction of payment terms)**

**Participation of the main-contractor in development and investment:** The main-contractor shall as far as possible endeavour to provide the subcontractor with technical support (by setting up a quality management system or providing him with the appropriate tools) and financial support (investment, credit guarantees) while avoiding any interference.

**Obligations of the supplier (subcontractor) towards the customer (main-contractor),** as in *obligation to decide carefully*: Like the main-contractor, the subcontractor must exercise prudence and, in this respect, firstly consider his ability to respond to the offer (in relation, among others, to his financial capacity to cope with any economic risks, should they arise) and, secondly, weigh up the benefits and obligations that might result. If appropriate, subcontractors should refuse orders for which they are ill equipped technically, financially or in terms of the quantities or delivery terms requested.

**Proper performance of the contract:** In terms of *quality*, which assumes a description of the work or product (reference to technical documents); reference to the standards to be met by the product and compliance with the terms of reference and technical specifications, and in terms of delivery, as in manufacturing deadlines and delivery deadlines.

**Obligation of confidentiality:** Observation of this obligation is all the more important where the main contractor's instructions (drawings, tools, technical specifications) are not protected by patent (protection of industrial property and processes used from competitors).

**Obligation to provide advice and technical assistance:** In so far as subcontractors have generally developed specific know-how, they will undertake to make this available to main-contractors, especially when they are responsible for the design of trials or for the development of prototypes, by drawing the main-contractor's attention to possible difficulties in implementing the project.

**Obligation to keep up to date with technical advances:** In order to produce a product of the highest possible quality, subcontractors must endeavour to take account of technical advances. In this way, products will benefit from progress achieved in their areas of specialization.

**Obligation to develop an independent company industrial strategy:** In order to avoid eventual technical dependency, which could lead to technological dependency, then economic and financial dependency on the main-contractor (thus endangering the development of a long-lasting and structured subcontracting relationship), the subcontractor should seek to develop a specific and independent industrial and investment policy. He will thus develop certain activities and succeed in adapting progressively to more suitable techniques which can be replaced by new ones (alternative or innovative ones).

**Obligations of industrial subcontracting and partnership exchanges (SPXs):** In order to fulfill effectively the missions assigned to it, the SPX also relies on a code of conduct under which it must build a relationship of integrity and impartiality with its member or associated companies (treating all members equally) in a framework of confidentiality. Apart from observing the ethical code of conduct, the SPX will also seek:

- To promote, with the aid of UNIDO, the application of national codes of good conduct in subcontracting and partnership and guidelines on the legal aspects of contracts with subcontractors and suppliers;
- To offer subcontractors and suppliers technical and legal advice, training, information, and, with respect to financing possibilities, financial incentives;
- To introduce a non-judicial procedure for settlement of disputes, either by acting directly as mediator, or by entrusting the dispute to an arbitrator (chosen by mutual consent by the parties; expert to be appointed), or even a *national arbitrated panel*.

