

# Supplier Relationship Development in the Public Sector

How to Deliver Cashable Savings  
and Quality Improvements: a White Paper



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# Foreword

As for all other readers of this White Paper, my local authority in north London is facing real financial challenges and being forced to take some tough decisions that will affect local people and our own staff.

I have been aware for sometime that we could do far more to remove cost from our third party procurement expenditure. My own authority is a keen participant in e-Auctions, and it was in an e-Auction back in 2007 that I saw Supplier Relationship Development (SRD) techniques being used to time the auction to coincide with the outbreak of a price war between two major providers. The results were stunning and the unit costs we achieved were far better than we alone or any of our outsource providers could achieve.

Following this success, I agreed to chair the London pilot SRD project. The learning curve has been steep and the project team has done well to capture and document the extensive knowledge gained: much of which is introduced in this White Paper and the supporting SRD toolkit. I am delighted that the Society of Local Authority Chief Executives (SOLACE) has endorsed this White Paper and its approach.

We are now starting to see results appearing in terms of reduced costs. London now has SRD projects running with suppliers in the waste management, adult social care, ICT and highways management categories, with many more to follow.

Many people talk and write about transformational procurement. In my experience, SRD is truly transformational in that it could eventually lead to a radical change in the way local authorities and other public bodies organise commission and buy their major items of expenditure and engage with large providers.

This White Paper is designed to make the intellectual case for SRD; the toolkit (see Appendix A) is designed to help make it work. With your support - and some coordination between our local authorities - SRD has the potential to help remove significant amounts of cost in the medium and long term. We all know that the current financial climate will last at least five years if not more. SRD offers a new tool in our commercial armoury to cope with these major challenges, which I believe should be adopted now.



**Rob Leak**

Chief Executive – LB Enfield

Chair – Capital Ambition SRD Steering Group

# Action Summary:

## Top Things To Do and Avoid

Broadly speaking, Supplier Relationship Development (SRD), sometimes known as Supplier Relationship Management (SRM), is a proven technique that offers all local authorities an opportunity to reduce costs and/or improve outcomes from their major third party spend and contracts, as well as develop new and existing markets.

This White Paper is designed to make the intellectual case for SRD as well as provide advice and guidance on sources of further information and advice. Many London local authorities have been piloting SRD for the last two years and the many lessons we have learned have been captured in this document as well as the key ingredients of adopting SRD. In this section, we have summarised the main 'dos and don'ts' of using SRD to act as a future check list. We trust that you will read the rest of the paper and ensure that it receives the widest circulation in your local authority.

### To Do

- Do ensure that you have chief officer support and involvement (in both client and contractor organisations) throughout the SRD process.
- Do ensure that you have appropriate decision making and governance in place to collect the agreed cashable savings where multiple authorities are involved.
- Do use the SRD toolkit and associated resources being made available with this White Paper, as they will help to get your authority moving quickly, and save you time and money.
- Do look beyond your own sector for SRD partners, especially the NHS as they often share common suppliers.
- Do ensure that your own local authority is already taking part in cost-saving procurement practices such as e-Auctions, demand management, and shared contracts before attempting to embrace SRD.
- Do read the legal guidance provided in the Toolkit and ensure that your own legal advisors work as a team from the outset.
- Do use project management techniques throughout the project lifecycle and be willing to learn from others.

### To Avoid

- Do not choose contracts in that you have little leverage over or a lack of potential to influence.
- Do not select candidate suppliers when you are about to go to re-tender – it will open you up to legal challenge.
- Do not try to short cut the supplier and market intelligence research by using generic automated reports: supplier intelligence is about analysing your own situation and your relationship with the provider.
- Do not over analyse information and data – accept that there will be some flaws and inaccuracies.
- Do not invest unnecessary money on consultants to establish individual business cases – the information to do this is in the toolkit and you won't know the savings opportunities until you do some work.
- Do not expect every engagement to deliver results – if failure happens, just cut your losses as early as possible.
- Do not automatically believe that your existing contract is the best or most efficient it can be; there is always room for improvement.

# 1. The Case for Change

This section sets out why local authorities need to change their thinking and approach to managing and engaging with suppliers, influencing markets and the challenges they are likely to face.

## 1.1 Surviving Financial Austerity

Behind salaries, expenditure with third party suppliers/providers represents the second largest cost item for nearly all public sector organisations. Grouped under the terms “procurement” or “commissioning,” most elected Leaders and Chief Executives see it as an opportunity to remove cost, particularly as any savings achieved can help protect service levels and even reduce the need for redundancies.

There is less consensus on how to realise this potential, as third party expenditure is largely organised on an authority by authority basis, with wide variations in how it is managed and controlled. Broadly speaking, responsibility for managing this expenditure rests either with a corporate procurement team and/or individual service departments. No two authorities are identical in the way they approach their procurement and commissioning activities. One thing is clear: there are pockets of expertise and excellence in service departments across all local authorities. However, equally commonplace are the many areas where procurement and acquisition activities are done on a generalist basis, very often by staff who have little or no commercial skills, experience, or training. This situation creates problems for local authorities, all of which encounter some or all of the following:

- widespread duplication of effort on contracting – often with individual authorities competing for the same resources;
- too much focus on managing process rather than defining and delivering outcomes;

- huge variation in terms of unit costs and quality of like for like outcomes in all spend areas – mostly where requirements and suppliers/providers are common;
- poor contract and relationship management – resulting in significant missed efficiency opportunities such as avoiding price uplifts or eliminating unnecessary process costs; and
- market conditioning by major providers that exploit the lack of commercial awareness and fragmented organisational structures.

