



National Audit Office

DECEMBER 2008

Central government's management of service contracts: Supporting private sector case studies

Introduction

This paper provides five private sector case studies to illustrate 'real life' examples of good practice in contract management and the benefits that can be realised.

The case studies were selected to provide a broad range of good practice examples across the 11 areas outlined in the good practice contract management framework.

The case studies are:

- A** AXA UK and Williams Lea **(page 3)**
- B** BP and Oglivy and Mather **(page 6)**
- C** CSC and Alexander Mann Solutions **(page 9)**
- D** Legal & General and Adare **(page 12)**
- E** Lloyds TSB **(page 15)**

The case studies were not the subject of National Audit Office audits, but were prepared on the basis of an interview with a key representative from the customer organisation. In addition, as four of the case studies (those involving BP, AXA, CSC, and Legal and General) had previously been nominated for the Chartered Institute of Purchasing and Supply/Supply Management Magazine awards under the 'Best Purchaser-Supplier Collaboration' category, the case studies also draw on the submissions made by the organisations in support of their application.

Although the case studies presented here are all from the private sector, there are also examples of good practice in the public sector and the National Audit Office report on *Central government's management of service contracts* (HC 65, Session 2008-09) provides a number of examples from central government organisations which are applying elements of the good practice detailed in the framework.

Case Study A: AXA UK and Williams Lea

“In most of our major spend areas, we believe there is far more value for AXA now in effective contract and supplier management than in the initial sourcing phase – you can only beat down the up-front cost so much.”

(Paul McMullen, Head of General Expense Procurement, AXA UK)

Background

AXA is one of the largest financial services companies in the world. In the UK, it operates through a holding company, AXA UK, and via a number of operating businesses including AXA Life, AXA PPP healthcare and AXA Insurance. AXA has a UK procurement team that manages key group contracts for all its UK businesses.

In 2000 AXA awarded a print services contract to Williams Lea, a global corporate information solutions company. The contract was the first let by AXA to be used by all its UK subsidiaries. The contract was extended in 2005, and is now worth over £20 million annually.

The scope of the contract has expanded considerably over time, to include logistics and supply chain management, with AXA's ultimate aim being a single print and document management service. As well as traditional print services, Williams Lea now also provides services that help to drive sales revenues, such as a rapid turnaround 'pitch pack' for AXA sales staff.

Key areas of good contract management practice

Governance

AXA's relationship with Williams Lea is governed through a multi-tiered 'operating framework', which consists of various levels of activity and responsibility:

- day-to-day service management, which takes place at local level;
- monthly service meetings in each business between Williams Lea and local AXA stakeholders;
- quarterly contract management reviews, chaired by the AXA Head of General Expense Procurement, focusing on overall key performance indicators and targets; and
- strategic management, with long term direction discussed at bi-annual executive director level.

Performance management

Key performance indicators are specific for each AXA business and Williams Lea service. Performance metrics are re-written annually by mutual agreement to ensure they remain relevant, and the contract is regularly re-negotiated for the same reason. Monthly service management meetings on each AXA site include process owners, Williams Lea service managers and relationship managers (where appropriate).

The meetings review:

- service performance and improvement plans;
- relationship issues;
- change requests;
- risk management/financial monitoring; and
- any issues that have been escalated for discussion at the meeting.

Contract development

As the range of services has grown, AXA has used different financial models as appropriate, from full open book to contracts where AXA is free to competitively tender elements of the service, to ensure value for money. Benchmarking has been used to establish market pricing where Williams Lea was awarded business without a full tender, while some other services have been fully competitively tendered.

“The most important factor has been the ability to ensure that the contract and Williams Lea’s service delivery continues to meet our changing business needs”.

(Paul McMullen, Head of General Expense Procurement, AXA UK)

Strategic relationship management

AXA and Williams Lea have worked together to improve the total supply chain, including work to improve value from sub-contractors, and on actions around sustainability, such as ‘carbon footprint’ analysis. AXA has retained a ‘veto’ over Williams Lea’s choice of sub-contractors.

Williams Lea is encouraged to form close relationships across the range of AXA businesses. For example, Williams Lea worked directly with marketing staff in order to reduce the ‘time to market’ for complex direct marketing campaigns to three weeks. This integration and contact drives continuous improvement and developmental opportunities. However, contact and activities continue to be coordinated at a high level and the overall relationship managed through the structured operating framework.

