



Strategic Supplier Engagement

Towards a Pan London Strategy

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STRATEGIC SUPPLIER ENGAGEMENT

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STRATEGIC SUPPLIER ENGAGEMENT

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1. INTRODUCTION

This document has been prepared following an analysis of spend for the London Boroughs and joint working between the London Centre of Excellence (LCE) and the National Projects Supplier Engagement Team based at the London Borough of Lambeth. Information on the latter project, known as the Supplier Engagement programme, can be found at Appendix B.

CURRENT POSITION

The analysis showed that on average each London Borough engages with about 7,000 trade creditors each year. Emerging analysis and comparison with 2004/5 spend analysis shows that each year the supply base of a Borough can change by up to 40% with as little as 15% of the new suppliers being used in subsequent years. Many of the new suppliers are ad-hoc, and often only generate a single invoice. At a macro level, the 2003/4 creditors analysis showed that about 900 suppliers account for around 50% third party expenditure by London Boroughs. These are mostly large UK or multi-national companies. They are responsible for most of the high value contracts and a lesser percentage of the high-risk contracts.

At present most Boroughs tend to equate 'suppliers' to 'creditors', meaning that they register and maintain details in the corporate ledger to pay invoices. Little effort is made either to categorise suppliers on corporate systems or target management resources according to value and/or risk of exposure. This means that even if supplier relationship management is practiced, Boroughs will be finding it difficult to coordinate information on issues such as performance across service departments, market share, negotiation position and full life cycle costs.

CHALLENGES PRESENTED

Within individual Boroughs there is an absence of a clear formalised strategy for identifying and engaging with strategic suppliers, including:

- Knowing where to target scarce management resources to reduce risk and deliver efficiency gains
- Sharing information either regionally or sub-regionally with a view to better collaboration and planning
- Setting up of corporate and departmental systems to maximise the use of built in functionality
- Engaging appropriately with the right Small Medium Enterprises (SMEs)/Black Minority Enterprises (BMEs) where they can deliver real value rather than contribute to an artificial target
- Understanding the optimum trading mechanism (which does not have to be electronic) to suit both parties
- Adopting the right risk reduction strategies and negotiation stances
- Managing suppliers at an appropriate level to achieve the desired business outcome

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Overcoming these challenges can be achieved through the development of a Strategic Supplier Engagement strategy that could be adopted on a pan-London basis. This will:

- Remove duplication of effort in having to define individual standards
- Support the move towards a common definition and standard for strategic suppliers
- Underpin the move towards sharing information on strategic suppliers at any stage of the procurement cycle

Adopting a Strategic Supplier Engagement strategy will benefit a London Borough by allowing it to:

- Focus appropriate resources and efforts on high risk and/or high value suppliers
- Enable appropriate information exchange to support forward planning and negotiation strategies
- Provide an early warning system where risk of failure is likely
- Exploit existing functionality in IT systems (which is rarely utilised), rather than having to always invest in new technology solutions
- Support a more commercial approach to supplier relationship management
- Put into context other policy areas, such as SMEs/BMEs, e-engagement and sustainable sourcing

RESEARCH UNDERTAKEN

For the purposes of ensuring that this strategy would be widely accepted and not conflict with other initiatives from central government, the LCE in partnership with the Supplier Engagement team has:

- Researched the availability of other similar programmes in the public and private sector as well as through professional bodies (e.g. the Chartered Institute of Purchasing and Supply)
- Held a consultative workshop on 4th July, to which all Boroughs were invited
- Invited the views of both the workshop attendees and representatives from the Society of London Treasurers (SLT) as to the value of the strategy

The LCE would like to thank all those that participated in the workshop and document review process. A full list of participants at the workshop is at Appendix A.

Excluded from this document is:

- A commentary on the Single Business Account
- Issues relating to contract relationship management which will be covered in a separate paper

We recognise that Boroughs have different priorities and some may arrive at a different view as to which suppliers should be included. We accept this point but would add that agreement to this strategy does not replace localised policies already in existence.

2. STRATEGIC SUPPLIER ENGAGEMENT

This section defines what constitutes a supplier engagement strategy, why it is needed and how it is likely to impact on London Boroughs.