The current organisational structure, where each local authority thinks only in terms of letting and managing contracts on an individual basis for every item and service, is doing nothing but wasting resources and driving up costs. It is also preventing us from exploiting the leverage and influence on suppliers and markets that together we can wield.

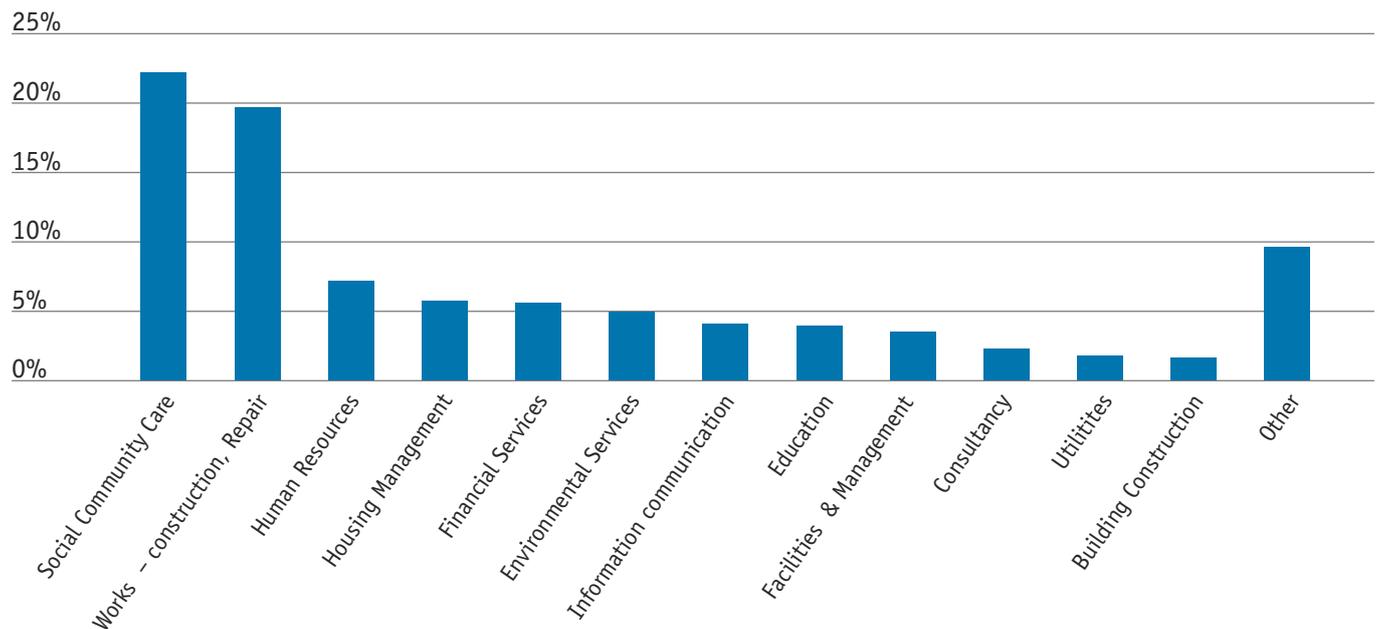
## 1.2 Towards Smarter Engagement

Analysis of the £9 billion<sup>1</sup> annual procurement expenditure of London local authorities shows that 124,000 suppliers/providers acted as delivery agents for this expenditure. Much of it was concentrated in a relatively narrow spend band, with 4,691<sup>2</sup> of these suppliers (3.8 per cent of the total) accounting for 85 per cent of the total expenditure and the top 100 accounting for more than 25 per cent of London’s total third party spend. Figure 1 shows the largest category groups are care provision, works and construction, facilities and management services, IT, environmental services, housing management and temporary agency staff. This profile is the virtually the same across every UK region.

<sup>1</sup> Information derived from the annual Capital Ambition expenditure analysis.

<sup>2</sup> Of this total, 1002 (21%) are involved in the provision of social care, and 472 (10%) in construction

Figure 1 – London Category Spend Profile – using ProClass Level 1 definitions



Most of these top suppliers are large corporations and multi-national bodies, often operating on a cross public sector basis and sometimes trading under different names through subsidiary companies. The supplier commonality between different London local authorities for high value expenditure is striking, with 4,327 suppliers/providers (3 per cent of the total used across the whole of London) trading with 5 or more London local authorities. Together this accounts for 51 per cent of London’s total third party expenditure. It is anticipated that similar, although not identical, patterns would arise across other regional collaborations, presenting similar opportunities for focus.

Local authorities and all public sector organisations are attempting to find new ways to generate meaningful and sustainable cashable savings, and structured collaborative working is seen as one way to achieve this objective. This does not mean more aggregation, outsourcing or the running more competitive tender exercises; it is more about cultural change, leadership and changing business management patterns. This requires a radical change in the way we collectively

manage and engage with major suppliers and influence markets so that we all get the outcomes we need.

There are many proven techniques that can be deployed to reduce costs, such as e-Auctions, specification standardisation, and attacking price uplift by contractors, to name but a few. These all work and are very good at removing cost, particularly for the 40 per cent of local government expenditure that can be grouped or ‘commoditised,’ and all of which require collaborative working to provide an optimum return on investment (ROI).

Some local authorities find these proven techniques difficult to apply. The reason for this is usually rooted in how their commercial acquisition cycle is managed and where resources are applied – see Figure 2.