Benefits

Both parties have benefited significantly from the contract. There are annual cost savings targets, with a rigorous process for measuring and reporting outcomes. AXA has reduced expenditure on print services by over £15 million a year (some 50 per cent) over the contract period through price and process savings and influencing the total end to end supply chain costs of print and additionally document management services. In addition, the contract has delivered greater quality and consistency in branding across AXA UK and service to stakeholders such as marketing has improved.

For Williams Lea, the contract has helped to drive its strategic development into print management services, and AXA has acted as an effective case study and reference site.

Case Study B: BP and Oglivy and Mather

“You can't expect to have a successful 'strategic supplier' relationship if the basics of contract and performance management are not firmly in place.”

(Ken Cronshaw, BP Procurement Centre of Excellence)

Background

BP is one of the world's largest energy companies. Much of its activity is devolved to business units, but in some areas suppliers and procurement activities are managed on a global basis. One example is the specialist procurement team in Sunbury, Surrey, who act as 'process owner' and global centre of excellence for supplier management strategy, advice and guidance.

Oglivy and Mather is a global advertising and marketing agency, part of the WPP Group, one of the world's largest marketing communications firms. BP has been a client of Oglivy and Mather since 1999, but by 2005 both parties recognised that the relationship, which is strategically important to both organisations, could be improved and a formal supplier relationship management programme was introduced.

Key areas of good contract management practice

The overall supplier relationship management programme covers BP's top 1,000 suppliers, which account for over 80 per cent of its total expenditure on third parties. The suppliers are segmented and each segment is treated in a different manner depending on its strategic importance to BP.

BP's supplier relationship management programme with Oglivy and Mather emphasises many key aspects of the total end to end contract and supplier management process, with a continuum running from operational contract management through to strategic relationship management. Performance against the contract has been an essential base for building the more strategic relationship and value-added benefits.

Resources

The programme highlights the importance of the staff involved in contract and supplier management having the appropriate competences. BP considers that personal attributes such as persistence, empathy and drive are as important as more technical skills such as legal contract knowledge in terms of defining a successful supplier manager. Successful practitioners have come from areas such as sales as well as from the more usual procurement areas. BP uses a "Procurement and Supply Chain Academy" to develop these skills, and key features include the use of competence models, assessments and training in areas such as category, contract and supplier management.

Value for money testing and performance management

Benchmarking was used extensively early in the relationship management programme across the range of marketing services provided by Oglivy and Mather to ensure that costs were appropriate and competitive, and it continues to be used for new services and to check market price movements. Key performance indicators are particularly difficult to define where the services provided are relatively intangible, and BP has focused on measuring 'what it is that the business wants from the supplier' across a range of 10 key measures such as strategic understanding, financial accountability and timeliness of service delivery. These key performance indicators are regularly reviewed to ensure they remain up to date and relevant to the business. Quarterly in-house surveys are used to collect customer feedback on Oglivy and Mather's performance.

Governance and relationship management

BP has developed a strong supplier relationship governance model, which sets out clear roles and responsibilities at site, regional and global levels. In the case of Oglivy and Mather, the global review group, which includes BP's Global Head of Marketing, reports progress and issues up to main Board level. BP has also restructured its internal management of the relationship to help it optimise Oglivy and Mather's global network. BP invited Oglivy and Mather to implement a similar structure which provided cross-business representation. The relationship is now underpinned by:

- clear channels of communication;
- clear roles and responsibilities;
- clear escalation procedures; and
- a working charter setting out expectations and behaviours from the two companies.

Contract/supplier development

The supplier relationship management programme has been successful in identifying joint process improvement opportunities. The governance structure, described above, has been used to develop and implement ideas that bring mutual benefit. A more transparent payment model also helped in driving openness from both parties. In some areas, BP was itself contributing to contract costs or inefficiencies; for example, through its complex sign-off mechanisms for Oglivy and Mather's work. Working together, processes have been improved with benefits for both parties.

Benefits

Perhaps the greatest overall benefit has been the development of the relationship from an unsatisfactory starting point to the current situation where both parties see it as an exemplar. Tangible financial benefits have also been achieved. In terms of quality of work, the greater level of trust between the parties has enabled Oglivy and Mather's global resources and expertise to be applied to drive quality and innovation.

"This is not a 'soft' supplier management regime, quite the reverse, but neither is it adversarial. Rather it is a collaborative arrangement suitable for a strategic partnering business relationship."

(Nick Ford, Commercial Director, Oglivy and Mather)

Case Study C: CSC and Alexander Mann Solutions

“The success of this project was driven by both organisations’ commitment and collaboration, ultimately delivering tangible benefits to both companies.”

