



Second Tier Procurement

A Positioning Paper

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Prepared by Inside Policy on behalf of Supply Nation and its Leadership Roundtable

Glossary

Buyer	The organisation purchasing goods and / or services from Tier 1 / Prime suppliers and Indigenous suppliers.
Direct spend	Goods and/or services delivered by a second tier firm to a first tier firm which contributes to the Buyer's requirements or business needs (e.g. provided within the scope of works for the contract between the Buyer and Tier 1 supplier).
Indigenous	Refers to Aboriginal and / or Torres Strait Islander peoples, suppliers, businesses and communities.
Indigenous supplier	A business which is certified or registered by Supply Nation.
Indirect spend	Goods and/or services delivered by a second tier firm which cannot be identified in support of specific Buyer requirements.
Prime supplier	Also known as the Tier 1 supplier who supplies goods and services directly to the Buyer.
Supplier diversity	Procurement initiatives which aim to increase the representation of businesses owned by Indigenous Australians, women and minorities in the supply chains of large purchasing organisations.
Tier 1 spend	The value of the purchase made between a Buyer and Tier 1 supplier.

Acronyms

APIC	Aboriginal Procurement in Construction Policy (NSW)
APP	Aboriginal Procurement Policy (NSW)
BCA	Business Council of Australia
BDR	Billion Dollar Roundtable
IPP	Indigenous Procurement Policy
LRT	Leadership Roundtable
QIPP	Queensland Indigenous Procurement Policy
SN	Supply Nation

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The Leadership Roundtable's position on second tier spend

In 2019, Supply Nation's Leadership Roundtable (LRT) identified second tier procurement as an issue of focus.

Outlined below is the LRT's position on key challenges that arise when accounting for second tier spend in the Indigenous procurement target context.

Drawing on international best practice, the experience of LRT members and the current state of Indigenous procurement in Australia, the positions outlined below aim to assist Supply Nation's broader member-buyer community to adopt consistent and leading practice approaches to second tier Indigenous procurement.

The LRT's position on second tier spend is as follows:

1. Defining second tier spend

Second tier spend and its related concepts should be defined as follows:

- Second tier spend is the value of invoices raised by a second tier-Indigenous supplier and paid for by a Prime.
- A Buyer is an organisation or firm, which is contracting services or goods.
- Prime suppliers provides, and invoices for, products and / or services directly to the Buyer.
- Second tier firms provides, and invoices for, products and / or services to the Prime.
- Direct spend refers to goods and/or services delivered by a second tier firm to a Prime which contributes to the Buyer's requirements or business needs (e.g. provided within the scope of works for the contract between the Buyer and Prime).
- Indirect spend refers to goods and/or services delivered by a second tier firm which cannot be identified in support of specific Buyer requirements.

For the purposes of an Indigenous procurement target, the spend that counts towards the target is Tier 1 and Tier 2 spend but both types of spend must be reported separately. This aligns with the position of the Business Council of Australia's *Raising the Bar* initiative.

2. Second tier data to be captured

A minimum dataset should to be collected in order to report on second tier spend. Such data includes:

- Source of payment made to Indigenous supplier.
- Value of invoices paid by prime suppliers to Indigenous suppliers by direct spend (with a contract number identifier) and indirect spend.
- ABN of Indigenous suppliers paid.
- Certification or registration status of Indigenous suppliers.
- Category of good / service for invoices paid.
- Date payment made.

The LRT recognised that every business is different and may wish to capture additional data.

3. Methods for capturing and reporting second tier spend

To ensure credible and defensible reporting which does not seek perfection or constrain the development of the Indigenous business sector, a nationally consistent excel spreadsheet for collecting second tier spend data should be developed. This involves:

- Developing a simple data collection tool.
- Taking data inputted into the tool at face value.
- Buyers sending Prime suppliers at agreed intervals the data collection tool to capture direct and indirect Tier 2 spend data.

Overtime, the LRT members may consider using a third-party supplied platform to collect and analyse all Indigenous procurement spend data.

4. Avoiding double counting

To avoid double counting all spend should be separated by tier and whether direct or indirect. This involves Buyers committing to reporting Tier 1 and Tier 2 spend separately. As well as capturing indirect and direct Tier 2 spend separately, then only reporting for the purposes of its Indigenous procurement target on direct Tier 2 spend.

Where a consortium (or similar) is the contractor, it is up to the relevant parties to decide how to divide the spend (i.e. by number of parties, per share of the contract) to ensure double-counting does not occur.

5. Requirements of prime suppliers to report on spend with Indigenous suppliers

For select RFTs and contracts, Prime suppliers are required to meet minimum direct second tier spend and reporting requirements. Those 'selected' would be chosen by the contractor based on industry, category of spend, or spend size. This approach should be adapted to the organisation and scaled as Industry capability grows.

Suppliers must be evaluated by what they promise against their performance. Through the RFT assessment process, previous procurement experience and what they are doing within their organisations should be taken into account.

6. Resources required

A second tier spend collection and reporting should be established when a comprehensive second tier program is in place.

This allows Buyers to "grow into" a second tier program rather than starting their Indigenous procurement journey with both a Tier 1 and Tier 2 program. If a Buyer does not have a comprehensive Tier 2 program in place it is unlikely there will be much Tier 2 spend activity. Therefore, there is no need to invest the resources to capture and report on Tier 2 spend.