Figure 2– the Commercial Acquisition Cycle



Typically, most local authorities put their effort and resource into tendering and contracting, whereas the outcome and final cost will largely be determined at the planning and post contract stage. This process is complicated because different managers and teams will be responsible for different aspects of this cycle. If they work as one with a common goal and purpose to manage the cycle, then the right outcome at the optimum cost is more likely to be achieved. If their approach is fragmented, with no person or group of people in charge, then inefficiency, delay and higher cost will be the most likely outcome.

Seeking collaboration, without addressing this fundamental challenge, will often mean that the full potential of any shared working will rarely be fully realised. However, the need to overcome budget deficits beyond 2012/13 makes it worthy of senior management attention in order to exploit the clear and obvious potential that exists for every local authority.

#### Case study Bulk bins

Paladin Bins are used as waste receptacles in many high-rise, multi-occupancy buildings. Due to their shape and potential to become unwieldy, they require a special clamp to be added to a waste collection vehicle. The unwieldy design also presents a health and safety risk.

Replacing the bins means that:

- Routing of the vehicles can be made more efficient as the fleet does not need to be mixed to accommodate the Paladin collections.
- There are reduced costs for petrol, maintenance, and crew associated with re-routing.
- There is a reduction in CO2 production.
- There are fewer health and safety incidents as replacement bins are safer, and accident related costs are reduced.

#### Case study Identifying Best Practice

On one Negotiation Team, the participants from four different local authorities discovered they had four completely different methodologies and practices for food recycling operations. None of the participants, however, knew which method was best; all of their original contracts were prescriptive in design. By working with their supplier, they were able to open dialogue to determine what did constitute best practice and look towards sharing that best practice for the future, thus avoiding costly 'experiments.'

## 2. About Supplier Relationship Development

This section summarises the key principles of SRD, the business case for adopting it and where to find out more about how to do it. This can be used for the purposes of chief officer and elected Member briefings.

### 2.1 Definition

Supplier Relationship Development (SRD), sometimes known as Supplier Relationship Management (SRM), is a proven technique which offers all local authorities an opportunity to reduce costs and/or improve outcomes from their major third party spend and contracts, as well as develop new and existing markets. It should be noted that there are slightly different definitions applied to SRD; for example, the Efficiency and Reform Group<sup>3</sup> (ERG) defines it as:

*“The process to reduce costs or improve service from an existing supplier - the term describes activity ranging from a quick price benchmark to a long term project to improve interaction between the buying and supplying organisation.”*

While the London SRD project defines it as:

*“The process of finding savings, efficiencies and improvements on existing contracts for the mutual benefit of buyers (public sector bodies) and their suppliers.”*

The common theme linking these definitions is the goal of reducing cost and/or improving outcomes. The latter can be done through the preservation and development of new and existing markets, to stimulate innovation and competition with a view to avoiding the creation of monopolistic situations.

SRD is not simply a re-negotiation exercise; the difference is the collaborative approach that is adopted by:

- both suppliers and clients towards each other, and
- multiple client organisations sharing the same objectives.

SRD is best achieved on a collaborative basis, whereas re-negotiation is on an individual contract level. The benefits of these types of collaboration cannot be underestimated, as it allows far greater leverage to be applied to the entire business relationship environment. No two SRD projects will be the same and it possible to vary both the direction and length of an SRD project depending on prevailing business circumstances and imperatives.

### 2.2 The opportunity

Typically, cost can account for approximately 90 per cent of any contract value and is introduced from the outset by both suppliers and clients. Factors that can add cost are varied and can include:

- Obsolete or prescriptive specifications.
- Deviation from commonly used standards and designs in the areas of payment and performance regimes, reporting and liaison mechanisms, terms and conditions of the contracts, actual invoice processing but also in the specification.
- Misunderstandings due to poor communication between various parties.
- Poor internal stakeholder communication; for example, different messages/priorities being sent to the supplier.

<sup>3</sup> Formerly Office of Government Commerce

- Changes made to requirements after the contract is awarded.
- Poor pricing procedures and/or cost control by suppliers.
- Duplication of effort by local authorities, such as multiple authorities engaged with the same care homes.

SRD is best pursued collaboratively, on a multi-regional, regional or sub-regional basis, where organisations sharing the same supplier can seek to identify best practice, remove costs, streamline processes, and explore innovation. No individual local authority will be large enough to engage with key suppliers or influence/manage markets on their own.

It requires open, honest dialogue with all parties open to the concept of continuous improvement. Commitment and ownership from chief officers, in both the contractor and client organisations, are essential for SRD to deliver results.

SRD is usually only practised with suppliers/providers that trade with multiple organisations and where there is a high value spend and/or where there is a strategic remit, such as ensuring business continuity or improving service levels, without the need to renegotiate or amend contracts.

## 2.3 The process

Capital Ambition, London's Regional Improvement and Efficiency Partnership (RIEP)<sup>4</sup>, ran a successful pilot SRD project. This took the theories of SRD and created a practical process to apply them to in the public sector. Broadly speaking, it comprises the following steps:

- Check the legal position.
- Identify supplier candidates.
- Secure buy-in internally and with other partners.
- Obtain supplier and market intelligence.
- Engage with the selected suppliers/providers.
- Common Assessment Framework<sup>5</sup>.
- Negotiation Teams and Work Stream Identification.
- Implementation (Benefits Methodology and Rollout).

All the details plus templates, legal opinion and specialist advice are available in the accompanying published toolkit. It is available online at [www.capitalambition.gov.uk](http://www.capitalambition.gov.uk) or or directly from SOLACE, at [www.solace.org.uk](http://www.solace.org.uk).

