SUBCONTRACT MANAGEMENT TRAINING FORUM

SUPPLY CHAIN MANAGEMENT AND THE COMPETITIVE ADVANTAGE
It Takes Two to Tango
Addressing the Seller/Buyer Imbalance through Supplier Relationships

*Keynote Presentation*
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Date   18 March 2016
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   a) Seller versus Buyer Investment in Capabilities
   b) Contract & Relationship Management

2. Helping to Addressing the Imbalance – Supplier Relationship Management

3. Case Study 1 – Local Authority

4. Case Study 2 – Hospital

5. Summary
The Imbalance – Capability & Knowledge Investment

• The Sellers:
  ▪ Heavy investment, direct and indirect, to win business – to at least retain, but preferably increase, their share of the market
  ▪ Includes market analysis, R&D for products and services offerings, training and development of sales and marketing staff, investigation into and analysis of target clients/customers particularly their decision making process and identifying those who influence the outcome
  ▪ The bigger and longer term the contracts are, the more resources committed to managing contracts

• The Buyers:
  ▪ Significantly less, if anything! Particularly in the public sector
## The Imbalance – Contact & Supplier Relationships

<table>
<thead>
<tr>
<th>Category/Complexity/Impact</th>
<th>Competitive CM Model</th>
<th>Strategic CM Model</th>
<th>Tactical CM Model</th>
<th>Operational CM Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>many suppliers</td>
<td>limited number of suppliers</td>
<td>many suppliers</td>
<td>significant information sharing required</td>
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<tr>
<td></td>
<td>exchange of information limited to specification of requirements</td>
<td></td>
<td>min risk to securing alternative</td>
<td>medium/long term commitments</td>
</tr>
<tr>
<td></td>
<td>price generally agreed by negotiation</td>
<td></td>
<td>min level of information sharing</td>
<td>focus on total contract cost</td>
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<td></td>
<td>no long term commitment</td>
<td></td>
<td>arm’s length, potentially adversarial</td>
<td>specific contract exit plan required</td>
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<tr>
<td></td>
<td>arm’s length, but cooperative</td>
<td>open, shared value relationship + intensive management</td>
<td>arm’s length, potentially adversarial</td>
<td>close, collaborative attitudes based on operational logic</td>
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</table>
Addressing The Imbalance – Supplier Relationship Management (SRM)

• Provides a framework connecting category management/strategic sourcing and contract management – aligns both parties’ goals.

• Motivates and empowers people to work in teams with key suppliers to solve problems and/or deliver opportunities that in turn create value for both parties.

• Sources of value could be:
  ▪ **Service**, e.g. supplier helping to shape the contract activity to give a better result
  ▪ **Commercial**, e.g. lower cost of bidding and subsequent engagement during the life of the contract resulting in lower costs
  ▪ **People**, e.g. improved communications and motivation to perform at higher levels
  ▪ **Process**, e.g. faster response to buyer needs

*Key Takeaway – Tools and techniques will only get you so far; relationships ultimately make the job work.*
Case Study 1

Local Authority in London – one of 33 in UK capital city

Road Service Management
A High Visibility and High Impact Service for Residents and City Visitors Across the District
Case Study 1 – Background

• All 33 London districts responsible for the public highways and byways – roads, pavements, etc, both regular maintenance as well as improvement and development works

• Previous contractual arrangements numerous with a large number of providers – construction, planning, design, project management, etc

• The new service (competitive tender under EU rules) to deliver a ‘one stop shop’ via a joint venture

• JV partners (2) have distinct cultures; the smaller more aligned to that of the City Council than the other

• Negotiations with larger winning provider difficult from the outset – Contract not properly ‘cleaned up’ or made available until 8 months after the start date

• Partnership and co-location key objectives at Contract start, but were never enabled at Senior management levels – Contract administration poorly executed since

Key Takeaway – Take time to properly set the contract up, operationally and commercially.
Case Study 1 – The Challenges

- Previous arrangements had number of service issues:
  - Poorly integrated IT systems between service providers & paper based processes
  - Poor understanding and response to customer requirements
  - Inappropriate contract structures
  - Poor relationship and performance monitoring

- Aim of new contract was to resolve these and to give City Council confidence that its requirements were being recognised and addressed.
## Case Study 1 – Recovery Programme

<table>
<thead>
<tr>
<th>Issue</th>
<th>Activities</th>
</tr>
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</table>
| Poor Management Information & high volume of paper based processes  | • IT system upgrade & improvement initiative  
• Comprehensive training for key users  
• Process Re-engineering  
• Review of KPIs and reporting requirements |
| Poor understanding and response to customer requirements             | • Reorganisation of customer side to improve skills in managing the contract  
• Improved communication at contract working levels  
• Review of supplier side resource competencies |
| Complex and unclear Contract                                        | • Contract refresh and establish proper contract administration  
• Best Value review undertaken to understand cost drivers to drive clarity of costs and change management |
| Poor supplier relationship and performance monitoring               | • Improved communication at senior levels  
• Commitment to participate in facilitated relationship workshops  
• Clarification of performance requirements (KPIs) and default mechanisms. |
Case Study 1 – Outcomes