It is important to get a Tier 1 program right first, before developing a second tier program. It was agreed that there is no need to mandate a Second Tier program in the short term, recognising the maturity of current procurement practices and the Indigenous business sector.

Introduction

In 2019, Supply Nation engaged Inside Policy to co-develop with its Leadership Roundtable members this discussion paper on second tier procurement.

The purpose of this paper is to explore the critical issues to ensure effective second tier procurement of Indigenous suppliers within large purchasing organisations.

This paper aims to prompt discussion of these issues and the range of options to address these issues with a view that the Leadership Roundtable is able to form a preferred approach to effective second tier procurement.

It is intended that this paper and the Leadership Roundtable's position on the issues canvassed in this paper will be shared with Supply Nation's broader member-buyer community in order to improve second tier procurement practices in Indigenous procurement in Australia.

Structure

The remainder of this paper is structured accordingly:

<i>Background:</i>	This section overviews the imprimatur for this paper including the Indigenous procurement landscape in Australia and the role of the Leadership Roundtable as well as the methodology adopted for identifying the key issues explored in this discussion paper.
<i>Issues considered:</i>	This section details the six issues related to second tier procurement including assessing the various options available for solving each issue and the LRT's position on each issue.
<i>References:</i>	Lists the source material and literature relied upon throughout the paper.

Background

Indigenous procurement in Australia

Since the formation of Supply Nation (formerly the Australian Indigenous Minority Supplier Council) in 2009, nation-wide and cross-industry efforts on Indigenous procurement have significantly increased. The federal government's introduction of the Indigenous Procurement Policy (IPP) on 1 July 2015 which committed the Australian Government to an Indigenous procurement target represented a tectonic shift in Indigenous economic development policy – resulting in broadened economic development outcomes from employment to enterprise development and growth. The subsequent success of the IPP served to reinforce the federal government's commitment to the IPP as well as to incentivise most State and Territory Governments to adopt similar policy approaches.

Subsequently on the State and Territory level, Governments have introduced policies, strategies and targets to increase Aboriginal Procurement. The various policies aim to increase capacity of Indigenous businesses, support employment opportunities, improve visibility of Aboriginal businesses, and increase opportunities for Indigenous businesses to participate in the economy.

New South Wales, Queensland, Victoria, and Western Australia have all set Aboriginal procurement targets for their Governments. In NSW, the Aboriginal Procurement Policy (APP) and Aboriginal Procurement in Construction Policy (APIC) are leading the growth of the NSW's First Economy with a three percent procurement target by 2021.¹ In Queensland, the Queensland Indigenous Procurement Policy (QIPP) has a three percent state procurement target by 2022.² In Victoria, the Government has set a one percent procurement target for small to medium enterprises by 2020.³ In WA, the Aboriginal Procurement Policy has set a target of three percent of the number of awarded state Government contracts by 2021.⁴

South Australia has an Aboriginal Economic Participation Initiative to increase state procurement by supporting Aboriginal Businesses to compete for contracts.⁵ However, no target has been set for SA. The Northern Territory and Australian Capital Territory Governments are currently in consultation to develop their procurement policies.⁶

Parts of Corporate Australia had Indigenous procurement commitments prior to the establishment of Supply Nation and the adoption of the IPP. However, these commitments have recently increased in scale following the formation of the Business Council of Australia's (BCA's) Raising the Bar group. Members of Raising the Bar have committed to an Indigenous procurement target, which incrementally increases over a five-year period.

These recent developments evidence a strong corporate and government buyer commitment to Indigenous procurement over the long-term in Australia.

¹ NSW Government, 2018a; 2018b.

² DATSIP, 2016.

³ Victorian Government, 2017.

⁴ WA Government, 2017.

⁵ SA Government, n.d.

⁶ NT Government, 2019; ACT Government, 2019.

Why second tier procurement?

Increasingly, Buyers have created programs to increase diversity spending within their procurement processes, including first and second tiers. This may be attributed to specific government policies (as noted above) or driven by internal business imperatives. Regardless of the reason, developing and implementing an effective second tier procurement program, including a reporting regime, is critical for many Buyers in successfully fulfilling their Indigenous procurement commitment.

The Leadership Roundtable

The Leadership Roundtable is an invitation only group of Supply Nation members who have been identified as leading the field in Indigenous procurement. This group of corporate and government buyers, meets quarterly to exchange information on Indigenous procurement practice as well as to discuss and resolve common challenges in implementing their Indigenous procurement commitments for the benefit of all buyers that have a commitment to Indigenous procurement.

A common challenge identified by the Leadership Roundtable in 2018, which it agreed to take a position on, is how to develop, implement and report on an effective second tier procurement program.

How the issues considered in this paper were identified

The issues considered in this paper were identified through a three-step process. First, a detailed briefing was held with Supply Nation to obtain the common second tier procurement challenges experienced by their members. This information formed the scope of the second step, which was a review of leading second tier practices both domestically and internationally. Finally, the findings of the review were provided to the Leadership Roundtable and helped shape a half-day workshop where Leadership Roundtable members further refined and defined the key issues focused on in a discussion paper.