## 2.4 Management issues

Undertaking an SRD project is fundamentally about cultural change in that it removes people from their comfort zones and encourages challenges to what some regard as time honoured practices or their right to spend their budget as they think fit. Others may see it as a threat to their work or post, more likely if redundancies are being made. Any exercise that does threaten the status quo will invariably attract objections and/or resistance. SRD is no exception. The toolkit sets out how these can be handled, but primarily the objections made or obstacles presented from the outset, will likely fall into one of the following areas.

### Ownership

SRD needs to be understood and owned at both executive and operational level on a continuous basis in both the supplier and customer organisation if it is to succeed. Without buy in at both levels, results will take too long to be achieved and all parties will lose interest. The London pilot took one year from the identification of candidates to the setting up of the collaboration team. As a result of the lessons learned, subsequent programmes with other suppliers have achieved the same and more in far less time.

Pitching the benefits of SRD to the supplier is also necessary. This needs to be done at a management level senior that is enough to gain understanding and commitment. SRD recognises the need for suppliers to make good margins. However, it focuses on the 'cost to serve' (i.e. deliver the task in hand), in both supplier and client organisations and how this can influence outcomes achieved. SRD should not be perceived as a threat to their business, but something that can add value.

### Legal

Given the restrictions on public sector procurement, legal advice has been sought<sup>6</sup> to ascertain what can and cannot be done. On a very simplistic level, SRD can be pursued in the public sector if:

<sup>4</sup> [www.capitalambition.gov.uk](http://www.capitalambition.gov.uk)

<sup>5</sup> The Common Assessment Framework process provides qualitative and quantitative information on the existing contract. It is done from both the customer's and supplier's viewpoints, and assists in identifying areas for mutual benefit.

<sup>6</sup> A full report on the legal challenges faced by the public sector in pursuing SRD and mitigating actions was written by Field Fisher Waterhouse LLP, and a copy is contained within the toolkit.

- The contract specification is not varied so drastically from the original as a result of the work streams pursued so that another company would have won the original tender, or that different services and supplies are procured altogether.
- Suppliers are not given any advantages in future tendering exercises by participating in the programme.
- Participating local authorities are not currently in a re-tender situation that could potentially give an unfair advantage to the incumbent supplier throughout the re-tender process.

Therefore, the key to running a successful SRD project in the public sector from a legal perspective is transparency. Work streams should be visible and open to all stakeholders.

### Obtaining Supplier Intelligence

This is covered in more detail in the *Turning Knowledge to Power* section. However, it should be clear up front that this is not just a box-ticking exercise or an analysis of financial viability, but more of a strategic exercise in understanding suppliers and potential suppliers, to highlight savings opportunities, unlock negotiations, and improve relationships.

### Communications

Throughout the SRD programme, a robust communications plan is necessary to ensure that all stakeholders are informed as necessary. Without it, there is a risk of reduced buy-in. Once work streams are up and running, they can be publicised. This has two benefits: one, as a “good news” story, and two, by informing other suppliers in the industry of the work, it may ease potential concerns about transparency.

### Fear of Failure

Minimising failure can be achieved by careful candidate supplier selection; however, there will always be a small risk that any engagement will fail for reasons that are often outside your immediate control. As a rule select candidates where:

- Your combined partner expenditure is greater than 2 per cent of their Europe Middle East and Africa (EMEA) turnover. By way of scale, the whole of UK local government’s expenditure with the Dell Corporation is 2 per cent of EMEA, so don’t think that because you spend a lot you are a big client!
- Suppliers are trying to expand their market share but it is clear that they already have a presence and

have information on themselves which is publicly available for research.

- Suppliers are selling products/services into areas where there is currently limited commercial acumen or collaboration.
- Costs are increasing and/or performance is uneven.
- Suppliers are making very high margins – some are making huge margins on public sector business.

Always avoid suppliers/providers facing an immediate re-tender situation.

## 2.5 Return on investment (ROI)

As with most things in business, it is not possible to apply a “one-size fits all” approach to determine either the outcome of an SRD exercise or its ROI. There are too many variables, in this case suppliers and markets, to make a broad statement on how much each engagement will deliver.

Turning to costs in the first instance, the main cost elements will be:

- **Appointment of a project manager** – to manage the process and keep the partners on board. This can be an in-house secondment or a contractor (expect to pay £500 per day for a six month appointment or about £65,000 to establish a multi-stakeholder SRD project). It is possible for this person to manage multiple relationships particularly if they are in the same team.
- **Commissioning of supplier and market intelligence analysis** – to provide the basis for going forward. Expect to pay £5,000 to £10,000 for a tailored report from a reputable **business analyst** and £1,500 - £3,000 for subsequent updates.

These costs should be shared between participating partners; the more partners, the lower the cost per authority. Costs can also be reduced by co-commissioning reports with other SRD groupings.

There are also other costs that might be incurred. These include:

- collection of expenditure data – this is usually available at no cost;

- hire of meeting rooms;
- travel and subsistence; and
- officer time.

Assuming no flexibility, the worst case cost for undertaking a major SRD project should be £100,000. This cost then needs to be shared between the partners. London has up to 20 partners for some of its SRD projects, so unit cost could be £5,000 each. In every case there will need to be a lead/host authority and in some cases partners could be obtained from other parts of the public sector where there is a commonality<sup>7</sup> of supplier.

The payback is more difficult to ascertain, although clear examples have been given particularly under the *Turning Knowledge to Power* section. Indeed, one adult social care category team in West London recently delivered a £500,000 per annum in cashable savings, simply by using SRD intelligence in a negotiation. However, examples like this are not achieved every day!

