|  | Tier 1 | Tier 2 |
|---|---|---|
|  | Low Risk/ Value | Medium Risk/ Value |
| **Scope change** | Limited | Incremental |
| **Service** | Single | Multiple |
| **Price Model** | Fixed Price | Variable |
| **Volume** | Foxed | |
| **Savings** | Low | Medium |
| **Innovation** | Low | Medium |

| Actions: | Verify that the invoice is accurate | Check if the contract if is linked to performance data in metrics that can be measured |
|---|---|---|
|  |  | Verify that the invoice is accurate |
|  |  |  |
|  |  |  |

| ⭐ Tip | **Price= Cost+ Profit + Margin** |
|---|---|

Profit = total revenue- business expense

Profit margin is the measurement of the profitability.

It measures how much the company retains in earnings as a %

Net income/total sales

Margin is more important because the compnay should try and achieve higher profits with the same resources

⭐ Tip

\* If non allowable cost comes into the equation you may assume that the supplier's profit may take a hit and that service levels will suffer. This should not be taken as fact. The supplier may build in to their margin risk contigencies and factored that into the overall cost.

Use a contract cost register and discuss this with suppliers before formal procurement commences

Consider cost reduction KPI's in Tier 3 and 4 Contracts

Consider Gain Share Mechanisms in Tier 3 and 4 Contracts

| Tier 3 | Tier 4 |
|---|---|
| Medium, High Risk/ Value | High Risk/ Value |
| Transformational | |
| Complex | Partnership J/V |
| | Gain/ Share |
| | Variable/ unknown |
| | High |
| | High |

| Tier 3 | Tier 4 |
|---|---|
| Control-Use MI and key metrics to assess whether if cost is in line with expectations. i.e. cross reference invoice data with MI or spot check | Quarterly service reviews focusing on the cost of the contract and assess in- contract cost reduction opportunities. |
| Cost Model- ask the supplier for a breakdown of their cost model | Control-Use MI and key metrics to assess whether if cost is in line with expectations. i.e. cross reference invoice data with MI or spot check |
| Check if the contract if is linked to performance data in metrics that can be measured | Cost Model- ask the supplier for a breakdown of their cost model |
| Verify that the invoice is accurate | Check if the contract if is linked to performance data in metrics that can be measured |
| | Vefify that the invoice is accurate |

| Contract Cost Register | |
|---|---|
| List of allowable( expect to incur) | Not allowable ( supplier to absorb in margin) |
| Appropriate - incurred in delivering the requirement/ product or service | |
| The Contract cost register should include unit rates and variables such as time input/ grading structure, expenses, profit etc. Each register will be different to reflect the goods or services<br><br>Variables might include:<br>    Payment by results ( cost, margin & risk)<br><br>Cost plus margin | |