At the end of this process, the following six issues were identified:

1. Defining second tier procurement.
2. The type of second tier data to be captured.
3. Methods for capturing and reporting on second tier procurement activity.
4. Avoidance of double counting.
5. Responsibilities of prime (tier 1) suppliers.
6. The resources required.

Consideration by LRT members of a discussion paper which outlined the possible options for LRT positions on each of the above issues, then resulted in this positioning paper.

Each of the six issues listed above are explored in detail in the next section.

Issues for Consideration

1. Defining Second Tier Spend

This issue explores the need and options for agreeing a consistent definition of second tier (or Tier 2) spend.

The current state

In the context of Indigenous procurement in Australia, there is no:

- Consistent or accepted definition of second tier procurement, in particular what it includes and excludes e.g. whether it includes both indirect and direct spend or only indirect or direct.
- Accurate practice, method or system for collecting and reporting on second tier procurement data.
- Clear understanding of the importance of collecting and reporting on second tier spend.
- Systemic, consistent approach developing and implementing a second tier program that encourages prime suppliers to buy goods and services from Indigenous suppliers across companies who have committed to Indigenous procurement.

Conversely, supplier diversity programs in the United States and Canada have well established definitions of Tier 1 and Tier 2 spend, and related programs which support both efforts. Of the Fortune 500 companies, a reported 80 per cent require supplier diversity requirements from their first and second tier suppliers.⁷ Importantly in these jurisdictions it is accepted that:

- Only Tier 1 spend, i.e. where the purchasing arrangement is directly between the Buyer and minority supplier only, counts towards the Buyer's supplier diversity target.
- Tier 1 and Tier 2 spend is reported separately.
- Tier 2 spend is spend which occurs between a Buyer's prime supplier and minority business. This includes direct and indirect spend but both are reported separately.
- Prime suppliers are required to report to Buyers on both direct and indirect spend with minority suppliers.

The challenge

Second tier procurement requires a consistent definition that can be agreed to by Buyers who have committed to Indigenous procurement. This definition needs to articulate:

- What constitutes second tier procurement including direct and indirect second tier spend.
- The parties involved in second tier spend including buyer, prime supplier and Indigenous supplier.
- The relationship between and responsibilities of the parties involved in second tier spend.

Ideally the above definitions align with international best practice.

⁷ CAMSC, 2014.

The benefits of addressing the challenge

Defining what constitutes second tier spend for the purposes of Indigenous procurement will create the following benefits:

- Provides clarity across the buyer community and the Indigenous procurement ecosystem.
- Establishes a clear expectation of what second tier spend is and isn't and what will and won't be accepted.
- Assists in more accurately assessing the impact of Indigenous procurement activities.
- Helps to avoid double counting by ensuring first and second tier spend as well as indirect and direct spend is not co-mingled when counted.

Without this consistency and clarity, Buyers and the Indigenous procurement ecosystem exposes itself to a lack of credibility and defensibility of its Indigenous procurement activity and spend.

Analysis of options to address the challenge

Outlined below are the potential options to address the challenge of defining second tier spend. These options are based on accepted second tier procurement practice internationally. Not canvassed below is the "Do Nothing" or "Status Quo" option. The risks of the "Do Nothing" option includes, continuing a lack of consistency across the Supply Nation Buyer community, continuing a lack of clarity for prime and Indigenous suppliers, and a decreased confidence in the credibility of Indigenous spend data and performance.

Option 1.1: Agree a universal definition of second tier spend.

This involves agreeing the following definitions:

- A Buyer is an organisation or firm, which is contracting services or goods.
- Prime suppliers provides, and invoices for, products and / or services directly to the Buyer.
- Second tier firms provides, and invoices for, products and / or services to the Prime firm.
- Second tier spend is the value of invoices raised by a second tier-Indigenous supplier and paid for by a Prime supplier.
- For the purposes of an Indigenous procurement target, Tier 1 spend is only spend which occurs directly between the Buyer and Indigenous supplier.

The benefits of this option include:

- Clearly distinguishes between Tier 1 and Tier 2 spend.
- Reduces the likelihood of double counting within a company.
- Provides a consistent definition across Buyers.
- Provides clarity on what spend data should be collected.
- Aligns with leading practice internationally.

The risks of this option include:

- Doesn't address the potential for double counting due to co-mingling of indirect and direct Tier 2 spend.
- Doesn't address the potential for double counting of Tier 1 and Tier 2 spend across companies in the Supply Nation membership.

Option 1.2: Option 1.1 plus includes definitions for indirect and direct second tier spend.

This involves the definitions as outlined in Option 1.1, plus:

- Direct spend refers to goods and/or services delivered by a second tier firm to a Prime firm which contributes to the Buyer's requirements or business needs (e.g. provided within the scope of works for the contract between the Buyer and Prime supplier).
- Indirect spend refers to goods and/or services delivered by a second tier firm which cannot be identified in support of specific Buyer requirements.

The benefits of this option include:

- Same benefits as Option 1.1.
- Avoids double-counting due to co-mingling of indirect and direct Tier 2 spend within a Buyer company.
- Potentially addresses double counting of Tier 1 and Tier 2 spend across companies in the Supply Nation membership.

The risks of this option include:

- Potentially burdensome data capture requirements for Prime suppliers in particular.