2.1 DEFINING A SUPPLIER ENGAGEMENT STRATEGY

All Boroughs acquire products and services ranging from one-off commodity and service purchases to complex outsourcing and construction projects. The suppliers used to provide these products and services vary from sole traders and partnerships to multi-nationals and large consortia. With an average of 7,000 suppliers used each year, it is neither possible nor desirable to engage with every supplier used. Indeed, the scarcity of dedicated contract officers and supplier relationship managers means that it is often difficult to cover more than a few major contracts. At present, supplier engagement tends to be reactive. When and which suppliers are engaged with is often determined by factors including:

- The need to undertake a procurement exercise
- Perceived value and risk of exposure of a contract
- Policy agendas such as 'e' enablement or economic regeneration
- Recovering a position, such as failure to deliver or shortfalls in client satisfaction

A strategic supplier engagement strategy is about being proactive in engaging with suppliers with a view to achieving desired outcomes and policy objectives balanced against defined resources and priorities. The objectives of such a strategy are to:

- Define in advance the types of contract and/or supplier that need proactive management
- Set up corporate systems so that appropriate levels of information are held to support the strategy and corporate reporting
- Provide clarity as to where the strategy is best implemented, i.e. at Borough level, sub-regionally or regionally
- Ensure that appropriate resources and skill sets are available to deliver the strategy

2.2 ASSESSING RISK

Most public sector organisations understand the need to have in place risk management strategies when engaging suppliers. Some of these are 'one-size' fits all approaches to reduce liabilities while others tend to be more targeted in their approach. There are some significant differences in the way Boroughs deal with the factors that create risk, rather than addressing the outcome of when a risk manifests itself in a given situation.

FACTORS CREATING RISK

There are numerous factors that create financial or business risk, the key ones being:

- Demand outstripping supply
- Immaturity of markets
- Lack of alternative sources of supply
- Local economic factors such as skill base or demographics
- Size of contract/duration in relation to the complexity of the product or service

There are also one off factors that occur which can create new short term risks, such as the award of the Olympics to London in 2012, which may create difficulties with existing construction and infrastructure projects.

RISK OUTCOMES

In local government and the broader public sector, risk tends to be defined more by political and accountability outcomes such as:

- Financial failure of suppliers
- Political “fall out”
- Impact on service (public)
- Absence of a fall back position
- Perceived complexity of the requirement

These outcomes rightly reflect the need for local accountability and acknowledge the underlying political processes that govern all councils.

HIGH RISK PURCHASES

For most London Boroughs, high-risk purchases are mostly found in or around the following categories:

- Waste (both collection and disposal)
- Highways
- Outsourced services
- Special needs – transportation
- Care packages

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- Construction
- Some ICT
- Professional Services, particularly where provided by temporary staff

Most also tend to be high value, although some care packages, transportation needs and professional services are not. By definition, products and services defined as high risk and high value will have:

- Fewer alternative sources of supply
- Immature, fragmented or monopoly markets
- Greater risk of failure

Failure in these areas also has the ability to create significant political and/or financial turbulence.

2.3 LONDON ANALYSIS OUTCOMES

The typical London Borough will find:

- Less than 10% of their current suppliers will account for 80% of their total spend
- Around 20% of their current suppliers will account for 80% of the invoices processed
- 30 to 40 suppliers will exist in the top 100 suppliers by spend and volume of invoice processed. Around 80% of these suppliers will trade with more than one service area or department within the Borough
- Less than 10% of subjective codes (General Ledger account codes) will account for 80% of the total spend. These are typically:
 - Care and Housing provision
 - Works (including Highways, Maintenance and Waste Management)
 - Agency Staff
 - Materials and Equipment
 - Miscellaneous / Uncategorised

Using the value/risk characteristics for London (see Supplier Mapping at 3.2) 70% of expenditure is considered high risk and 68% of expenditure is considered high in value. This profile will equate to an average Borough

- It is estimated that around 200,000 different supply organisations are used in any one year across London (with around 10-15% of these trading with two or more authorities)

2.4 CURRENT MANAGEMENT SITUATION

Most Boroughs do attempt, within resource constraints, to manage high value/high-risk contracts but often with mixed results due to factors such as the experience and knowledge of the individuals involved and other demands and priorities put upon their time. Broadly speaking efforts of individuals and Boroughs are hampered because:

- Contract management is still regarded as a “let and forget” activity, rather than an ongoing programme of review, feedback and improvement
- The adversarial nature of public sector procurement can damage relations with suppliers and make them reluctant to engage with new ideas
- Commercial awareness skills are in short supply, particularly in service departments
- Difficulties in getting information on expenditure profiles and existing contracts from corporate information systems
- Cross-departmental engagement by suppliers creates problems around who owns the relationship
- Lack of awareness of the council’s commercial position in relation to that of the supplier
- Difficulties in accessing and exchanging information on a regional or sub-regional basis
- Absence of supplier or category relationship managers with specialist knowledge of markets and future trends