Much will be determined by the willingness of the supplier to engage and the ability of the participating organisations to cash the savings. This point must be addressed at the outset as it will mean the difference between an engagement that delivers improvements and general benefits, and one that will take out real cost for all parties.

Experience shows that many real opportunities to remove cost will be identified, but these will require firm action if they are to be achieved. This will include:

- Chief Officer and even elected Member commitment to the process and approval – e.g., changing shift patterns or inspection levels.
- Having appropriate mechanisms in place to make the savings - once the business case has been made by the collaboration team bearing in mind that approval from other authorities may also be required – e.g. sharing equipment or resources.
- Your ability to manage change, share information with others and compromise; particularly when being asked to change working practices or adopt a new standard. Remember we create cost in the first place by asking for specials and modifications, rather than adopting off the shelf products/services.

- Willingness for participants to provide some investment in order to ‘cash’ the identified savings opportunity.

These critical success factors will not solely be controlled by the SRD participants and collaboration teams. The London project shows that the potential savings are very significant in some cases, but whether they can be achieved depends on your organisational and political leadership, with the necessary governance in place to decide whether to exploit the opportunities presented.

Taking all these factors into account, groups of local authorities should be seeking an average ROI of 20:1<sup>8</sup> over a sustained period. In some cases you will get more, in other cases nothing, as some SRD projects will fail.

### Case study When ‘different’ costs money

The SRD project, by working with suppliers, found some examples where specifying different materials, other than local authorities, incurred significant costs to the Highways department. One local authority in outer London decided to have a different bollard style to other London local authorities. Another in inner London authority had a different flagstone for pavements as councillors wanted to have a “boulevard” look to the borough. Both options required specialist sourcing by the suppliers, which incurred additional cost to the overall servicing of the contract. This thereby reduced the potential buying power for materials.

7 This applied to Care UK which, along with other care providers, is used extensively by the NHS.

8 Some savings are recurring and can be applied over the lifetime of a contract.

## 3. Turning Knowledge to Power

**This section shows how the collection and analysis of commercial intelligence and knowledge in tailored, easily digestible reports can be used to make a real difference to SRD negotiations and help identify potentially broader opportunities for ongoing management and reduction of cost.**

### 3.1 Value of intelligence

The real key to a more productive relationship with any supplier is good quality, intelligence-driven understanding about them - both before a contract is awarded, and crucially, throughout the lifetime of the contract.

Most procurement officers and contract managers will admit that all too often intelligence gathering is reduced to sketchy box ticking exercise or skipped altogether. This is often due to lack of time or training. Most often, the exercise will consist solely of obtaining a commercial credit report on the operating company, to seek comfort that the supplier is not at risk of defaulting on its creditors at the outset of the contract. And the research will rarely, if ever, be updated once the contract is up and running.

Unfortunately for everyone, including procurement teams, contract managers, taxpayers, service users and the suppliers themselves, this “default” approach misses out on the potential of supplier intelligence analysis in order to help achieve the best, most cost effective outcomes. Instead, what is needed is a thorough understanding of suppliers’ strategies, motivations, pressures and opportunities. This in turn helps identify potential areas of mutual interest and benefit. It also builds confidence, trust, and informs negotiations to develop the supplier-buyer relationship.

The good news is that just as decent supplier intelligence can make all the difference in effective SRD, the collaborative characteristics of the SRD process can in turn provide better supplier intelligence – usually for a lower cost and time to each buyer. In addition, the single most critical question in unlocking savings from a supplier is, usually, how important are we collectively to the future of this business? SRD helps answer this question with joint (shared cost) intelligence gathering, analysis about the supplier’s business and with the buying group’s own aggregated spend data.

### 3.2 The power to negotiate

Supplier intelligence analysis is increasingly being deployed to valuable effect very early in the local government SRD process. This helps to identify suitable candidates for SRD and to inform potential participants in the SRD customer group. However, it can and should be revisited later in the process as well, in order to help prepare members of the negotiating panel for their initial discussions with the supplier. At this stage, a more complete picture will be available, including richer collective spend information gathered from the participants. Central government’s Efficiency Reform Group (ERG) has used this latter approach to prepare for negotiations with the fifty largest suppliers to central government. Interestingly, the ERG has admitted it only understood the size of the British Government’s true importance to these suppliers when raw departmental spend figures were released as open data over the summer of 2010 - becoming available for public aggregation and analysis for the first time.

#### Identifying candidates

Supplier intelligence comes into play early on in the selection of suitable candidates in order ensure engagement in SRD. Access to aggregated spend data from likely participants (for example, from all London local authorities<sup>9</sup>) is vital at this point. The spend aggregation and analysis exercise need not be complex or lengthy. However, a little intelligence gathering will be needed to identify where a single supplier is trading under a variety of different sub-brands or operating companies. There are two objectives to this exercise: first to find the largest and most in-common suppliers to the participant group; and second to find out how important a “single customer” will be to that supplier in terms of the aggregated participant group spend.

<sup>9</sup> London local government has had an integrated contracts register and expenditure analysis tool with over 1,000 users since 2007. There are other examples of both in-house and commercial tools.

## Making the approach

Groups sometimes find that when they approach their common supplier to discuss developing the relationship, their door is already open – or at least ajar – and the parties are able to engage relatively quickly. However, there are occasions when the door to negotiation seems hopelessly locked and the customer group is struggling to get a supplier to engage. A few suppliers do have fears about “relationship development,” based on misconception of what it really means. A more common reason is that supplier has always previously regarded the members of the group as small customers, not as a single (much larger) negotiating entity. One supplier, for example, objected to SRD on the grounds it would cut across the territories of several account managers.