Some questions to prompt discussion

- a. Which option is likely to receive broad consensus across Supply Nation's Buyer community?
- b. Which option is most in line with the spirit of Buyers' commitment to Indigenous procurement?
- c. What concerns does your preferred option raise?

The Leadership Roundtable's position

For the purposes of defining second tier spend, the LRT agrees:

- Second tier spend is the value of invoices raised by a second tier-Indigenous supplier and paid for by a Prime.
- A Buyer is an organisation or firm, which is contracting services or goods.
- Prime suppliers provides, and invoices for, products and / or services directly to the Buyer.
- Second tier firms provides, and invoices for, products and / or services to the Prime.
- Direct spend refers to goods and/or services delivered by a second tier firm to a Prime which contributes to the Buyer's requirements or business needs (e.g. provided within the scope of works for the contract between the Buyer and Prime).
- Indirect spend refers to goods and/or services delivered by a second tier firm which cannot be identified in support of specific Buyer requirements.
- For the purposes of an Indigenous procurement target, the spend that counts towards the target is Tier 1 and Tier 2 spend but both types of spend must be reported separately. This aligns with the position of the Business Council of Australia's *Raising the Bar* initiative.

2. The data to be captured

This issue explores the types of data to be captured in order to report on second tier spend.

The current state

Currently Buyers determine what Indigenous procurement data they collect. As a result, there is no consistent or agreed minimum data requirements for second tier spend activity.

Examples of the type of data collected by Buyers include:

- Value: of contracts awarded and invoices paid.
- Number: of contracts awarded and Indigenous suppliers engaged.
- Value of spend: indirect and direct.
- Employment: including average FTE across a contract and hours worked on a contract.
- Category of spend.
- Location of Indigenous supplier and of work delivered.
- Supply Nation certification or registration status.
- Who pays the invoice / requisitions the spend.

Overwhelmingly, the collection of second tier procurement data is patchy within and across Buyers.

Internationally, Buyers request the following information from their prime suppliers:

- Total spend on each specific minority groups (i.e. those targeted by the program such as women, minorities, veterans, small businesses etc).
- Identification of the time period of reporting.
- Total company sales during the period and total sales to the Buyer during the period.
- Companies indirect spend with diverse suppliers for each month.
- Name of each direct supplier for each product / service sold, and the dollar amount spend with them each month.
- Individual details for each second tier supplier i.e. business name, type, address, contact details, activity type / service rendered.
- Individual spend for each second tier supplier (for direct and indirect).
- Copy of certificate of certification of second tier diversity.⁸

The challenge

The greatest challenge for Buyers is not knowing what second tier data should be collected. This has resulted in Buyers either collecting data that is inconsistent or incomparable. This is largely related to the challenge of the lack of a consistent definition of second tier spend (see issue discussed above).

The lack of complete and consistent second tier spend data collection results in an inability to report, analyse and understand the impact of a Buyer's Indigenous procurement activity.

⁸ Xerox, 2019. Cummins, 2005; Citi, 2019; Novant Health, 2019; CenturyLink, n.d. Note, no reporting software requiring a password was accessed.

Another challenge is being able to effectively “follow the money” to determine the tier of spend and whether the spend is direct or indirect. This is particularly important for avoiding double counting (see Issue 4 below).

The benefits of addressing the challenge

The primary benefit of addressing this challenge is Buyers understanding the data they are required to collect in order effectively and completely report on their second tier spend.

The related benefits of this includes building a nationally consistent dataset which can be used to determine the impact of tier 1 and tier 2 Indigenous procurement at the company, industry and member-Buyer levels. Capturing and sharing this impact will then have broader, positive implications for Indigenous procurement policy.

Analysis of options to address the challenge

Outlined below are the potential options to address the challenge of identifying the right second tier data to collect. These options are based on accepted second tier procurement practice internationally. The table below does not canvas the “Do Nothing” or “Status Quo” option. The risks of the “Do Nothing” option includes, continuing a lack of consistency across the Supply Nation Buyer community, a decreased confidence in the credibility of Indigenous spend data, performance and policy commitment, and increased difficulty for internal champions to persuade the broader business to commit to Indigenous procurement.

Option 2.1: Agree a National Minimum Dataset for Second Tier Spend.

This involves agreeing the minimum data to be collected in order to report on second tier spend. Such data could include:

- Source of payment made to Indigenous supplier.
- Value of invoices paid by prime suppliers to Indigenous suppliers by direct spend (with a contract number identifier) and indirect spend.
- ABN of Indigenous suppliers paid.
- Certification or registration status of Indigenous suppliers.
- Category of good / service for invoices paid.
- Date payment made.

The benefits of this option include:

- Provides a consistent definition across Buyers.
- Provides clarity on what spend data should be collected.
- Provides clarity for prime suppliers.
- Aligns with leading practice internationally.

The risks of this option include:

- Potentially burdensome data capture requirements for prime suppliers in particular.
- Privacy concerns regarding disclosure of details of Indigenous suppliers paid.

Option 2.2: Accept an aggregate, de-identified second tier data.

This involves requiring prime suppliers to only provide:

- Total prime supplier sales for a particular period.
- Total prime supplier sales to the Buyer for a particular period.

- Total prime supplier payments to Indigenous suppliers for a particular period by direct and indirect spend.