(Lee Rimmer, CSC Supply Chain Director)

Background

CSC is one of the world's largest IT services companies with global annual revenues of over \$17 billion. Its UK headquarters are in Aldershot and it employs 7,500 staff throughout the UK. Temporary staff play a key role in the delivery of CSC's services to clients, so obtaining the right service for sub-contractor recruitment is of critical importance to CSC.

After a review of sub-contractor management and a competitive procurement process, CSC appointed Alexander Mann Solutions in 2001 to provide a managed service for sub-contractor provision. Alexander Mann Solutions is an international human resources services company that works with clients to transform recruitment and temporary labour processes.

The contract between CSC and Alexander Mann Solutions has been extended twice since 2001, and the business model has evolved, such that Alexander Mann Solutions now acts as a 'resourcing partner'. CSC has a structured process for managing its supply base and focuses significant contract management attention on a small number of top suppliers. The relationship between CSC and Alexander Mann Solutions is one of CSC's 'top 12' contracts in Northern Europe.

Key areas of good contract management practice

Transition management

Transition from the previous contractor carried significant risk as Alexander Mann Solutions was a new supplier, and there was considerable sensitivity around transfer of sub-contractors and contractual issues. In practice, implementation was smooth and effective, in CSC's view because of:

- clarity of responsibilities – ensuring Alexander Mann Solutions took ownership of transition issues;
- appropriate risk transfer to utilise Alexander Mann Solutions' experience and capability;
- honesty from both parties around the current service situation; and
- involving service users in the selection of the supplier and throughout the transition process.

Performance management

Key performance indicators relate to six key areas, including volumes of starters, supplier margins and 'time to hire'. Metrics are regularly reviewed to ensure they remain appropriate. Particular focus has been placed on internal customer satisfaction. A percentage of service users are questioned on an ongoing basis after their engagement with Alexander Mann Solutions, and results are shared with Alexander Mann Solutions through a monthly performance report. CSC's contract manager and Alexander Mann Solutions' account manager meet at a monthly operational review to consider performance against service level agreements.

Governance and relationship management

CSC's relationship with Alexander Mann Solutions is governed through a structured review process.

- A monthly operational review is attended by the contract manager from CSC and the service manager from Alexander Mann Solutions and is based around performance reporting and monitoring of service levels.
- A quarterly review acts as a point of escalation, involving more senior CSC procurement staff, and considers more strategic issues.
- A biannual 'strategic supplier review' considers mutual opportunities and longer term issues. Actions are identified and linked back to day-to-day contract management. Attendees include the CSC Human Resources 'executive sponsor' for the contract.

Good communications between Alexander Mann Solutions and the large number of CSC service users is important to maintain the strong relationship between the two organisations. There is regular communication with users primarily through the online Resourcing Newsletter which provides key statistics and updates to the service. Material is written by Alexander Mann Solutions but branded by CSC in order to present to internal users of the service a 'seamless' partnership between Alexander Mann Solutions and the CSC Human Resources team.

Benefits

Both the CSC and Alexander Mann Solutions procurement and contract management teams recognised that demonstrating savings during the early stages of the new contract was the key to gaining the buy-in of internal stakeholders. Benefits flowed rapidly, and CSC has saved over £20 million since the contract started through lower supplier margins and substituting contractors for internal staff. There have also been financial benefits through better staff utilisation.

The two firms have worked together to improve the efficiency of processes such as the engagement of new contractors, and users have enjoyed a service that provides greater flexibility, and improved organisational capability.

For Alexander Mann Solutions, working with CSC to extend the service across parts of Europe, the Middle East and Africa has increased its own capability and provided a launch pad for its own expansion.

“Keeping users involved in the contract management process is key – once the contract is running well, they can lose interest. But to ensure continued success, we have to keep their interest and involvement going.”

(Lee Rimmer, CSC Supply Chain Director)

Case Study D: Legal & General and Adare

“Involving users in the procurement process helped us get initial buy-in and compliance; whilst the user feedback process has ensured we can work with Adare to develop and improve the service over the years.”

(Cecile Bagnell, Legal & General, Print Category Manager)

Background

The Legal & General Group is one of the UK's largest financial services companies. It has over five million customers covering life assurance, pensions, investments and general insurance plans, and invests over £300 billion worldwide (as at 31 December 2007) on behalf of investors, policyholders and institutions.

Legal & General has worked with Adare, an international provider of marketing and customer communications solutions, since 2002. Adare provides two main services to Legal & General: a print management service, which includes support and advice on marketing communications including Direct Mail, and a print logistics (storage and distribution) service.