2.5 BENEFITS OF A STRATEGIC SUPPLIER ENGAGEMENT STRATEGY

The implementation of such a strategy is not just about reducing the risk of failure. Once implemented successfully, this strategy is designed to contribute in three key areas:

- Delivery of improved quality and reduced costs
- An improved customer experience (i.e. the user of the particular product or service being provided)
- Reduced risk of failure, cost overrun, or quality shortfall

The main point is that taken to its logical extension such a strategy can contribute to a more commercial approach in the following areas:

- Establishing the option of collaborative working, either through information sharing, joint procurement or shared contract and performance measurement
- Continuous improvement and cost reduction by working with key suppliers and using their market knowledge and broader sector experience for local benefit

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- Better planning, demand management and trend forecasting
- Improved usage and exploitation of functionality and information access in corporate IT systems

3. MAKING THE STRATEGY A REALITY

This section highlights what London Boroughs needs to do to put in place a successful Strategic Supplier Engagement Strategy and the risks that they may encounter.

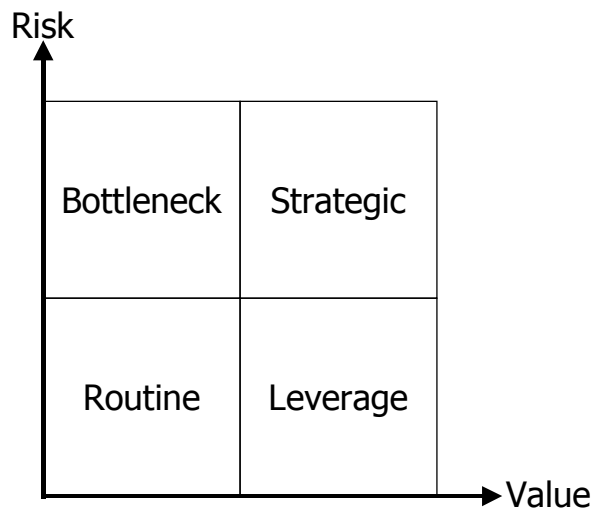
3.1 UNDERSTANDING BUSINESS METRICS

The starting point for implementing this strategy is having the results of a proper expenditure analysis in place. The LCE offers an excellent training programme entitled ***Making Expenditure Analysis Easy***, which can be run as a public course or on site for Boroughs (details can be obtained from www.lcpe.gov.uk).

This macro analysis is essential to start the preparation work for the Strategy.

3.2 SUPPLIER MAPPING

Once the business metrics are known, the next step is to understand where each major supplier and category of expenditure sits on the risk/value matrix such as the one below.



Most effort should be devoted to those suppliers that fall into the 'Bottleneck' and 'Strategic' categories where risk is high and 'Strategic' and 'Leverage' where value of spend is high. From experience, most London Boroughs will find this equates to about 300 suppliers.

3.3 CATEGORISING SUPPLIERS

Most Boroughs do not make any effort to differentiate between their suppliers, treating them all on an equal basis in terms of the information that they store and how they engage with them. This is usually because the financial system is seen as the only corporate repository of supplier or creditor information but where the objective is purely to manage payments and invoice processing. In lots of instances local departmental systems may have far richer supplier information, but this is often difficult to access and does not provide a corporate view. The reality is that differentiation is needed

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to support other **operational** procurement activities such as negotiation, delivery and quality management and performance measurement. Supporting these activities requires far more detail and information than is usually required to support the processing of invoices. The information to support these activities is either stored in departmental/local systems and spreadsheets, in paper based files or in officers heads which can make supplier engagement difficult to undertake, particularly where resources are limited.

If implemented successfully, supplier categorisation will help to:

- Protect the continuity of supply through long-term management of the supplier base ensuring that products and services are delivered to cost, time quality and specification
- Enhance supplier performance through the monitoring of service, quality and other defined performance indicators
- Minimise vulnerability to financial loss arising from technical, quality, health and safety, security, legal, financial and performance indicators
- Identify where strategic suppliers present a risk to supply or where monopolistic situations are likely to occur
- Enable the sharing of information across departments, particularly where suppliers engage and sell to multiple departments

As a starting point, all Boroughs should keep a distinction on their financial systems between 'Trade' and 'Non Trade' creditors. This will help to provide some discipline in the drive for savings, sharing of information and the better management of suppliers. In terms of categorising the former, Boroughs should be seeking to categorise suppliers to two levels:

LEVEL ONE: HIGH RISK, ROUTINE OR SUNDRY

- **High Risk** being those deemed to be in the *Bottleneck* and *Strategic* boxes and some in the *Leverage* box (high aggregate spend only). It is unlikely that there will be more than 300 suppliers in this category, but the level of detail and information held will be far greater
- **Routine** deemed to be the *Routine* box and some in the *Leverage* box being those that are used or likely to be used on a regular basis. Information needed will be far more straightforward at this level
- **Sundry** being those suppliers that are likely to incur one-off purchases and do not warrant the overhead of establishing and maintaining anything more than rudimentary records. In these instances Boroughs should be looking to adopt some of the options in the LCE Low Value Strategy document to reduce costs and overheads

LEVEL TWO: DEPARTMENTAL OWNERSHIP

In an ideal situation, a single department should take ownership each of the trade suppliers, regardless of the categorisation. In many instances this will be straightforward as most suppliers will only be used by one department. Where suppliers are cross-departmental, the allocation of ownership

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should be decided on annual spend values and relative impact on, and importance to, departmental business.

This simple, two level categorisation will be the first stage for Boroughs in their efforts to introduce a Strategic Supplier Engagement Strategy. All ERP and modern corporate financial systems are capable of supporting supplier categorisation at the corporate level.

OTHER CATEGORISATIONS

Some Boroughs may require further categorisations and these should be specifically applied through additional analysis fields in the ERP or corporate financial systems. Such categories may include:

Local Supplier (defined as being based within the Council's geographical boundaries) identification is necessary and should apply to both Strategic and Tactical categories (not Sundry). Postcode validation is another possibility for delivering this, but they are not usually aligned to existing geographical boundaries. This categorisation is useful where economic regeneration and impact of procurement on the local economy are important policy goals.

SME/BME (definition to be agreed by Boroughs) could be dealt with in a similar way to local suppliers.

Information on **Environmental** and **Diversity** issues such as presence of a Sustainable Sources or Equal Opportunities policy should ideally be restricted to strategic suppliers. Very few SME/BMEs will be inclined to implement such policies for one off or low value purchases. Indeed, there is empirical evidence to suggest that using a one-size fits all approach here actually deters SMEs/BMEs from engaging with Boroughs.

SUPPLIER DESCRIPTION FORMAT

One of the major problems with most supplier databases in Boroughs, as well as those in many other organisations, is that little thought is given to either supplier categorisation or the format of description. So for example, British Telecommunications plc can regularly show up on systems as BT, British Telecom, Brit Telecoms etc. This distorts expenditure profiles and contributes to problems with duplicate suppliers. Reasons for this problem include data entry restrictions, multiple users having responsibility for inputting data and the absence of any defined standards and policies.

A common description mechanism should accompany supplier naming. If this is to be the case, then clearly it will be advantageous to do this from one point so the policy can be enforced.

In addition, the following points need to be taken into account when setting up supplier records:

- The ability to cross reference unique suppliers should be invoked if possible, particularly where they are a part of the same holding company but trading under different names. Most PLCs and multi-nationals operate along these lines and it can distort spend profiles and restrict opportunities for further negotiation
- The need to cross reference suppliers to high level procurement classifications (see forthcoming LCE paper on procurement classifications)

3.4 OTHER REQUIREMENTS

In addition to categorising suppliers, Boroughs need to be clear of the other requirements needed to manage this strategy. The main ones are:

- Ensuring a standard approach to procurement classification
- Having details of large high value/high risk corporate and departmental contracts available
- Managing and measuring high value/high risk corporate and departmental contracts against key performance indicators
- Recording the results of client experiences (this can be surveyed results of people's satisfaction and experience of a service delivered by a strategic supplier)

The first of these will need to be held in the corporate financial systems, while the others need to be stored where they can be accessed both across the organisation and shared (at least at a summary level) with other Boroughs and interested public sector bodies.