It requires persistence on the part of the negotiating panel to reach an appropriately senior person within the supplier’s organisation, in order to persuade them that the group is genuinely working collaboratively and that the panel has the authority to conduct binding discussions on its behalf. Supplier intelligence can be very useful in unlocking discussions at this point and if necessary, helping to inform local authority CEO intervention. Being able to tell the supplier the true significance of your combined business is clearly useful. However, we have also found that demonstrating a good understanding of the strategic and financial challenges facing the supplier shows professionalism, with a seriousness of purpose that is enormously helpful in elevating discussions to a more senior strategic level within the supplier’s organisation.

## 3.3 Intelligence gathering

An SRD approach to supplier intelligence combines information from two main sources:

- publicly available information, including annual reports, Companies House accounts, media articles (on and off line), credit reports, company websites and newsletters, competitors’ financial information; and
- collective data from the other group participants, including combined spend, existing Common Assessment Framework scores, qualitative feedback, contract information and relationship history.

Staying focused to avoid getting lost in the data is vital. The four areas we have found it most fruitful to focus on are:

- Ownership
  - Understanding the ownership status and structure of the supplier helps you understand the way it is run and its prospects for the future.
- Corporate strategy
  - Understanding the direction the owners and managers wish the company to take is crucial, e.g., what impact might its objectives and growth and investment strategy have on customers like you?
- Financial performance and stability
  - Analysing the financial performance of the supplier is obviously useful, although not as all-important as often supposed. Even the most recent profit and loss account is a historic record that can refer to transactions up to two years in the past - and the past is not necessarily a good indicator of the future, particularly if there has been a change of ownership, management or significant economic or market shifts. However, the financial statements and other Companies House filings can provide some useful information; particularly, in helping to answer the question of how reliant the supplier (or division) has been in respect of your business.
- Markets and competitors
  - No supplier is an island. To gain a better understanding of how a supplier thinks and put the rest of the information you’ve gathered into context, put yourself in the supplier’s shoes. What threats do they face from competitors? Who are their own suppliers, and what is happening to them? What opportunities do suppliers see, perhaps in overseas markets, or new markets created by technological, policy or regulatory changes, or by demographic shifts?

One of the most important tactics in gathering and analysing knowledge about suppliers is “information arbitrage.” This simply means gaining valuable insight by looking at a wide range of information sources and then identifying differences in what suppliers say to various different stakeholders. For example, what a company might say to its overseas financial investors compared to what it is saying to the European Competition Commission or its employees and unions. SRD teams who have used this approach have discovered that they are sometimes better informed about a supplier’s strategic challenges than the senior managers with whom they are negotiating. This puts them in an incredibly strong position.

### 3.4 Steering discussions

Having used supplier information from public sources and from the collaborative group to identify suitable candidates and open the door to engagement, the next stage is to look at the analysis to identify possible areas of focus for discussion. As part of the SRD process, suppliers are encouraged to make their own suggestions on areas for efficiency and mutual benefit. However, it is also extremely helpful and positive for the customer group to go into negotiations with some ideas of where opportunities and areas of concern may lie.

Insights for negotiation and discussion can be derived from supplier intelligence and/or interviews with existing clients. Among the insights that have been revealed by supplier intelligence analysis are as follows:

- Identifying that another supplier's debtor days (time taken to receive payment from customers) were far longer than its sector average, playing havoc with cash flow.
- Identifying that a family owned and run supplier had no clear succession plan for when the CEO (nearing retirement age) stepped back.
- Discovering that the overseas-based CEO of a large multinational firm had staked his reputation on achieving an extremely aggressive set of cost saving targets within a 2 year period – something of which the UK managers were not yet aware.
- Discovering that the margins charged to the UK public sector by one global IT hardware manufacturer were its highest in the world.
- Learning about weakness in a service-critical supplier's business model that meant its cost structure was unsustainable in the medium term.

Similarly insights gained via client meetings have also included:

- Identifying a supplier who had an acute seasonal cash flow problem because its local authority suppliers have traditionally not paid fees for Christmas week until the New Year.
- Identifying that the parent company of one supplier did not see the line of business as core (i.e. they planned to dispose of it to a competitor).
- Discovering massive differentials in service quality and cost provided to similar sized public sector customers by the same suppliers.

Just as SRD should be an ongoing process over the life of a local authority contract, regular gathering and analyzing of supplier and market intelligence must play a role in that process. With the collaborative customer group pooling resources to monitor its common suppliers, this does not need to be an expensive or onerous task. What matters is that the group is not forced to rely on the supplier to alert them to problems or issues. Instead, it is empowered, through knowledge and information, to raise them for discussion itself.

#### Case study Identifying Best Practice

In a Negotiation Team meeting for a Social Care provider, it was discovered that there was some duplication in the monitoring procedures of care homes. The Care Quality Commission ratings system was considered by many local authorities to be insufficient for their needs; homes with the highest ratings by CQC would often go for years in between inspections. As local authorities have a duty to clients in care, monitoring teams would be sent to monitor both the state of the care home and the client themselves. Some care homes, however, have clients from multiple local authorities in them, thus requiring multiple monitoring efforts by several local authority teams. A joint agreement, sharing the results of the monitoring visits on the state of the care home from the host local authority, can reduce effort by both the local authority team and care home managers.

