Procurement Optimisation:
realising savings for local UK governments

OPERA
SOLUTIONS

Local government is missing the opportunity to **save 10-20% in procurement spending** because they do not have the spend visibility and insight to capture the opportunities that are available to them

Realising savings through procurement optimisation

Government organisations of all types and sizes are seeking effective ways to cut costs and maximise revenue, including finding ways to improve how governments purchase. Current efforts range from aggregating central government spending via framework contracts to setting up procurement hubs in the NHS and developing cross-authority buying partnerships in local government.

These are important and meaningful steps, but there is much more to be gained through an effort to optimise spending on goods and services.

The case for optimising procurement spend within and across organisations is clear.

For example, in the private sector, even organisations with sophisticated and mature procurement capabilities can nevertheless typically achieve an additional 5-10% in savings by adopting new processes and utilising advanced spend analytics and technology. Governments – who are often more fragmented in their spending and have smaller procurement organisations – can gain even more.

As an example, Opera Solutions' analysis, conducted on a sample of the recently released local authority spend data, suggests potential savings of 10-20% in three "non-mission-critical" categories we selected – up to £10B of potential savings across local government.

The 10 - 20% solution

We tested how effective this approach would be in local government by analysing purchasing data publicly released by three adjoining local authorities. We broadly categorised the data and reviewed them to identify key opportunities. For example, we compared prices for the same goods and services among the three authorities, and looked for ways to leverage buying power through consolidating spending. For the purposes of this analysis, we focused on three categories with little impact on local authority service delivery.

The results follow: **£1.4MM in potential savings among the three local authorities**

Spend category	Number of suppliers	Predicted annual spend	Opportunity	Estimated saving
Energy	8	£6.6MM	10% by all taking best available price	£661K
Mobile phones	3	£600K	20% by all taking best available price	£133K
Solicitors	23	£6.4MM	Minimum 10% volume discount to consolidating to three main suppliers	£642K
Total				**£1.44MM**

The delivery challenge

The possibility of savings exists, but today, it is not being captured. Why? The main obstacles: lack of comparable spend data, coupled with operating models that fragment spend by giving individual government functions control over their spend activity.

Lack of data

Although local government spend information is now being published, there are, as yet, few mechanisms to consolidate and compare spend data within organisations and across them. Without detailed comparable analyses, opportunities for spend leverage cannot be identified, proven, or acted upon.

Fragmentation

The local government operating model also presents challenges. First, by organising around service directorates, spending decisions can be fragmented – especially if a strong procurement function is not in place. Second, officers fear losing control of costs, which they have a duty to control, if spending decisions are shared across local government organisations.

These operating model issues have historically limited local governments' ability to effectively consolidate spending to gain negotiating leverage.

However, today there are strong incentives to change this. Local government organisations are under much higher cost pressure than they have experienced in recent years. Because, typically, 50% of all costs are with external suppliers, the pressure is now high enough for organisations to make changes to the way they purchase.

The procurement journey to leverage savings

Opera Solutions has successfully completed procurement optimisation projects for hundreds of organisations around the world. Our experience has taught us that there is a five-step approach to optimising procurement spend.
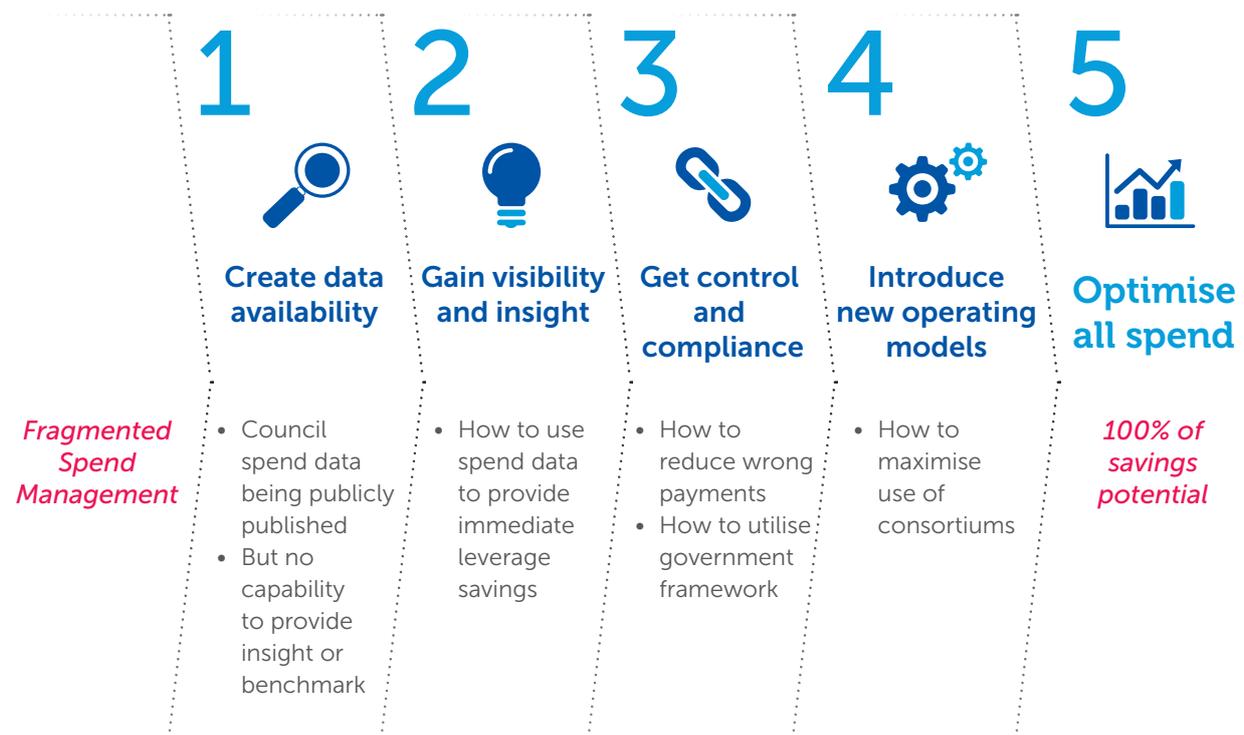
The new requirement that local authority spend data be made public has moved local government into **step one** of the procurement journey. By doing this, a big disparate dataset is being generated, but there is no mechanism in place to turn it into useable information. This dataset has no standard method of categorisation and presentation so local authorities cannot easily compare, share, and benchmark. To gain real insight into savings opportunities, local governments need access to spend analytics to sort, consolidate, and categorise, followed by deep analysis so action can be taken.

