# SESSION 14
# PRACTICAL GUIDANCE FOR OUTSOURCING SUPPLY CHAIN SERVICES

# Structure of this session

1 • Scoping the service

2 • Tendering & Evaluation

3 • Negotiations

4 • Transition
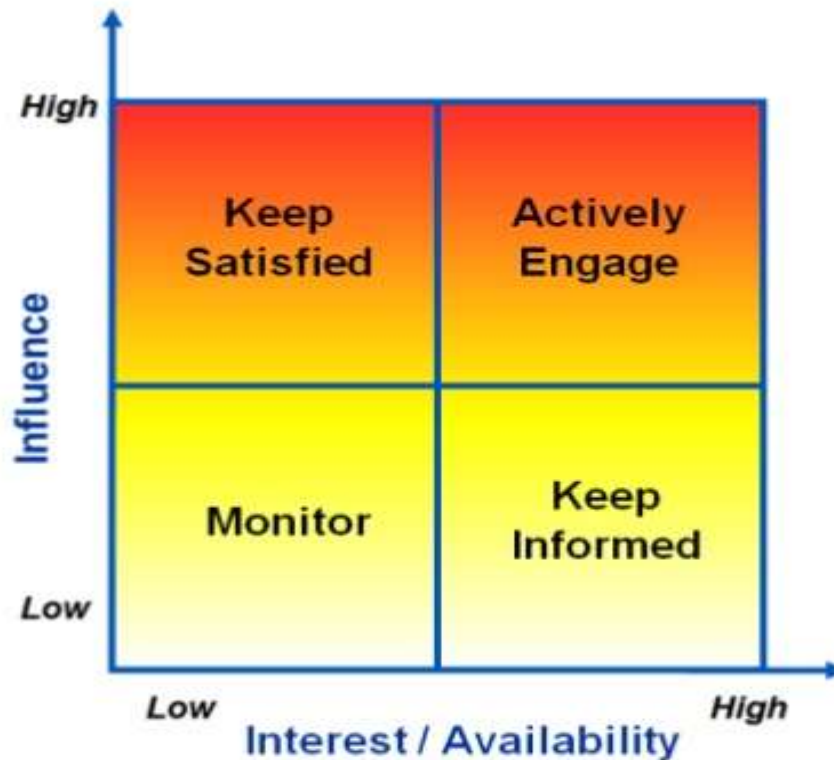
5 • Contract Management
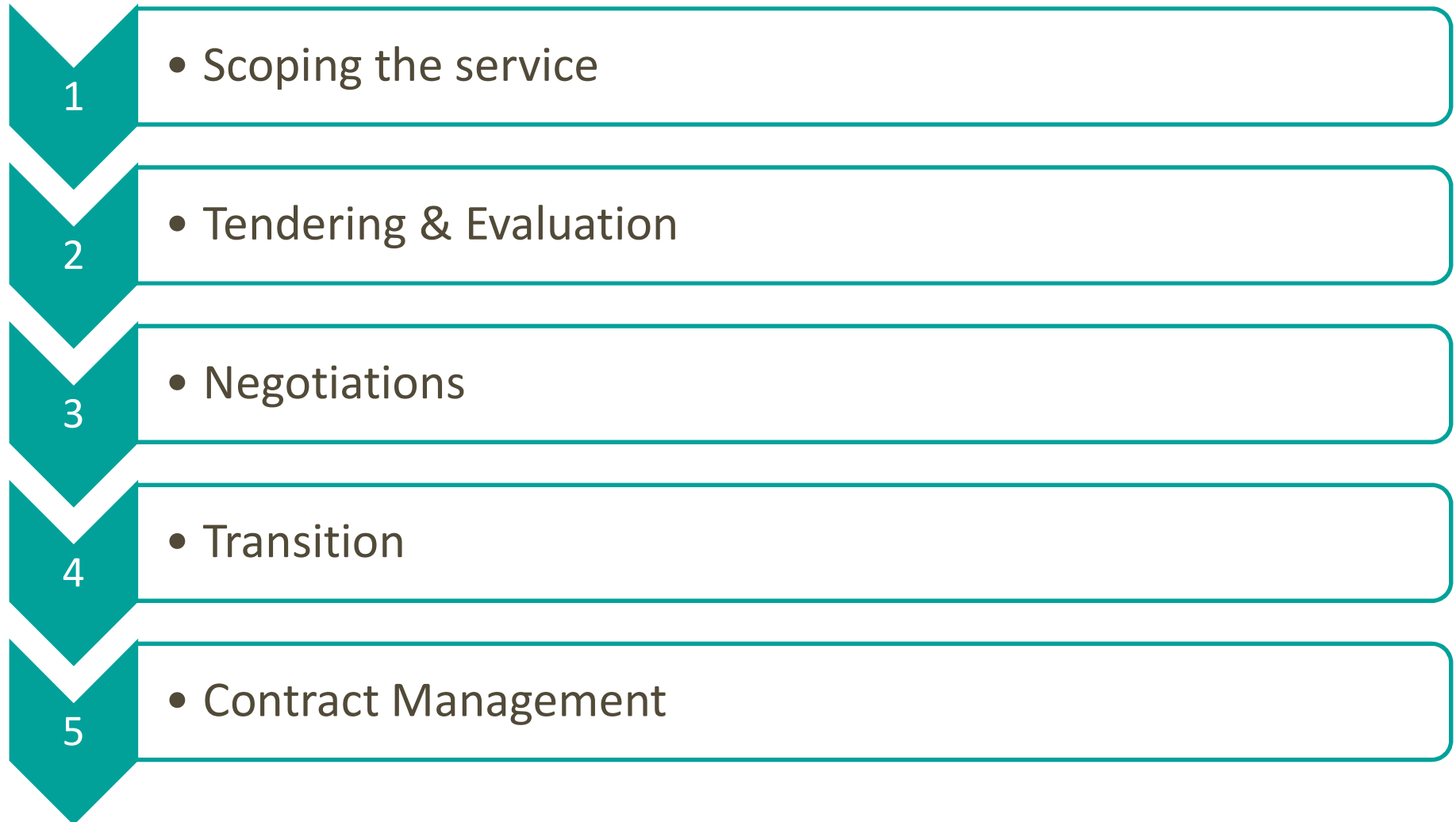
# Scoping the service