- Recovery programme successful; helped to redefine contract which could acknowledge all parties’ interests (but 12 months into contract period)
- Put another way, the parties wanted to ‘tango’
- Contract became administratively manageable through correcting the shortcomings and failures in the processes and infrastructure surrounding the service delivery
- Positively addressed the poor relationship between the City Council and the Joint Venture, through supporting and encouraging the minor, but committed, partner to facilitate changing the attitudes and behaviours of the second, larger and more senior partner

*Key Takeaway – A successful working relationship can positively negotiate the difficult times as well as the easy/good.*
Case Study 2

Acute, Teaching Hospital on 2 sites
(Known as a ‘Trust’ as part of UK’s National Health Service (NHS))

‘Soft’ Facilities Management – Cleaning, Catering and Portering
Case Study 2 – Background

• Trust provides general hospital services to local community, plus more specialist tertiary care for patients across SE England; also a teaching hospital
• Treats more than 750,000 patients a year at all stages of their treatment
• Current estate very diverse – oldest building dates from 1828, newest 2007
• Major rebuilding programme (£500m) recently approved to provide new and upgraded buildings to support development of Trust into a leading trauma, tertiary and teaching centre in region
• Up to 2012, Estates & Facilities ‘soft’ services for Trust provided by mixture of in house and outsourced arrangements, with annual budget in region of £16.5m – all operating to acknowledged high standard
• Financial pressures required exploring opportunities to reduce this budget, without any reduction in service – resulting in 5yr contract (under EU rules), with option to extend, placed late 2012 for full outsource of all cleaning, catering and portering activities
Case Study 2 – The Contract

• Tender, and resulting contract, was developed by external consultancy – was very clever and good in theory, but extremely challenging in practice in the reality of busy hospital environment
• Contract was based around output specification – in theory therefore, minimal variations and contract price stable for contract term
• Contract would use a KPI (239 across 11 services) based penalty mechanism and recover sums for poor performance
• Contract price of winning bid was some £3m pa below in house budget
• Trust management teams to transfer to contractor or be made redundant

Key Takeaway – Be honest about your capabilities, particularly if they are limited.
Case Study 2 – The Challenges

- Mobilisation due to take place in first 6 months of contract – not completed
- Trust left with no in house expertise or knowledge to either manage or support contractor
- Specification and Service Level Agreements (SLAs) poorly defined, e.g.
  - Patient feeding costs miscalculated and generated shortfall of c£1m
  - Dedicated portering became ambiguous
- KPIs too numerous and unworkable
- Trust quickly became ‘frightened’ to use KPIs and hold contractor to account
- Communication became reactive and increasingly adversarial as relationship broke down
- Serious Untoward Incidents – cleaning considered contributory factor
- Complaints, from staff and patients, increased
- Clinical specialists held vote of no confidence in the contract

Key Takeaway – Never outsource management control; always retain necessary expertise to effectively manage contractor.
# Case Study 2 – Recovery Programme

<table>
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<tr>
<th>Issue</th>
<th>Activities</th>
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<td>Excessive KPIs</td>
<td>• Reduce to more realistic and manageable number and content</td>
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<td>• Introduce mutually acceptable auditing approach</td>
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<td>• Involve nursing more in contract operation</td>
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<td>Poor Trust/ Contractor relationship</td>
<td>• Change of project director by contractor</td>
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<td>• Contractor brought in some experienced additional staff in key management positions</td>
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<td>• More regular reviews by key senior leadership (CEO, COO, etc)</td>
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<td></td>
<td>• Establish better engagement between Trust nursing staff and contractor management, e.g. Ward manager able to oversee all contractor activities to suit ward requirements</td>
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Case Study 2 – Outcomes

- Recovery Programme unsuccessful, each party blaming the other
- Contractor behaved as if in denial to difficulties of situation
- Put another way – one party clearly didn’t want to ‘tango’
- Trust and contractor CEOs finally agreed to end contract early
- Finalised arrangements for this through contractual DRP mechanism, primarily mediation – contractor paid settlement sum to Trust, activity brought back in house after only 2 yrs 8 mths into contract life
- Service operating more effectively in Trust, particularly greater flexibility of service provision, e.g. portering, and costs reducing
- Trust able to receive financial benefits from retail outlets

Key Takeaway – Not all relationships work; commit to work to recover those that don’t but if not possible, be mature and brave enough to end it (them).
Summary

- Tactical and competitive contracts can deliver if processes, systems and contractual structure good, but

- Operational and strategic contracts need strong relationships as well between the parties if they are to be successful

- Investment in supplier relationships can greatly support contract success, as it levels the playing field between buyer and seller
Thank you for your attention