## 4. Towards Better Outcomes

**This section looks at how the SRD process can directly improve post contract management and a tool to drive down costs and overheads when the contract is eventually re-tendered.**

### 4.1 Collaboration after contract award

While it is impossible to generalise, contracts ought to and often do already contain provisions for further collaboration within the contract environment itself. Whilst it is clearly necessary to remain within the constraints of law, local authorities should view contractual relationships as living and dynamic opportunities, not merely as static relationships built upon a point of reference, i.e. the contract.

There is a balance to be struck between:

- remaining within the legal boundaries of material change<sup>10</sup>;
- ensuring that contracts continue to deliver the core requirements;
- maintaining and increasing value for money; and
- developing the opportunities for improvements and efficiencies within the contractual environment itself.

In fact, the two latter requirements are not new or even ground breaking. They are already enshrined in the Local Government Act 1999 as the best value duty upon all local authorities<sup>11</sup>. Local authorities should already be striving for continuous improvement under the banners of economy, efficiency, effectiveness - not simply viewing contracts as a reason to limit engagement to mere contract monitoring and/or compliance. It is a grave mistake to think that this best value duty is simply discharged through a one time competitive process. Rather, the duty actually continues beyond contract award, to take its rightful place within the contractual relationships themselves, albeit performed within the legal boundaries set regarding the material change issue.

The question for local authorities today is how far have we delivered on this best value duty when it comes to mining the added values to be found in contractual relationships? Basic contractual relationship management<sup>12</sup> is generally still in its infancy within many local authorities. The truth is that we must also correct that shortfall in parallel with improving the efficiency and quality of what is done, how it is done and what is produced within our contractual relationships.

Many local authority contracts run into millions of pounds in terms of value, involve huge amounts of resources (both on the client and contractor sides) and are of strategic importance to local people, clients and contractors alike. Such an environment is abundant with opportunities to do things differently, better, smarter, and more informed. Many of the suggestions and answers already exist in the minds of the clients and contractors – they are just very often not raised.

In simple terms, local authorities need to appoint suppliers/providers that are seeking to become better delivery merchants of their service or product. SRD provides the ideal vehicle for this opportunity by allowing them to engage and learn what is in the mind of their clients.

Many organisations are simply unaware of the efficiencies and improvements that their contractor can see. These efficiencies and improvements often do not come to the surface and are in danger of never having a platform to be suggested or delivered. Reducing costs rather than just reducing prices is a far more sustainable method that preserves the financial health of the contractor and critically the financial health of the contract itself. SRD provides tools and techniques to identify where the cost inefficiencies are collaboratively.

10 The Local Government Act 1999 places a duty on local authorities to improve the cost and quality of its services.

11 A Best Value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (section 3[1] of the Local Government Act 1999).

12 More details on this can be found in You and Your Contractor which accompanies the SRD toolkit.

## 4.2 Developing the marketplace

As more efficiencies and improvements are delivered through effective SRD, an inevitable and much welcomed result will be that markets are also developed. This applies to the existing scope of a contract where needs can change and the operating environment is dynamic. Improved responsiveness from contractors brings added value, increased capability and better performance to the market place. In turn, this enhances the competition where the more developed and mature players are usually driving up and setting new standards in the competitive process. In other words, the competitive process will become even more demanding as new methodologies are developed and contractor “fitness” becomes increasingly important to remain competitive in the market place. In effect, SRD is a market improvement tool in the hands of contract managers and procurement staff. It will help in bringing more exacting competition to the bidding process as the contractors seek to win new contracts.

The same is true regarding efficiencies. Where clients and contractors have worked together to drive out costs from delivering the business of the contract, the net result is that the market can take advantage of cheaper ways of delivering requirements. This is straight forward development but the speed of the development depends upon the willingness of the players to identify and implement the reduced costs.

Improved delivery from the market is good news for the public purse in that reduced costs will eventually lead to reduced prices in bids and improved client satisfaction.

## 4.3 Improving Contract Relationship Management

Experience in the public sector with SRD to date has shown that common themes often emerge in different service areas. One such theme is the opportunity to standardise contract documentation particularly in the areas of:

- terms and conditions;
- performance specifications;
- data capture and reporting;
- risk transfer; and
- payment mechanisms.

Localism and making use of standardised contract documentation are not necessarily mutually exclusive. Benefits of adopting a standardised approach include the pooling together of best practice and experience gained in that service area in order to produce an optimum specification (or even a number of alternative specifications where there is a need). Two key benefits arise from this approach. The cost to individual authorities is reduced through avoiding duplication of effort. Where local authorities have shared specifications efficiency savings of more than £200,000 per contract have been achieved in the set up or procurement costs, particularly where there has been no need to hire consultants/professional staff to undertake the work. At the same time, the sharing of optimised specifications which incorporate best practice has also driven up performance standards within contracts while reducing costs. It has enabled the data capture, performance reporting, supplier staff training and the contract management to be performed more easily, and also cheaper, across different client contracts sharing the same contractor.

There is often more negotiation leverage when a number of local authorities come together as a unified force to collaborate or negotiate with a shared contractor. This presents them with opportunities to have a ‘bigger’ voice than simply if they were to do it on their own.

However, there are also collaborative opportunities that only really work across a group of clients that are not provided by a singular approach. For example, where separate and different performance specifications have been drawn up in the past by different authorities because each authority has worked in a silo, the net result is that the contractor had to respond by developing different systems to accommodate the different requirements. In effect this has simply injected unnecessary costs into the business models. Wherever these requirements arise purely by silo working and not out of any real need for a difference, the ongoing costs incurred by the contractor to produce different performance reports required by different performance specifications can be managed out by standardising the approach.

