

Managing Suppliers for Better Value

Jos Creese, CEO, CCL and Advice Cloud Strategic Client Advisor
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Remarkable progress has been made in public sector cutbacks; reducing headcount, rationalising property, focusing on the things that matter, increasing productivity and removing unnecessary overheads. The likely levelling out position will be an average of 40% cuts on pre-austerity budgets.

But more is still to do to streamline, share and reduce costs, and internal savings are already in the margins, if not cut back too far. After staff costs, the next biggest expenditure heading is external 'bought in' goods and services. Evidence suggests that for many local authorities for example, this area can represent over 50% of the total cost base. Yet most of the savings so far have come from internal costs and overheads, not from external service expenditure.

Managing contracts in local government and in the NHS in particular, is not a trivial task. It is arguably more complex than in central government, despite contracts on average being smaller. A local authority may have 700 business streams, each with its own range of external suppliers. The sheer volume of change impacting the sector means contracts are being started, stopped, adapted, extended, or cancelled with greater frequency. There is also a growing number of shared services and partnership agreements.

The trouble is, that effective supplier and contract management takes time - time that no longer exists. Managers therefore need digital tools and automated systems which can seamlessly link contract data to delivered performance, with trigger alerts and management dashboards. They need systems which provide appropriate management information, metrics and alerts to determine where key business value and risk lies in contracts.

Many organisations will already have contracts and asset systems, holding some contract data, but few have a systematic and structured way of collecting and reporting performance information and actively managing events during a contract lifecycle. Organisations need to be more rigorous in putting information about contracts into intelligent systems, to get an effective diagnostic assessment of contract performance that helps to manage risk and value. A belief that it's all down to the client to manage supplier performance needs to be challenged – suppliers can manage their delivered performance data in a shared system – provided this is done in a structured, evidence-based, and transparent way.

This weakness in supplier management can result in organisations having an unquantifiable number of arrangements. Even if the total list of suppliers and external spend data is known, for example by being cross-referenced against spend headings in finance systems, it is still hard or impossible to manage the total value, cost, performance and key decision points. There has to be a 'trigger mechanism' in place aligned to contract cost profiles ("we're spending more than we planned"), performance ("SLA targets are not being met") and break points ("we need to start a review process now, or the contract will renew/end without a decision").

Without such systems and tools, it is hard or time-consuming to get a grip on a portfolio of suppliers and their performance. Yet this represents a massive cost and efficiency opportunity. Typically, a local authority for example, has just too many contracts. Recurring payments are sometimes made for goods and services no longer used or required, even after a contractual term has ended. Sometimes term agreements simply renew without review, and the first notification is a purchase invoice arriving soon after the termination date.

In my experience, contract details are also held all over the place - with legal team, procurement, service departments, and with IT (for IT contracts). Even if supplier data is centralised and managed effectively (which is exceptionally rare), data on current and expected performance, action plans, payment plans, correspondence, agenda, minutes, and escalation processes and key contacts is missing or fragmented. Some contract details are on paper, some in a variety of electronic systems. Some are even based on a 'gentlemen's agreement' or a local arrangement - understood but not written down, or if written down, not held in a contract file but in a stream of emails. Relying on memory is particularly problematic given the level of staff reduction and turnover in the public sector.

This current failure hands the control to the supplier. It makes it easy for suppliers to take advantage. It plays to client worries about not renewing a contract because of a fear of consequences (e.g. loss of momentum or knowledge, or the cost and risk of change). Clients may continue to simply keep paying for a service because it isn't 'broken', regardless of measured value. As the NAO pointed out in a review of government contracts in 2014: *"Contractual performance indicators are often weak and Government is too reliant on data supplied by contractors"*.

Any reduction in external spend will be resisted by suppliers, but a 40% cut to the public purse should apply to external spend, not just to internal spend. This can come from driving better value in existing contracts, rationalising the number of suppliers, and switching suppliers more often. Suppliers will typically offer 'more for the same' or maybe at best a modest a reduction for a longer-term contract. The public sector often lacks the skills, capacity and evidence to challenge this culture and to re-negotiate better deals on 'in-flight' contracts. Managing the risk of change comes from better data to ensure the costs, value and options are better controlled and understood.

Gone are the days when parts of the public sector naively thought that outsourcing to the private sector would in itself inject productivity, efficiency and innovation. Councils in particular, are becoming more commercially-minded, but they have to deal with a patchwork of poorly structured and inflexible legacy supplier agreements, many of which are no longer fit for purpose in a digital economy. Contract rationalisation, shared services and the impact of digital delivery models represent an opportunity, not a threat, if you have the right tools and skills.

Many public services have good asset systems, but few have the more sophisticated tools or processes that they need to do this well enough. Supplier management will be a real differentiator for councils wanting to become more business-like, let alone more commercially savvy and being as efficient as possible. At present, resources are being wasted because this huge expenditure heading is not effectively managed, and the potential value of contracts, especially the ability to share, is being lost.

