



Strategic Procurement Service tasked to deliver £200 million in cost savings over 10 years

Overview

Drivers

The public sector is under increasing pressure to do more with less: cutting costs while maintaining or even improving service to the public. Collaboration between agencies is increasingly seen as the most promising route to achieving the required combination of cost savings and service improvements, but it presents significant organisational challenges.

Solution

IBM, Somerset County Council, Taunton Deane Borough Council, and Avon and Somerset Police created a revolutionary and innovative public-sector shared services provider, Southwest One. This ten-year joint venture is dedicated to providing improved service delivery, greater efficiencies and lower costs. It achieves these benefits by providing access to a very broad range of shared services, including a Strategic Procurement Service.

Southwest One is a unique public/private joint venture partnership formed in 2007 between Somerset County Council, Taunton Deane Borough Council, Avon and Somerset Police and IBM. The organisation's goal is to improve services and save money for the authorities, through a combination of managing back office and transactional services through a single shared service arrangement, and delivering major strategic projects to transform and modernise the way the authorities work.

The three public sector organisations that constitute Southwest One have a combined annual expenditure of approximately £500 million. The scale and importance of the procurement function made it a key driver for the whole Southwest One project, and the most significant single element for delivering the projected cost savings.

Ian Conner, Chief Procurement Officer at Southwest One, comments: "The Strategic Procurement Service at Southwest One was built on the belief that procurement departments can no longer afford to be seen as delivering tactical tendering services focused only on their own organisation. They need to move to the front-end, to influence strategy and commissioning decisions. It's not just a question of aggregating spend to improve purchasing power; we're creating a centre of excellence for procurement, staffed by highly-trained experts who can deliver valuable business advice to their internal clients in Somerset County Council, Taunton Deane Borough Council and Avon and Somerset Police."



Business Benefits

Over the ten-year contract period, Southwest One projects total savings of hundreds of millions of pounds. The Strategic Procurement Service is tasked with delivering some £200 million in cost savings. The introduction of category management as a core methodology will help identify opportunities for cost savings, and the switch to output-based specifications will improve contract tendering. With a true Centre of Excellence for procurement, the three public-sector organisations will be better able to preserve front-line service delivery even as they face up to the growing need to cut costs.

“Even before the challenging financial climate took hold, we recognised that we could deliver procurement savings but that we needed to radically change our service to achieve it,” said Julian Kern, Director of Finance, Avon and Somerset Police. “Southwest One has enabled us to do this. By combining the police and council procurement teams and by transforming our approach to how we spend our money, we have been able to create a new Strategic Procurement Service which has already started delivering the savings we need.”

Strategic excellence

The Southwest One Strategic Procurement Service is staffed by secondees as well as its own directly employed staff. In addition to bringing in external specialists, Southwest One and IBM invested heavily in additional training for secondees, aiming to create an organisation that could effectively serve the strategic needs of its clients.

The Strategic Procurement Service is structured along category lines: social care, business services, estates management, and so on. This ensures both that it is aligned to the strategic business needs in each domain and that employees can build up genuine domain expertise.

“Category management has been adopted as a core methodology and is in the process of being embedded in each organisation,” says Ian Conner. “Cross-functional teams have been established and a number of category strategies have been developed, identifying opportunities for savings of more than £150 million so far.”

He adds: “We’re looking to go far beyond simply aggregating expenditure. For example, we’re introducing strategic tools to analyse and query demand. It’s all about getting closer to business users, so that rather than just being a tactical tendering department, we can start to understand what they really need and advise them on the best way to achieve that with their budget.”

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— Ian Conner, Chief Procurement Officer,
Southwest One

Bringing new value to procurement

The adoption of a shared service for procurement has given each of the members of Southwest One access to greater scale and expertise than before. It has also started to enable greater sophistication in tendering, which promises to unlock significant cost savings.

As an example, a cleaning contract might previously have been put out to tender by listing the facilities, the number of cleaners and the hours worked. It is then only possible to determine which supplier can manage the existing service most cheaply.

Rather than simply managing the supplier’s margin in this way, the Southwest One approach is to introduce output specifications into the tendering process. The Strategic Procurement Service defines the expected standards across different types of facilities, and asks the vendors to explain how they would achieve them and at what price. This gives the vendors more flexibility and enables them to be more creative. Instead of the odd one or two percent that can be saved through managing the margin, this can enable truly transformational savings of as much as 25 percent.