Future tendering and outsourcing will inevitably reap the benefits of such work in time.

# Appendix A

## Sources of Information and Assistance

Products available with this White Paper include:

**Supplier Relationship Development: Implementation Toolkit for the Public Sector.** The SRD Toolkit is a step-by-step guide, including templates, to show how the public sector can use SRD. It also includes a section with legal advice specifically applicable in the public sector regulatory environment. [www.capitalambition.gov.uk/srdtoolkit](http://www.capitalambition.gov.uk/srdtoolkit)

**You and Your Contractor.** A re-launched and refreshed toolkit for Contract and Relationship Management. Originally issued by Capital Ambition and the London Fire Brigade, it has also been updated with the latest case law. [www.capitalambition.gov.uk/srdbestpractice](http://www.capitalambition.gov.uk/srdbestpractice)

# Appendix B

## About the Authors

### Mark Atkinson

Mark has worked in Procurement for over 30 years and specialises in the management of contractual and commercial relationships. His career includes working in the private sector in the construction industry before joining the public sector in 1992 as Procurement Manager for Haringey Council. Mark joined the London Fire Brigade as Head of Contracts Management Group in 2002 and is responsible for the management of LFB's major contracts such as the PFI contract for fire vehicles and equipment. He has led a number of Regional Improvement and Efficiency Partnership projects since 2007 and is also the Project Director for the Supplier Relationship Development project. Mark's work has also been recognised via a number of awards including the SOPO Award for Outstanding Achievement in Procurement (2009). He is keenly interested in the development of best practice regarding contractual relationships management, and has led many developments in this field including business continuity in the supply chain and the production of the 'You and Your Contractor' manual. Mark is one of the key architects behind the Supplier Relationship Development process.

**Contact Number:** 07909 536931

**Contact e-mail:** [mark.atkinson@london-fire.gov.uk](mailto:mark.atkinson@london-fire.gov.uk)

**Web Address:** <http://uk.linkedin.com/pub/mark-atkinson/29/282/639>

### Ken Cole

Ken has had a highly successful career spanning both the public and private sectors. He is a Director of SPS Consultancy Services and was the Director of the London Centre of Excellence (LCE) from 2005 to 2008 and founding Director of the Procurement Agency for Essex (PAE) in 2004. He remains Commercial and Procurement Advisor to the successor body, Capital Ambition, where he is currently working on the establishment of sub-regional category teams.

He worked in central government until 1995, serving in various senior project management and procurement roles at the MOD, Home Office, Cabinet Office and H M Treasury, before moving into the private sector in 1995 where he managed the public sector division for a major ICT provider.

He is a Fellow of the Chartered Institute of Purchasing and Supply (CIPS), Fellow of the Royal Society of Arts and is a Liveryman in the Worshipful Company of Information Technologists having received the Freedom of the City of London in 1994.

**Contact Number:** 07721 556537

**Contact e-mail:** [ken.cole@sps-consultancy.co.uk](mailto:ken.cole@sps-consultancy.co.uk)

**Web Address:** [www.sps-consultancy.co.uk](http://www.sps-consultancy.co.uk)

## Christine Morton

Christine has 16 years' experience in procurement in the public, private and non-profit sectors in both the US and UK, and is currently the procurement project manager for the Capital Ambition (the London Regional Improvement and Efficiency Partnership) project on Supplier Relationship Development. The project, hosted by the London Fire Brigade, finds savings, efficiencies and improvements on existing contracts for the mutual benefit of London local authorities and their suppliers. In 2010 the Capital Ambition SRD project was named as a finalist in the GO Awards and CIPS/Supply Management Awards. She previously was a category manager at the Office of Government Commerce where she gave advice and guidance to local government in England and Wales regarding unmanaged agency staff expenditure. Her role involved support for local authorities to achieve £10m savings in 2006-7 and £33m savings in 2007-8. She is the author of the first edition of *"Transforming the Procurement of Temporary, Agency and Interim Staff: Your Toolkit for Success."*

Christine holds a Bachelor's of Science in Business Management and Economics (double major) from the State University of New York at Stony Brook.

**Contact Number:** 07734 915176

**Contact e-mail:** christine@mortonatlantic.com

**Web Address:** <http://uk.linkedin.com/pub/christine-morton/4/2aa/69>

## Alexandra Ranson

Alexandra Ranson has been involved in the LFB/Capital Ambition Supplier Relationship Development project from its inception in 2005. An corporate finance analyst by training, she developed the original concept of information arbitrage as part of the LFB project, and has since researched and analysed much of the crucial supplier intelligence which has unlocked the doors to millions of pounds of cashable savings for the taxpayer. Alexandra has over 15 years' experience in the public, private and third sectors, including serving in the Collaborative Procurement team at the Office of Government Commerce, part of HM Treasury.

Alexandra Ranson has a MA from Magdalene College, Cambridge, and an MBA from the University of Virginia, for whom she has written and co-written numerous published business case studies.

**Contact Number:** 07946 283956

**Contact e-mail:** alex@beaglethinking.com

**Web Address:** [www.beaglethinking.com](http://www.beaglethinking.com)

**Capital Ambition**

59½ Southwark Street  
London SE1 0AL

[www.londoncouncils.gov.uk](http://www.londoncouncils.gov.uk)

020 7934 9776

[capitalambitioninfo@londoncouncils.gov.uk](mailto:capitalambitioninfo@londoncouncils.gov.uk)

design: [pinsentdesign.com](http://pinsentdesign.com)

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