- The most important rule – **take your time to do it well. This is time well spent and will save you time and money later on**

- Paying for services which are outside the contract scope will be very expensive

- Consult and engage your stakeholders but make sure one person is empowered to drive the project and make decisions.

- Form a small core project team to take the project through to contract signature

- Data is important. If you don't have any/enough, spend some time and money getting it

# Scoping the service – warehousing and transport example. Stakeholder priorities not quite aligned.....



**Wider government:**
More private delivery of services

**Privatisation Agency:**
Success stories

**Media:**
Good story

**MoH/CMS:**
**Better performance, closer control, investment**

**Donors:**
Protect investments in CMS and continued improvements

**Health facilities:**
Quicker response times

**Public procurement body:**
Correct process was followed

# Scoping the service - Stakeholder management framework example



**The Stakeholder Map**

| | Interest / Availability | |
|---|---|---|
| **High** Influence | Keep Satisfied | Actively Engage |
| **Low** Influence | Monitor | Keep Informed |
| | **Low** | **High** |

Scaled Agile Framework™

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# Scoping the service – risk based approach

- Transfer as much as you can to the service provider, on the condition that they are really better placed to manage the risk of providing that service than you are

- Make it output based as far as possible

- Think creatively

- Think carefully about the obligations of both parties, and their interdependencies

- Use a Risk Register as a living document

| Ref | * Risk | Potential Impact | | | Risk Owner | Actions | Responsible | Due Date | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | | Description of Potential Impact | Level of Impact (Major / Moderate / Minor) | Likelihood (Hi / Med / Low) | | | | | |
| 1 | High Resistance to Change from CMS staff | Strikes, work to rule, sabotage | Major | High | | PS to address CMS staff and answer questions | PS Health | 31/03/2013 | |
| | | | | | | PS to meet with Unions to discuss impact of outsourcing | PS Health | 15/04/2013 | |

# Scoping the service – Data

- You need data to (i) describe what you want to the market, current and future states, (ii) benchmark your own current performance and cost, and (iii) get an idea of what the outsourced service may cost

  – Current performance for Key Performance Indicators (KPIs)

  – Current activity levels

  – Current costs

  – Projections for future activity levels

  – Cost estimates for the outsourced scope

# Scoping the service – financial/payment issues

- Think carefully about how to mitigate payment risk to the service provider – advance payment, other instruments

- Payment structure – fixed, variable or a mixture of both. Decision based on what you want to achieve, and what you can realistically measure and manage

- Bonuses & penalties – approach with caution

- Responsibility for stock losses/damages – insure?

