Develop Commodity/Service Strategy

Commodity Service Strategy v Procurement Strategy

A commodity/service strategy should not be confused with a Procurement Strategy.

Further information on **Procurement Strategy requirements** can be found in the Additional Resources.

A commodity/service strategy is effectively a purchasing plan for a particular good or service i.e. it documents your sourcing strategy.

Key components of a commodity/service strategy with the suggested minimum requirements are included in the document section below.

Further information on **Procurement Strategy requirements** can be found in the Additional Resources dropdown.

Main Subject of the Contract

If your procurement includes both goods and services your approach should be determined by the main subject of the contract. For example if the services/goods subject split is 60%/40% respectively by estimated value then the entire exercise should be treated as a services procurement exercise.

If your contract consists:

- partly of services and partly of goods
- partly of social services (or other specific services listed in **schedule 3** to The Public Contracts (Scotland) Regulations 2015) and partly of other services,

then the main subject of the contract is determined by which of the services or goods has the highest estimated value.

(Please note: the Procurement Journey does not cover procurements which are works contracts or contracts that include 'utility' activities e.g. running tramways. This includes works/utilities contracts whose elements:

- **cannot be separated or**
- **which can be separated but are the main subject-matter of the contract).**

Care and Support Services

Open or close

Please consider Strategic and Public Social Partnerships; further information is provided below.

Additional guidance on determining the type and duration of the contract, and on transitional arrangements can be found in the **Care and Support Services Contract Type, Duration and Transitional Arrangements.**

Conflicts of Interest and Fraud

Open or close

As with other stages of a procurement exercise, you must consider conflicts of interest and fraud as part of the Commodity/service strategy stage. This must be in line with relevant procurement legislation and your Organisation's own governance procedures.

You must ensure that you take all appropriate measures to prevent, identify and remedy conflicts of interest. You must include measures to combat fraud throughout your procurement exercise.

Strategic Partnerships

Open or close

Your Organisation may seek a long-term strategic partner or partners e.g. for a period of 10 or 20 years. This may be to redesign and achieve major changes in

service delivery and/or the use of resources.

For example, your Organisation may work with a supplier(s) to determine what range of services could be provided within available resources. This would be instead of tendering for particular services. In this situation, the choice of strategic partner(s) should be transparent and through a competitive process in accordance with the public procurement rules.

Public Social Partnerships (PSPs)

Open or close

PSPs are strategic partnering arrangements. These are based on a co-planning approach where the public sector can work with third sector organisations. In such cases you would share responsibility for designing services based around service user needs.

The Scottish Government has published guidance on developing and running Public-Social Partnerships..

A PSP typically comprises three stages:

- third sector organisations work with public purchasers to design a service;
- a consortium of third sector organisations(which may also involve the public sector) conduct a short-term pilot. This helps to refine service delivery limits and maximise community benefits; and
- if the service is deemed successful, commissioners then consider the most appropriate approach to sustaining the PSP. This could involve a competitive tendering process but other methods of securing service delivery should also be considered.

You should also consider the current and possible future relationships between the Public Body and the Supplier. You should demonstrate how you intend to develop any relationship with a potential supplier going forward.

Joint Procurement Exercise

Open or close

If you are entering a joint procurement exercise with one or more public sector organisations, you must agree the legal status and requirements of such an exercise at this stage.

You Organisation may either:

- agree a “lead” authority at this stage. Legally, this lead authority will be the organisation responsible for forming the contract with the successful supplier(s), or
- enter a truly “joint” exercise. This is where the conduct of the procurement is carried out in the joint name(s) of the participating organisations.

In either of the above cases, the organisations are jointly responsible for ensuring they comply with all relevant procurement legislation.

Sometimes you could consider having only part of the procurement operating as a joint exercise. In such cases the organisations would be equally responsible for any joint areas. and retain sole responsibility for their own areas.

Other practical areas to consider and plan at this stage include:

- the responsibility for contract management;
- how Key Performance Indicators (KPIs) will be managed and communicated and
- the reporting / communication network that will be needed between organisations and potential supplier(s)
- whether a Framework Agreement would be more appropriate than a contract. If so, how would the call offs and management of same be conducted

The Strategic Positioning Action Plan

Open or close

Having considered the previous points you can identify the position of your commodity/service as either Leverage, Strategic, Routine or Bottleneck. The Strategic Positioning Action Plan provides guidance as to the procurement approach you should adopt in each of these circumstances.