3.5 MANAGEMENT ISSUES

The strategic supplier engagement strategy needs to be owned and rolled out across a Borough if it is to be successful. In particular, it should not be seen as just a "procurement" issue, although we recommend that procurement units are used in implementing the strategy. The main management issues that will arise from rolling out this strategy are:

- Named Ownership of the Strategy– which needs to be at chief officer level. Without senior backing, implementation will fail
- Preparation – doing the necessary work to get things started and ensuring that the strategy is evidence based
- Coverage – this strategy needs to be cross departmental if it is to be successful. It does not need a centralised approach as a pre-requisite, just recognition that deployment of commercial skills, the drive for greater value for money and improved risk reduction are corporate issues
- Review – rolling out this strategy does not have to be time consuming, although it will require some planning and most importantly a review process to monitor progress
- Change – this strategy is about a more commercial approach to strategic supplier engagement. Not everyone will recognise or indeed support that, but it is essential given the pressures being put on local government both by central government and a more demanding general public

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3.6 LCE SUPPORT IN DELIVERING SUCCESS

The LCE is providing the following direct support:

- Assistance with issues relating to procurement classification
- Provision of a high level Contracts Register, which will be accessible across London through the LCE website. This can also be made available at a low cost for roll out at Borough level
- Provision of expenditure analysis training and assistance with the interpretation of data
- On site management briefings (for up to one day) to launch the implementation of the strategy

3.7 RISK REGISTER

The following is a list of potential risks that could present barriers to the implementation of the strategy.

Risk	Prob-ability	Impact	Management of Risk
Lack of ownership of the Strategic Supplier Engagement Strategy	H	H	The major issue is that the strategy is either not understood or its potential value not fully recognised. This risk is best addressed by making a chief officer the owner of the implementation and subsequent review of the strategy.
Costs presented by IT vendors are not acceptable	M	H	There is a risk that some IT vendors will turn this into an opportunity to sell 'product' and give the impression that significant modifications will be needed to accommodate system changes. This should not be the case. While it may be necessary to purchase some consultancy days to define and set up requirements, the functionality to deliver this strategy is mostly standard in base product for all modern financial and operational systems
Insufficient people to manage the strategy implementation	M	H	Roll out of this strategy does not have to be time consuming. The important issue is to be clear what changes need to be made and then allocate resources accordingly. Also, changes can be phased over several years if necessary, although this will delay the accrual of some benefits.
Attempts to make the strategy too ambitious	M	H	Some organisations will try to do too much too quickly. This strategy is a one of the necessary building blocks to support collaborative working and the better allocation and management of third party spend. The best advice is to undertake manageable elements of strategy implementation but do them extremely well.

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APPENDIX A – LIST OF CONTRIBUTORS

Name	Organisation
Steve Amey	London Borough of Redbridge
Mark Brewer	London Borough of Sutton
Bill Leharne	London Borough of Redbridge
John Scowen	London Borough of Havering
Bob Unsworth	London Borough of Lambeth
Tim Wooton-Beard	London Borough of Lambeth

APPENDIX B - SUPPLIER ENGAGEMENT PROGRAMME

The Supplier Management programme is currently running two projects:

THE ADAPTERS CLUB

Active participation in the Adapters Club could save each and every London Borough £1,000,000.

A CRM National Project survey revealed that there are on average 25 integrations required per Authority, in some cases many more than this. Each integration adapter is costing a Local Authority between £30,000 and £50,000 (with a few suppliers charging as much as £80,000 for their solutions). This equates to an average expenditure of per Borough of £1m+. When you add support, upgrades and implementation costs the expenditure soars exponentially.

The creation of standards and improvements in commercial negotiations could reduce this expenditure by 50% or even greater. Achieving this level of savings will require an intelligent buying strategy that recognises the buying power of Boroughs working together. The LCE is ideally placed to work with the Adapters Club to ensure that maximum savings can be achieved across London.

The Adapters Club facilitates provides an environment and the processes within which suppliers and LAs can collaborate to agree standards for ICT integration and by doing so provide a more effective and timely solution at a lower the cost of ownership.

The Adapters Club has developed excellent relationships with both suppliers and Local Authorities. It is ideally placed to act as a facilitating agent on behalf of LAs, enabling them to concentrate on transforming their services whilst gaining the benefits of lower costs through the creation of national standards and the aggregation of demand.

LOCAL AUTHORITY MARKET INTELLIGENCE PORTAL

The Local Authority Market Intelligence Portal (www.LAMIP.org) has been developed and launched to create a single co-ordinated repository of information and knowledge about ICT Suppliers on behalf of Local Authorities. In a short space of time LAMIP has secured 2,000 registered users with approx 70% of these being Local Authority representatives and the remainder LA from suppliers and non-LA government agencies. Usage is consistently high and additional functionality is being planned for the future.

The main purpose of LAMIP is to provide Local Authorities with detailed intelligence about ICT supplier's capabilities, products and services appropriate and relevant to their priorities. The programme has worked closely with SOCITM, Intellect and the Borough of Brent (providers of the e-Gov Register) to build the basic information set about suppliers and this has been delivered by functionality known as 'Supplier Shop Fronts'.

Supported by:



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