The benefits of this option include:

- Protecting the privacy of Indigenous businesses.
- Identifying direct and indirect second tier spend.
- Less burdensome data collection for prime suppliers.

The risks of this option include:

- Lack of transparency of categories of spend, number of Indigenous suppliers engaged and number of individual payments made.
- Lack of ability to check the Indigenous bone fides of the suppliers engaged.

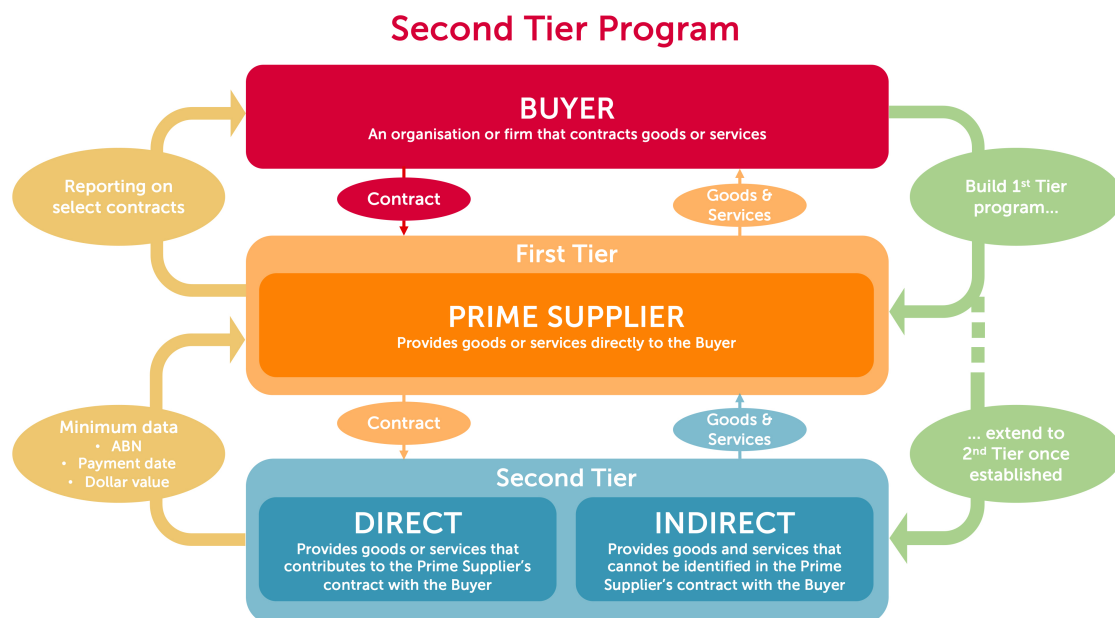
Some questions to prompt discussion

- Is it feasible for all Supply Nation Member-Buyers to subscribe to a minimum dataset?
- How important is having access to, and visibility of, Indigenous supplier details for each payment made by prime suppliers?

The Leadership Roundtable's position

The LRT supports Option 2.1 regarding a national minimum dataset.

It was agreed that this dataset would need to capture ABN, payment date, and dollar value. The LRT recognised that every business is different and may wish to capture additional data.



3. Methods for capturing and reporting

This issue explores how second tier spend data is captured and reported.

The current state

While some Buyers have second tier spend collection and reporting practices in place not all Buyers collect this data. For those Buyers who collect second tier spend data, the current methods for capturing and reporting on second tier spend are highly manual, resource intensive and the frequency of reporting is irregular.

The most common data collection method is where the Buyer requests the second tier spend data from their tier 1 (prime) supplier in an excel spreadsheet.

With respect to reporting practices, second tier spend data is generally not reported separately to tier 1 spend data. An example of co-mingling tier 1 and 2 spend data is the Australian Government reporting under the IPP.

Looking internationally, Billion Dollar Roundtable (BDR) members subscribe to third party data analytics services to collect, analyse and report on tier 1 and tier 2 minority supplier spend across their entire organisation. Excel spreadsheets are completed where a third party provider is not used to collect second tier procurement data.

Some Fortune 500 companies take a less burdensome approach to capturing and reporting on indirect spend. Specifically, they use a different range of calculation methods including:

- calculation of percent of payments received,
- percent of addressable spend⁹,
- percent of estimated purchases,
- percent of customer sales,
- percentage of total sales¹⁰, and
- the Indirect Allocation Method (which analyses Total Prime Revenue, Total Sales to Buyer, and Total Diversity Spend).¹¹

The challenge

The challenge with the current data capture practice is that it either does not exist within a Buyer organisation or, where it does exist, it is resource intensive due to its manual nature. The reliance on prime suppliers to provide this data manually to Buyers in good faith (i.e. outside of any contractual requirement) also means that compliance with reporting requirements is low. Further, there is no assurance or validation of the integrity (i.e. completeness and accuracy) of second tier spend data. As such co-mingling of tier 1 and 2 spend as well as direct and indirect spend can occur as well as inclusion of spend with suppliers who are not Indigenous.

The challenge regarding reporting relates to having a clearly defined purpose for reporting, the frequency of reporting, responsibilities for reporting and the content of such reports.

⁹ Addressable spend is “the proportion of expenditure that is eligible for spend saving” (NEPP, n.d.)

¹⁰ See Supplyity, 2018d for a breakdown of each calculation methodology.

¹¹ Cisco, n.d.