When Legal & General's strategic procurement team tendered the print contract in 2002, they identified the opportunity to create an innovative outsourced management contract rather than a traditional print production contract. A key feature from the beginning was the intention to develop the service over time to meet Legal & General's evolving business requirements. Effective contract and supplier management was therefore essential in order to manage that development and ensure that the service continued to meet user needs over time. The contract is managed by Legal & General's Senior Category Manager within the procurement function.

Key areas of good contract management practice

Stakeholder relationships

The nature of the contract means that there are many users of the service around the organisation. For example, any marketing or other manager who requires 'external' print services is a potential user. Ensuring that users are content with the service provided by Adare, and have an opportunity to provide input into performance management and improvement, is key.

Achieving buy-in from users was an important element of the tendering process. The procurement team involved internal customers in the process, including in evaluating and selecting the successful supplier. This has increased the sense of ownership amongst the user community.

Having an Adare team on site at Legal & General's premises has improved communications between Adare and users. An 'issues log' is maintained and, while most issues are resolved between Adare and users without the intervention of the senior category manager, there is a monthly meeting between that manager and the Adare account manager.

All service users receive a questionnaire on a quarterly basis, with questionnaires tailored depending on whether the work is print or direct mail related. The results form a key part of performance evaluation, and are collated and reviewed at the quarterly review meeting. All service users for the period are invited to the quarterly meeting. While generally few attend, the open offer has again increased the sense of ownership amongst the user community. Legal & General also runs quarterly 'knowledge sessions' for users, where Adare leads discussions on key topics of interest.

Ultimately, user satisfaction is demonstrated by high compliance (around 98 per cent) with the contract. Compliance is monitored through a database of spending, with internal customers who have not used the contract called by the contract manager to find out why, and if necessary, the issue is escalated up the management line. But generally, a high level of compliance has been achieved without escalation.

Performance management

As Adare acts as a print management company, all jobs are tendered by Adare to an approved list of sub-contractors. Legal & General has full visibility of the supply base and the breakdowns of the detailed quotations received.

Adare's own performance is measured through a set of 15 key performance indicators, which relate directly to the service level agreements defined in the contract. The key performance indicators are a mix of hard objective measures and more subjective measures such as user satisfaction scores. A composite score against the key performance indicators is produced quarterly, and this drives Adare's total payment, providing an incentive to score as highly as possible. The scores make a significant difference to Adare's profitability.

When Legal & General decided in 2007 to contract for the storage and distribution of their marketing literature and corporate stationery, it decided to hold a full tendering process rather than awarding the contract to Adare under the existing contractual arrangements. While Adare was ultimately successful in winning the work, Legal & General felt that it was important to establish the best value solution through a full approach to the market.

Sustainability

Legal & General has developed a comprehensive Corporate Social Responsibility programme that covers not just its own activities, but also its supply networks and the leverage it can exert given its ownership through pension and insurance funds of stakes in many leading companies.

In 2007 Legal & General published the Corporate Social Responsibility standards it required of suppliers, providing a benchmark to assess social and environmental impacts. The programme covers supplier activity in terms of environmental management, employee relations, community involvement, health and safety, equality and diversity, and ethical behaviour. Legal & General has also introduced 'Making a Difference' awards for suppliers, rewarding those who have excelled in areas of environmental or social impact.

As part of its Corporate Social Responsibility programme, Legal & General is focusing on 80 'priority' suppliers based on a number of criteria including expenditure and risk (based upon FTSE4Good criteria). Adare is one of the 80. This group of suppliers is provided with detailed environmental and other specifications by Legal & General, and regular meetings – at least quarterly – are held to progress Corporate Social Responsibility related activities. Adare is a supplier managed under UK Procurement's ISO14001 certified management system.

Adare and Legal & General have developed an environmental print specification, covering issues such as laminating and use of water based inks. Another tangible example of the Corporate Social Responsibility programme is the feedback provided when a job is submitted to Adare. Every time a Legal & General internal customer puts a job forward, Adare produces a report for the user on the environmental impact of what is being proposed. For example, if a user requires lamination, Adare will point out the implications of the process and challenge whether it is necessary. In other cases, there may be ways to reduce the quantity of paper used in a particular job. Adare also gives advice on cost-saving or other improvements it believes are possible. An exception report is produced showing where users have rejected Adare's advice; this is reviewed by the senior category manager and risk & project manager and discussed with users where appropriate.

Benefits

The collaboration between Legal & General and Adare has delivered major benefits for both organisations. For Legal & General, it has delivered cost savings, service level improvements and groundbreaking environmental initiatives. For Adare, the benefits include the prestige of a FTSE 100 client, market leading initiatives that can be replicated across its wider client base and a flagship contract worth several million pounds a year.