Making collaboration work

Collaboration between agencies has been proposed as the most promising way for the public sector to achieve cost savings without damaging front-line service delivery. This is increasingly the case in the new political landscape, where there is even greater pressure to cut costs.

The Strategic Procurement Service at Southwest One has two collaborative aspects. First, the service is aligning spend and demand across the organisations that constitute Southwest One. Second, it is combining three separate procurement teams to pool their knowledge, capabilities and methodologies. The goal is to create a centre of excellence that can add value and operate at a more strategic level.

Ian Conner comments: “My challenge is to make sure that procurement is at the table when significant spend decisions are being taken. To achieve this, my team are developing their skills as business advisors who can help challenge demand and bring innovation to the table. For example, considering the catering and cleaning operations throughout our three client organisations, we anticipate that moving to output-based specifications will enable significant efficiencies. Equally, within Adult Social Care we are contemplating how services can be better delivered through the use of technology.”

The shared-services approach also provides access to a wider range of skills, and makes it easier for the procurement function to build up greater levels of internal expertise.

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— Ian Conner, Chief Procurement Officer,
Southwest One

The IBM contribution

IBM provides strategic advice, operational support and infrastructure to Southwest One, as a full partner in the project for the ten-year commitment.

“In part, Southwest One is about changing the way non-core services are delivered in public authorities, not just about operational outsourcing,” says Fiona Capstick, CEO of Southwest One. “For example, Avon and Somerset Police is the first police force in the UK to use an outside service for back-office functions, and Southwest One is the first time that three UK public-sector entities are collaborating with a private company in this manner, with agreed delivery of annual percentage cost reductions.”

Southwest One has a board of directors, which consists of members from the two councils, the police and IBM. Working with the board, an independent chairperson is responsible for implementing the overall strategy of the project and for the integrity of the private-public partnership.

Other organizations can participate too, sharing in the benefits alongside the four founding partners. Southwest One has created a framework agreement that allows other agencies to join in the shared services without having to independently solicit separate tenders.

“Finding the right private-sector partner was key to creating the new Strategic Procurement Service,” says Ian Conner. “IBM provided the upfront investment in staff and processes which kick-started the initiative and helped us create a shared centre of excellence.”

Tangible results

Simply creating the procurement shared service was a major achievement, and work continues to merge the different organisations into a completely coherent unit. Although it is still early in a ten-year contract, the Strategic Procurement Service has identified £150 million of potential savings, of which £54 million is in signed-off projects that are already at the implementation stage.

By December 2010, the aggregated cost savings had exceeded £5 million, largely derived from tactical quick-wins such as moving to aggregated spend for office stationery. It is anticipated that the service will continue to deliver consistent cost savings of over £500,000 a month for the authorities. The Strategic Procurement Service has also appointed a single management supplier for temporary staff, enabling a reduction in hourly rates. Many of the larger savings will accrue over a longer period: the organisation has already put in place new initiatives that will save more than £30 million over the life of the Southwest One contract, and the monthly savings figures are growing rapidly.

Ian Conner comments, “It’s important to recognise that we’re still on a journey, and part of that is a question of building credibility. One way in which we’re doing that is by formally tracking the monthly savings and reporting on them. Procurement is no longer simply hard-nosed contract negotiation- it’s much more about trying to influence people’s perception of what they want. We want to get the business to question how things have been done in the past, and to look with us at more effective and efficient ways of working in the future.”

He adds: “Procurement isn’t something you can do ‘to’ organisations, you have to do it ‘with’ them. We frequently have a difficult message to communicate, and we make a great effort to win the hearts and minds of our clients rather than trying to lay down rules and regulations. Senior support from across the organisations is vital, and this is formalised in Southwest One by working with IBM as our private sector partner and having clearly defined deliverables. The whole contract is backed by a robust governance process to enable successful collaborative working and partnership focus. We are pleased with the great results we have achieved to date, and we look forward to delivering our targeted £200 million in cost savings over the coming years.”

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PO Box 41
North Harbour
Portsmouth
Hampshire
PO6 3AU

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