The benefits of addressing the challenge

There are many benefits of resolving the second tier spend data capture and reporting challenges. The overwhelming benefits are:

- Increased confidence in Indigenous procurement spend data and overall activity.
- Better understanding of the impact of Buyers' Indigenous procurement commitments.
- Reduced labour costs resulting from a standard, systematised approach to data collection and reporting.
- Identification of opportunities to move Tier 2 suppliers up the value chain overtime.

Analysis of options to address the challenge

Outlined below are the potential options to address the data capture and reporting challenge. These options are based on accepted second tier procurement practice internationally. Not canvassed below is the "Do Nothing" or "Status Quo" option. The risks of the "Do Nothing" option includes, continuing a lack of consistency across the Supply Nation Buyer community, a decreased confidence in the credibility of Indigenous spend data, performance and policy commitment related to inaccuracies, and increased difficulty for internal champions to persuade the broader business to commit to Indigenous procurement.

Option 3.1: Individual Buyer companies subscribe to or develop a third-party supplied platform to collect and analyse all Indigenous procurement data

This involves sourcing or developing a dedicated platform for collecting, analysing and reporting on all Indigenous procurement data including Tier 1 and Tier 2 spend. The data collected, analysed and reported on through this system would be based on an agreed national minimum dataset for Indigenous procurement (see Option 2.1).

The benefits of this option include:

- Provides consistent data collection, analysis and reporting across Buyers.
- Automates the data collection, analysis and reporting processes for Buyers and prime suppliers.
- Aligns with leading practice internationally.

The risks of this option include:

- Lack of off-the-shelf option in Australia.
- Inability to integrate with Buyers' existing procurement and accounting systems.
- Costly to develop and implement.

Option 3.2: Develop a nationally consistent excel spreadsheet for collecting second tier spend data

This involves Buyers sending prime suppliers at agreed intervals a standard spreadsheet designed to capture direct and indirect Tier 2 spend data.

The benefits of this option include:

- Consistent data collection method / tool.
- Low cost.
- Aligns to an agreed national minimum dataset (see Option 2.1).

The risks of this option include:

- Manual process which is resource intensive in its administration, analysis and reporting.

Option 3.3: Agree on a consistent second tier spend calculation method in lieu of collecting raw spend data

This involves agreeing on a universal calculation method such as the Indirect Allocation Method. Using this method, at agreed intervals prime suppliers would provide Buyers with data on Total Prime Revenue, Total Sales to Buyer, and Total Indigenous Spend.

The benefits of this option include:

- Protecting the privacy of Indigenous businesses.
- Identifying direct and indirect second tier spend.
- Less burdensome data collection for prime suppliers.

The risks of this option include:

- Lack of transparency of categories of spend, number of Indigenous suppliers engaged and number of individual payments made.
- Lack of ability to check the Indigenous bone fides of the suppliers engaged.

Some questions to prompt discussion

- a. What is your organisation's appetite for either a standard data capture and reporting method or an automated capture and reporting system?
- b. What internal hurdles (within Buyer organisations) must be overcome in order to adopt an automated system of collecting and reporting on Tier 1 and Tier 2 Indigenous spend data?

The Leadership Roundtable's position

The Leadership Roundtable agreed to Option 3.2 with additional components. The additional components were:

- A simple data collection tool is used, not just an 'excel spreadsheet'.
- There is clarity and transparency on what data is captured.
- Data is taken on face value and not audited.
- Aim to grow into Option 3.1. This may be through growing the capabilities of SpendTracker.

The Roundtable provided a guiding statement of intent that this process is to "ensure credible and defensible reporting which does not seek perfection or constrain the development of the Indigenous Business Sector".

4. Avoidance of double counting

This issue explores double counting of spend both within a Buyer organisation as well as across the Supply Nation member-buyer community.

The current state

Currently Australian Buyers are concerned about the risk of double counting especially where Buyers and Prime Suppliers Indigenous procurement figures are conflated. This fear is exacerbated by the different approaches that Buyers currently take to collecting and reporting on all Indigenous procurement spend. Unfortunately, the lack of data means the extent to which this is a problem is unknown.

International experience does show that double counting is most likely to become a reality in the following situations:

- Where Tier 1 and Tier 2 spend is co-mingled.
- Where direct and indirect Tier 2 spend is co-mingled.
- Where indirect Tier 2 spend is aggregated across Buyers.

The challenge

In Australia, Buyers have identified that double-counting can be best avoided where there is:

- Consistency and automation in data collection processes.
- Availability of accurate Indigenous spend data.
- Visibility of Buyer payments, Prime Supplier payments and Second Tier Supplier receipts.

The benefits of addressing the challenge

The ultimate benefit of solving this challenge is increasing the level of confidence in the Indigenous procurement data and performance that is reported by Supply Nation members. This in turn will assist efforts within Buyer organisations to increase investment in Indigenous procurement.

Analysis of options to address the challenge

Outlined below are the potential options to address this challenge. These options are based on accepted second tier procurement practice internationally. Not canvassed below is the “Do Nothing” or “Status Quo” option. The risks of the “Do Nothing” option includes, continuing a lack of consistency across the Supply Nation Buyer community, a decreased confidence in the credibility of Indigenous spend data, performance and policy commitment related to inaccuracies, and increased difficulty for internal champions to persuade the broader business to commit to Indigenous procurement.