"We can use our leverage with our suppliers and firms where we are investors to drive better Corporate Social Responsibility practice across a wide range of companies."

(Graham Precey, Head of Corporate Responsibility, Legal & General)

Case Study E: Lloyds TSB

“We are seeing an increasing executive awareness and recognition that poor supplier relationship management can have serious risk and cost implications for our business”.

(Caroline Booth, Procurement Director, Lloyds TSB)

Background

Lloyds TSB is one of the UK's largest financial services companies. It is split into four divisions – UK Retail Banking, Insurance and Investments, Wholesale and International Banking, and IT & Operations. IT & Operations provide shared services to the other divisions and in addition to IT and Operations contains Procurement, Property, Change Management Services and Security. Group Procurement forms part of the IT and Operations executive committee, which reports at Group executive level alongside the three other divisions.

Over the last two years, Lloyds TSB has put significant effort into improving contract and supplier relationship management performance. It initially assessed that it had some strengths in this area, such as dedicated relationship managers for many of its ‘top 50’ suppliers, and a strong focus on risk and compliance with outsourced and offshore suppliers. But it also recognised that there were issues to be addressed including inconsistent approaches to supplier relationship management across the Group and little focus on driving added value from supplier relationships.

In recognition of this, a consistent approach driven by Group Procurement, and branded “One Best Way”, has been applied to the management of Lloyds TSB's top 50 suppliers. The top suppliers were chosen based on a range of factors, including expenditure and criticality, and then grouped using a model that looked at four high-level ‘deliverables’ from the relationship; with increasing levels of strategic importance, these were *deliver*, *assure*, *improve*, and *innovate*. Group Procurement reviews and updates the top 50 list annually.

Lloyds TSB has appointed ‘accountable executives’ and ‘relationship managers’ for each of the top 50 suppliers. Accountable executives are very senior managers, including some at main Board level, who provide the senior focus and ownership of the relationship. Relationship managers oversee the relationship at a more detailed and day to day level. Some relationship managers are Group Procurement staff, while others are from the business units with whom the supplier is working. In these cases, significant commercial and contractual matters continue to be handled by Group Procurement.

Key areas of good contract management practice

Governance

Lloyds TSB considers that executive commitment and understanding are essential if a supplier relationship management programme is to be successful. Equally, supplier relationship management should not be a 'bolt-on'; it must be an integral part of the end to end procurement process. It is also essential that internal roles and responsibilities are documented in order to have clarity in facing the supplier.

Governance of the supplier relationship management process is therefore vital, and Lloyds TSB has put measures in place to support such governance. To ensure that all key contracts are handled through the desired processes, arrangements for contract and supplier management must be in place before a contract is agreed. This approach is enforced through the use of a 'Gate' process with a 'Sourcing Steering Committee', chaired by the Managing Director of IT & Operations, governing the key stages of the procurement process for the most significant contracts. The Committee approves the choice of supplier and at that point ensures that an Accountable Executive and a Relationship Manager have been identified. Transition arrangements are also signed off by the Committee.

Resources

Lloyds TSB has placed particular emphasis on ensuring staff involved in contract and supplier management have the skills and capability necessary to deliver the desired results. It has also worked to raise awareness of the importance of supplier management and to build a supplier management 'community' to disseminate and share best practice.

Knowledge and skills are developed via Lloyds TSB's 'Supplier Management Academy', which was introduced on 1 March 2008. The Academy is available to all staff within the organisation, but is targeted at those who manage relationships with the top 50 suppliers. Content is owned by Group Procurement but delivered via the University for Lloyds TSB, while marketing and communications are a joint University/Procurement responsibility.

Material is delivered through a combination of face to face courses and on-line modules, using a mix of internally and externally developed and delivered content. There are currently 16 face to face modules and 17 on-line modules available, including influencing skills, negotiation skills and conflict resolution.

The induction programme is seen as a key part of the training programme. It is compulsory for new relationship managers, and consists of a one-day workshop, led by Group Procurement. Some 130 people have been through the induction process and more are scheduled; eventually, some 180 staff are expected to go through the training. Once they have been inducted to the Academy, trainees can agree with their line manager which further modules they need to complete as part of their development plan.

Following induction, Group Procurement also follows up with monthly calls to the relationship managers to identify issues and offer support. Lloyds TSB is also building its relationship manager community through other means such as away days, and online or conference call sessions around current hot topics.

“We have to force people to think about contract and supplier management early in the process. Once you’re on the back foot, it requires a huge effort to turn a failing relationship around.”

(Mike Jones, Procurement Manager, Lloyds TSB)