By moving to **step two**, significant potential can be released, as local authorities can easily target and execute opportunities.

By maintaining a visible spend dataset, **step three** can be achieved, enabling monitoring and compliance, as well as reducing fraud and payment errors.

As the easier-to-deliver opportunities are exploited, new operating models will need to be created where local authorities set up consortiums and engage suppliers differently to achieve the hard-to-deliver savings. By reaching **step four**, local government can fully leverage spend and break down the barriers that have stopped optimal procurement in the past.

The procurement journey

1	2	3	4	5
Create data availability	Gain visibility and insight	Get control and compliance	Introduce new operating models	Optimise all spend

Fragmented Spend Management

|				
• Council spend data being publicly published • But no capability to provide insight or benchmark	• How to use spend data to provide immediate leverage savings	• How to reduce wrong payments • How to utilise government framework	• How to maximise use of consortiums	*100% of savings potential*

How Opera Solutions can help

Lever 1: Using technology to create deep visibility

Granular, deep spending visibility can be hard to achieve for many institutions. Data on spending often reside in multiple disparate systems, including accounts payable, charge card records, and purchasing card details. In addition, price, volume, and other line-item details often reside only with the vendors; specific usage data are frequently missing or extremely difficult to obtain.

Opera addresses these issues through Insight Cube™ technology, which creates deep visibility into spending information with extraordinary speed and precision. This proprietary data structuring and analysis capability enables rapid data consolidation, even with varied formats and disparate sources. Because Opera has developed over 100 "category schema" for different spend

areas and loaded them into the technology, Insight Cubes can quickly integrate and organise internal spend data. They can also rapidly incorporate external vendor information, as well as internal contract information to provide instant analysis along every relevant spend dimension.

Insight Cubes provide a complete look at all of an organisation's spending so all opportunities can be rapidly identified and captured. Insight Cubes also give you access into your spending data at a whole new level of granularity. You can easily drill down into specific categories of spending and examine data along any dimension, down to the individual invoice level. And Insight Cubes can be developed quickly — typically within four weeks of receiving data.
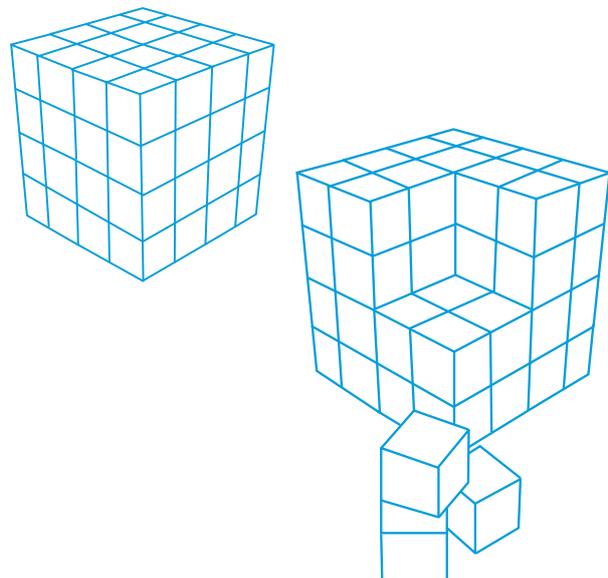
Lever 2: Leveraging domain-specific knowledge

Often vendors have more information on your spending than your organisation does. This can give them the upper hand in negotiations. Supplementing your team with domain knowledge is critical to capturing all of the savings identified through the in-depth spending analysis.