Option 4.1: Require all spend to be separated by tier and whether direct or indirect. Only report on direct Tier 2 spend.

This involves Buyers committing to reporting Tier 1 and Tier 2 spend separately. As well as capturing indirect and direct Tier 2 spend separately, then only reporting on direct Tier 2 spend. As with Option 1.1:

- Tier 1 spend is defined as payments made directly by the Buyer to the Indigenous supplier.

- Direct Tier 2 spend is defined as payments made directly by a Prime Supplier to an Indigenous Supplier under a contract with the Buyer.
- Indirect Tier 2 spend is defined as payments made directly by a Prime Supplier to an Indigenous Supplier for goods / services provided outside of a contract with the Buyer.

The benefits of this option include:

- Provides consistent data collected, analysed and reported on across Buyers.
- Increases transparency of Indigenous procurement data.
- Removes risk of double-counting within a Buyer organisation as well as across the Supply Nation Buyer community.
- Aligns with leading practice internationally.

The risks of this option include:

- Burdensome data collection for Prime Suppliers.
- Burdensome reporting processes for Buyers.

Option 4.2: Option 4.1 plus Supply Nation regularly cleanses indirect second tier procurement spend data to identify and remove any double-counting

This involves indirect Tier 2 spend including Indigenous supplier ABNs being provided to Supply Nation so they can identify any double-counting of indirect Tier 2 spend by the same Prime Supplier.

The benefits of this option include:

- Remove risk of double-counting across the Supply Nation Buyer community.

The risks of this option include:

- Burdensome including resource intensive for Supply Nation.
- Privacy concerns for Indigenous suppliers.

Some questions to prompt discussion

- Do these options appropriately address the challenge of double-counting?
- What other approaches could be used to avoid double counting in the area of indirect second tier spend?

The Leadership Roundtable's position

The Leadership Roundtable agreed to Option 4.1. However, the Roundtable noted that this option is reliant on setting a consistent definition for second tier spend (Issue 1).

Consideration was given to circumstances where a consortium (or similar) is the contractor. The Roundtable stated that it was up to the relevant parties to decide how to divide the spend (i.e. by number of parties, per share of the contract) to ensure double-counting does not occur.

5. Requirements of Prime Suppliers

This issue explores the potential role and responsibilities of Prime (Tier 1) suppliers in second tier spend data capture and reporting.

The current state

Currently in Australia, Buyers have an expectation that some, if not all, their Prime Suppliers will assist them in their Indigenous procurement efforts by buying goods and services from Indigenous businesses both directly and indirectly. However, how this expectation is implemented occurs differently across Buyer organisations. For example, the federal government through the IPP have set minimum mandatory reporting requirements for their largest suppliers. Some Australian public companies have built second tier procurement expectations into tenders and then successful supplier contracts.

Internationally, there are clear expectations set out in legislation as well as tender documents and contracts which require certain Prime Suppliers for certain contracts to buy goods and services from minority / diverse suppliers and to report to Buyers on this activity. The performance of Prime Suppliers against these requirements are assessed by Buyers and sanctions are put in place if expectations are not met.

The challenge

The challenge for Buyers in Australia is determining how to work effectively with Prime Suppliers to achieve the Buyer's Indigenous procurement goals. A range of factors impact on a Buyer's ability to influence Prime Suppliers in this regard including:

- The lack of depth and breadth in the Indigenous supply market.
- Negative perception of and bias against Indigenous business.
- Competing priorities faced by Prime Suppliers including local content, women's participation, sustainability in addition to Indigenous procurement.
- The impact of a global procurement approach which often supersedes local, in-country commitments.
- Legal standing and the ability of Buyers to oblige Prime Suppliers to buy goods and services from Indigenous business.

The benefits of addressing the challenge

If Prime Suppliers delivered on a clear set of Indigenous procurement responsibilities this would help accelerate the achievement of greater Indigenous procurement outcomes.

Analysis of options to address the challenge

Outlined below are the potential options to address the challenge. These options are based on accepted second tier procurement practice internationally. Not canvassed below is the "Do Nothing" or "Status Quo" option. The risks of the "Do Nothing" option includes, failure to achieve Indigenous procurement commitments, reinforces prime suppliers' negative perceptions of Indigenous business, and inability to move Indigenous business up the value chain.

Option 5.1: Build in minimum direct and indirect second tier spend and reporting requirements of Prime Suppliers into RFTs and contracts.

This involves Buyers building second tier procurement and reporting requirements into Requests for Tenders (including weighted evaluation criteria) and key performance indicators in contracts which are formed following the RFT process.

The benefits of this option include:

- Setting a clear expectation of Primes regarding Indigenous procurement from the outset.
- Ability to achieve greater outcomes, faster with the help of Primes procuring from Indigenous business.
- Aligns with leading practice internationally.

The risks of this option include:

- Primes choose not to submit a bid due to increased obligations / requirements.

Option 5.2: Limit Option 5.1 to a Buyer's top 5 Prime Suppliers (rather than the entire Prime Supplier community).

As suggested by the title of the option, this involves limiting second tier procurement and reporting obligations to the largest Primes.