These suggested approaches provide a starting point on how to proceed with your commodity/service. You must define these further still by looking at your specific commodity/service and the opportunities already identified using the Best Value Triangle.

Best Value Triangle Characteristics

There are many characteristics to Best Value that public service organisations are expected to demonstrate. Some relating to procurement are as follows:

- Purchase Demand Management
    - Reduce consumption
    - Consolidate spend
    - Improve specification
- Supply Base Management
    - Restructure relationships
    - Increase competition
    - Restructure supply base
- Total Cost Management
    - Optimise total supply chain costs
    - Reduce total life cycle / ownership costs
    - Reduce / eliminate transactions

Fair Work Practices

Open or close

In line with **Statutory Guidance** before starting your procurement you should consider whether Fair Work Practices are relevant and proportionate. If so, you should include a question/questions on Fair Work, to be evaluated along with other relevant criteria. Your question(s) should be informed by the results of your pre-market engagement.

In line with **Statutory Guidance**, published under the Act, you should consider including a statement in your strategy outlining your commitment to implementing **Fair Work First**. The statement should highlight a range of approaches that you may use to promote Fair Work First. That strategy must include a statement on your general policy on the payment of a living wage to those delivering contracts where the value of your regulated contracts in a year will be equal to or greater than £5,000,000.

By reporting and monitoring the delivery of intended sustainable outcomes, such as Fair Work First, you can more easily demonstrate how you are complying with the Sustainable Procurement Duty.

General Data Protection Regulation (GDPR)

Open or close

Organisations must determine if data processing activities are relevant to the commodity/service which is the subject of the procurement exercise.

Organisations must ensure that current and future procurement exercises (including contracts entered into before the legislation came into force) are compliant with GDPR and all relevant procurement documents make reference to the new legislation.

More detailed information on GDPR can found in **Leadership & Governance.**

Cyber Risks

Open or close

Cyber Risks

If the contract will involve, support or rely on the digital processing of information, organisations should ensure that appropriate consideration is given to potential cyber risks and their management.

Further information on how to assess and manage cyber risks as part of the procurement process can be found in the Scottish public sector **Guidance Note on Supplier Cyber Security.** Buyers should assess cyber risks and develop minimum cyber security requirements as part of award criteria, if necessary.

SMEs, and Third Sector Supported Businesses

Organisations must consider how their procurement processes can **facilitate the involvement of SMEs, third sector bodies and supported businesses**. These suppliers may have characteristics that give them competitive advantages over larger organisations which may include:

- **Better levels of service** - relative to large bidders, your Organisation's spend will represent a much larger proportion of an SME's turnover. As a result they may value you more as a customer. You may receive a better and more personal service;
- **Lower overheads** – small bidders' running costs will usually be lower than those associated with larger organisations;
- **Innovative business solutions** - potential for taking a new approach to requirements, e.g. early exploitation of new technology, or providing products or services in new/underdeveloped markets;
- **Greater flexibility** – their size lends them to being able to tailor solutions more effectively, e.g. short management chains and approval routes;
- **Specialism** – many are set up to cater for niche markets which may better match requirements;
- **Increased competitiveness in the longer term** - rather than limiting competition to a few large bidders (who may be familiar with each other's operations) inclusion of smaller bidders may lead to an increase in competition.

Compliance Issues and Strategies

Open or close

You should consider how you will ensure compliance to the contract.

Compliance is required from all parties throughout the whole Procurement Journey. Governance arrangements, management and budget holder behaviours are key to ensuring compliance.

The Components of a Compliance Strategy document should encourage maximum uptake of a new contract. Members of the User Intelligence Group (UIG) should champion the contract. Commitment from users should be obtained for the proposed strategy options.

Commodity/Service Strategy Options

Open or close

There will be a number of potential options which are applicable to any commodity/service. These will vary with the type, size and complexity of the requirement.

In all cases, you should consider a 'Do Nothing' option as a benchmark.

The Commodity/Service strategy should include a summary of options that clearly details the:

- benefits,
- costs and
- risks

associated with each option. These should demonstrate compliance with any legal obligations. This should help the selection of the required Commodity/Service Strategy option to be pursued in the short, medium and long term.