Opera provides procurement optimisation and strategic sourcing expertise in the following areas:

- Insight into key demand drivers
- In-depth knowledge of supplier landscape
- Alternative operating and contract structures

For complex expense categories where deep domain expertise is required, Opera deconstructs demand patterns and contracts, minimising redundancies and creating alternatives to capture full savings opportunities. Opera's global pricing and supplier databases help you design better contract structures and wider vendor sets. In situations where suppliers and terms cannot be changed, Opera will recommend modifications to internal processes to reduce demand or drive spending to lower-cost options.

Lever 3: Turning around low-leverage situations

In some spending categories, organisations have limited leverage due to unique products, multi-year contracts, high switching costs, or a limited number of suppliers. In these cases, Opera finds creative ways to drive costs down – through either demand management or intense supplier contract and cost deconstruction. Reverse engineering supplier costs and sources of profits can identify new points of economic leverage. And creating alternative demand usage scenarios can generate

competition among suppliers as well as change demand patterns internally to your organisation's advantage.

For example, using tier two vendors for certain activities can result in a better cost structure. Determining which activities the tier two vendors can perform must be done thoughtfully and strategically, but can be effective in capturing savings in a low leverage situation by reducing dependence on a single provider.

Lever 4: Bringing operating models up to date

Certain supplier markets are undergoing radical transformation because of the forces of technology and globalisation. In some expense categories, maximising and sustaining savings requires revamping the entire operating model. Opera partners with clients to work as a catalyst to help buyers:

• Shift to a lower cost structure

• Leapfrog existing technology platforms

• Realise transformational savings

Where appropriate, Opera can provide end-to-end services to capture savings through new operating models. For example, by establishing purchasing utilities around high impact, complex commodities, organisations can capture ongoing savings through improved rates, enhanced demand management, and increased vendor compliance.

Lever 5: Managing the "long tail"

While organisations spend a significant amount of time negotiating with and managing their key vendors, they typically pay less attention to the "long tail" of small vendors who, together, may comprise a significant portion of their spend and potential savings opportunities. This group of vendors is often a rich source of additional savings. But this spending usually does not fit neatly into any commodity hierarchy.

Opera helps organisations create — usually for the first time — deep visibility into this "tail," and then implement approaches to shrink tail spend. Capturing these incremental savings is a data-intensive exercise, requiring:

• Classifying non-categorised small vendor spend into appropriate addressable clusters
• Removing non-specific general ledger codes
• Developing process controls to eliminate maverick non-contracted spend
• Consolidating small vendor volume into larger vendors to realise better rates

Lever 6: Reducing both financial risk and internal resistance

Organisations can be resistant to new ideas and approaches, making it difficult to institutionalise new processes and procedures to ensure that savings continue to be captured, year over year. Opera addresses these issues in several ways:

- **We make it easy to work with us by offering flexible modes of engagement.** Clients may choose an end-to-end process that includes all diagnostics and execution of recommended actions to capture maximum savings across the entire organisation. Clients can also choose to limit a project to specific expense categories, such as: Legal Services, Printing, Advertising, etc. Clients may also choose to license Opera technology, including Insight Cubes and executive dashboards, to enable their ongoing procurement optimisation process.

- **We require very few resources from our clients – and take their data as we find it.** While we are always happy to partner with internal teams, we do not require a high level of support from them in order to identify and capture savings. We do not need ongoing IT support nor do we ask that organisations themselves clean, structure, or integrate data from disparate sources.

- **We reduce financial risk and exposure by offering flexible compensation models**, which can be tied to the savings we generate. We are happy to explore gain-share arrangements with you. Our goal is always to ensure projects are additive to the public coffers.

- **We create ongoing savings.** We leave you with Insight Cube technology, training, and processes that ensure that savings continue to be captured, year after year.

The savings opportunities are there. We look forward to helping you realise them.

For more information, or to contact us, click **here**.

ABOUT OPERA SOLUTIONS, LLC:

Opera Solutions is a global Big Data analytics company. We combine our Vektor™ technology platform with advanced science, machine learning expertise, and business acumen to create and provide ongoing delivery of powerful solutions that turn Big Data flows into profit growth and strategic advantage.

Opera Solutions, LLC has been designated a Minority-Owned Firm by the State of New Jersey, the State of New York, the State of Delaware, the State of Illinois, the State of Virginia, the City of New York, the City of Philadelphia, Cook County, Illinois, and the Port Authority of New York and New Jersey. Opera has pending minority status with the State of Massachusetts. Opera Solutions is also a member of the New York & New Jersey Minority Supplier Development Council, the Greater New England Minority Supplier Development Council, and the Southern California Minority Business Development Council.

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