The benefits of this option include:

- Reduced burden on Buyer in monitoring compliance and performance of Prime due to lesser number.
- Ability to focus efforts on fewer Indigenous suppliers and Prime with the potential effect of increasing quality and growth.

The risks of this option include:

- Limiting the opportunity and therefore the benefit to Indigenous suppliers and likelihood greater outcomes can be achieved in a shorter period of time.

Some questions to prompt discussion

- a. What are the other options for engaging Prime Suppliers? For example, could a model where a group of Primes working together to engage Indigenous business be possible?
- b. What other responsibilities should Primes have outside of procuring from Indigenous business? For example, mentoring, coaching etc?

The Leadership Roundtable's position

The Leadership Roundtable agreed to a hybrid of Option 5.1 and 5.2. The agreed hybrid Option would build in minimum direct second tier spend and reporting requirements of Prime suppliers into *select* RFTs and contracts. Those 'selected' would be chosen by the contractor based on industry, category of spend, or spend size; rather than the top 5 Prime Suppliers as detailed in Option 5.2. This approach should be adapted to the organisation and scaled as Industry capability grows.

The Roundtable noted that suppliers must be evaluated by what they promise with their performance. Through the RFT assessment process, previous procurement experience and what they are doing within their organisations should be taken into account.

The following considerations were given:

- The business context must be taken into account, including business priorities and spend profiles.
- Second tier procurement should be embedded as 'business as usual'.
- Guidance is needed on identifying target markets.
- Leaders within the business ecosystem are needed to lead the change and be an example.

6. Resources required

This issue explores the broader program support for second tier procurement that needs to be in place, beyond a data capture and reporting regime.

The current state

Currently in Australia, Buyers have focused their efforts on increasing their Tier 1 spend with Indigenous business. Fewer Buyers have invested in developing a comprehensive second tier program, that goes beyond only capturing second tier spend. As a result, current Indigenous procurement resources within Buyer organisations are stretched.

Internationally, supplier diversity efforts include a comprehensive second tier program. Successful second tier supplier diversity programs are part of larger organisational processes. This includes:

- connecting second tier processes and data collection to organisational strategic plans,
- clearly outlining expectations with suppliers in contracts,
- the sourcing manager is held accountable for second tier performance,
- second tier policy and vision statement are publicly articulated,
- staff and suppliers are trained on expectations and compliance, and
- reports are generated to measure second tier performance ensuring that information is shared with senior leadership and relevant customers, and success stories are shared. Best practice for second tier reporting is that it is reported separately from first tier data to ensure integrity and to accurately reflect performance of the second tier.¹²

The challenge

A commonly cited challenge for Australian Buyers in obtaining support for a comprehensive second tier program within their organisations, is fundamental lack of understanding as to why such a program is important. This lack of understanding then results in a lack of investment, executive sponsorship and support, and limits access to skills and expertise.

The benefits of addressing the challenge

Investing in a comprehensive second tier program as a result of a Buyer understanding the business case will lead to increased success of the organisation's Indigenous procurement program.

Having a comprehensive second tier program also benefits new and emerging Indigenous suppliers, as they can see the realistic opportunities within the supply chain.

Analysis of options to address the challenge

Outlined below are the potential options to address the challenge. These options are based on accepted second tier procurement practice internationally. Not canvassed below is the "Do Nothing" or "Status Quo" option. The risks of the "Do Nothing" option includes, continuing a lack of consistency across the Supply Nation Buyer community, damaging internal and external relationships, and failure to meet Indigenous procurement goals.

Option 6.1: Set the expectation that a comprehensive second tier program is established to complement a Tier 1 program.

This involves Buyers building second tier program (not just a reporting process) alongside their Tier 1 program.

The benefits of this option include:

¹² BDR, 2012: 90-92.

- Ability to achieve greater outcomes faster with the help of Primes procuring from Indigenous business.
- Aligns with leading practice internationally.

The risks of this option include:

- Resource intensive.

Option 6.2: Only require second tier activity and reporting when a comprehensive second tier program is in place.

This allows Buyers to “grow into” a second tier program rather than starting their Indigenous procurement journey with both a Tier 1 and Tier 2 program. The rationale of this option is that if a Buyer does not have a comprehensive Tier 2 program in place it is unlikely there will be much Tier 2 spend activity. Therefore, there is no need to invest the resources to capture and report on Tier 2 spend.

The benefits of this option include:

- Reduced burden on Buyer in capturing and reporting on Tier 2 spend.
- Buyer is able to sensibly stage their efforts based on resource limitations.

The risks of this option include:

- Limiting the opportunity and therefore the benefit to Indigenous suppliers and likelihood greater outcomes can be achieved in a shorter period of time.

Some questions to prompt discussion

- a. What are the other options to resolve the second tier resourcing challenge?
- b. Is it reasonable to expect that Tier 1 and Tier 2 programs should be developed and implemented alongside each other?

The Leadership Roundtable’s position

The Leadership Roundtable came to a consensus on Option 6.2. The Roundtable saw that it was important to get a Tier 1 program right first, before developing a second tier program. It was agreed that there is no need to mandate a Second Tier program in the short term, recognising the maturity of current procurement practices and the Indigenous Business Sector.

The Roundtable acknowledged that further consideration is needed of what a best practice second tier program looks like in the Australian context, and what does ‘readiness’ look like for when a second tier program should be mandated.

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