Estimated benefits within a commodity/service area can be obtained from sources such as:

- benchmarking,
- market testing,
- market trends,
- past discounts and
- previous experience.

Identification and assessment of “softer” benefits should be undertaken at this stage.

Costs to implement sourcing strategies include:

- contract switching costs,
- supplier switching costs,
- resource investment,
- communications and roll out and
- cost of going to tender

The Options Appraisal summarises the various delivery options, considering the benefits and risks of each before selecting an option for recommendation.

The recommended option must satisfactorily meet the requirements, be affordable, viable and agreed with the UIG.

Division of Contracts into Lots

Open or close

You must consider awarding your contract in separate lots. Division into lots can increase SME participation.

Where you decide not to award a contract in the form of lots, you must indicate the main reasons for not doing so. These reasons must be included in the relevant Procurement Documents, or in the procurement exercise **written report.**

Potential reasons for not subdividing contracts into lots may be:

- that it would risk restricting competition,
- it would make contract execution excessively technically difficult or expensive, or
- the need to coordinate the different contractors for the lots could seriously risk undermining the proper execution of the contract.

You must state in the relevant Procurement Documents, whether bids may be submitted for one, for several or for all lots. Where more than one lot may be awarded to the same bidder contracts may be awarded that combine several or all lots. You must have specified this can happen and include the groups of lots that may be combined. If you use this approach, you must think carefully about how the relevant evaluation matrices will assess all possible scenarios.

You can limit the number of lots that any one bidder can win. To do so you must state the maximum number of lots per bidder in the relevant Procurement Documents.

Where the application of the award criteria would result in one bidder being awarded more lots than the maximum number of lots per bidder, the Organisation would then apply the objective and non-discriminatory criteria or rules which must be indicated in the relevant Procurement Documents.

Sub-contractors

Open or close

During the **Profiling the Commodity** stage of your procurement exercise, you should have considered whether bidders may sub-contract any of the awarded works or services. If so, question 4.C.4 from the SPD should be included to be evaluated alongside other criteria at selection stage.

Confirmation of how bidders will ensure payment of sub-contractors at all stages of the supply chain pertaining to the contract, within the standard 30 day payment terms and how this will be managed should be evaluated at award stage.

Contract Implementation/Contract and Supplier Management

Open or close

There are separate stops on the Procurement Journey on **Contract Mobilisation and Implementation** and **Contract and Supplier Management** (C&SM).Your approach must be considered during this 'Develop Commodity/Service Strategy' phase.

You must consider how the proposed options will operate throughout the life of the requirement. For example, if you decide to use an existing contract or framework agreement the contract implementation and management will be covered in the framework terms and conditions. These must be complied with in full.

You must think about how the new goods or services will be introduced into your organisation. Also how will you move from your existing arrangements to the new arrangements?

You should also consider your transition or exit strategy for when this new contract or framework agreement comes to an end.

Once fully operational you should manage and develop the contract and supplier(s) to ensure the contract requirements are met now, and in the future.

You must consider the resources required to implement and manage the contract or framework agreement. A designated contract manager should be identified. Additional guidance can be found in the **Planning & Governance station**.

You should detail the CSM requirements in the contract or framework agreement terms and conditions. This will ensure both parties are clear on their contractual

obligations. The contract should then be managed in accordance with these terms and conditions.

The level of CSM required depends on the risk, value and complexity of the contract. You will find guidance to help assess the potential level management of CSM required in the Contract and Supplier Management / Planning and Governance station.

Generally, "Routine" contracts will require a lower level of management than "Leverage" and "Bottleneck" (medium level), and "Strategic" which will require the highest level.

There may be opportunities for your organisation to make its own internal processes more efficient. Some of the key areas to consider during the procurement process are:

- Use of **PCS-Tender**
- The transactional procurement process: requisitioning, authorising, raising and sending purchase orders, goods receipting, invoicing and payment

Further guidance can be found in the **Planning & Governance station**.

As with all aspects of the Procurement Journey, the activities at this stage must be carried out in a carefully managed manner that supports the **Principles of Procurement.**

Useful documents are shown below

Commodity Service Tree

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CSS Service Tree

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Develop Strategy Document

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Supply Market Sources

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Components of a Compliance Strategy Document

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Strategic Positioning Action Plans

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