# Scoping the service – contract structure

- Sub contractors
  - Are you allowing them?
  - Up to what % of the contract value?
  - Buyer can demand that key sub contractors can only be changed with the buyer's approval
  - Think about whether the main contractor has the capability to manage the sub contractors effectively
  - Cashflow between main contractor and sub contractors – the buyer can stipulate that no sub contractor should receive better payment terms than the main contractor

# Tendering and Evaluation

- Check the procurement law/regulations thoroughly to understand the different ways in which you can procure the service
  - Open, restricted, negotiated procedures are all different
  - Check if you can clarify and negotiate with bidders
  - Build in opportunities for presentations, site visits, clarifications and negotiations if you can – the more you learn about your bidders the better
- Be clear in your scope, and in telling bidders what you expect them to demonstrate in their bids

# Tendering and Evaluation – example framework

| Technical Evaluation | | Grade | | | Financial Evaluation including Value for money (VFM) Initiatives |
|---|---|---|---|---|---|
| **Technical Evaluation** | **Read** | | | | **Read** |
| | **Seek Clarification reassess** | A | More than Meets | Why does it more than meet. Have we been charged for excess, can we use to reduce price? | **Validate Cost Model** |
| | | A | Meets | No Further Action | |
| | **Review as a group** | B | Less Than Meets | Why does it not quite meet? Will it cost more to make compliant? if so how much? | **Validate Funding Model** |
| | **Confirm Assessment** | 0 | Does not meet | Why not compliant? Any cost implication? if so, how much does supplier/authority have to spend to make compliant? | **Assess and Analyse VFM initiatives** |
| | **Cost and Risk adjust and Confirm** | R | Supplier handed back risk or obligation to Authority | How much will it cost the Authority to take back this risk or task | **Cost or review Scenario costings** |

# Tendering and Evaluation

- Due Diligence
  - Technical (site visit, speak to or visit other customers). Due diligence on key sub contractors as well
  - Need to sense check what the bidder is telling you in their offer
  - Financial
- Sensitivity Analysis
  - Involves running different scenarios for activity levels and estimating likely future service costs

# Negotiations

- Negotiations should be led by the same team that has led the project the whole way through
- Set clear objectives and stick to them
- Tell the contractor exactly what they need to prepare in good time before each meeting, and give them a clear agenda
- Make sure you know who is authorized to make decisions on behalf of the contractor
- Take minutes of all discussions
- When completed, both parties should sign these minutes and include them as an Annex to the contract
- Be prepared to walk away if the deal will not help you reach your objectives

# Transition

- "Transition" is the period between contract signature and commencement of services

- Transition periods often include activities such as:
  - Familiarisation for key contractor personnel
  - Introduction to customers
  - Loading of master data onto contractor systems
  - Testing and validating contractor's process
  - Practice runs
  - Housekeeping

- Both parties need a transition team with clear roles and responsibilities

- Once all transition activities have been completed, the client typically signs off to say the contractor is ready to commence services

- Needs to be done with urgency, but not rushed

# Contract & Performance Management

**Operational Lead Team:**

Weekly meetings, focused on operational issues

**Monthly Payment and Performance Meetings:**

Review of performance and agreement on payment

**Quarterly Contract Review:**

Contract change requests, out of scope requests, breach of contract incidents

**Annual Partnership Board:**

Review of strategy, impact on objectives, discuss future direction

# Data for performance management

- Contract <u>should</u> clearly specify for every Key Performance Indicator (KPI):
  - The precise calculation that will be used for that KPI
  - The data source(s)
  - Who retrieves it
  - When its retrieved (e.g., end of day/week/month routine, when there aren't any open transactions)
  - Means of verification (where the supporting information is stored)