

The Sales & Marketing Forum

A very public affair: What will it take to become a partner for the public sector?

Tuesday, 11th May, Soho Hotel, London

The Soho Hotel was once again the recent scene of the TMP S&M Forum where we deviated slightly from tradition and went vertical – the challenges of marketing and selling to the public sector.

Apart from that, the usual recipe for success was followed; senior decision-makers providing candid, first-hand views ‘direct from the front line’; a host of attendees from leading technology and service providers; cocktails, wine and an open forum for lively discussion.

Why go vertical, and why the public sector? Well, based on sheer size and volume, the public sector features highly in many of our client’s customer lists and is of massive importance. It can also appear something of a closed shop, hard to penetrate, and gaining a glimpse into the procedures, processes and personalities of this unique operational landscape was fascinating. Finally, our timing was opportune, with the coalition government announced live during the Q&A session, and the change this has already initiated is expected to have a huge impact across the IT sector.

Discussions centred on four main topics, that we will be expanding over the next few pages:

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Why is selling to the public sector so important?

Put simply, annual government procurement is huge – at £220 billion it represents:

- £3,500 per Adult and Child pa
- One Sixth of UK Gross Domestic Product (GDP)
- 0.75% of Global GDP

Of this spend, 65% is non-central government, with 50% of that spent on common categories, goods and services. It has also proven essential to bringing the country as a whole out of recession, with private sector spending not expected to grow beyond 0.2% in 2010, public spending is anticipated to support 1.2% growth.

These numbers however have yet to survive the fiscal policy of the new government, and planned cuts in budget could reach 25-30% in some areas. As procurement will represent around 30-40% of any total cost, clearly there will be an urgent need to identify areas for savings and operational efficiencies.

Gain access to key insights:

- The size and complexity of government procurement
- The challenge of effective engagement
- The differences between public/private sector procurement
- The impact of reduced budgets
- The type of value propositions that will resonate
- The minimal cash savings you will need to demonstrate

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Why is selling to the public sector so challenging?

Effective management is an essential component to reducing the public spending deficit and delivering government procurement policies - but what we find is a procurement landscape littered with confusion and no clear distinct responsibilities.

Central government has major departments focused on delivering large-scale procurement contracts, working alongside various specialist procurement organisations such as NHS outsourcing. In addition, there are over 40 buying agencies, many in direct competition with each other, several thousand small to medium procurement units and over 40,000 procurement points.

The fact that these numbers are not confirmed – in fact even the number of £220 billion for total government procurement is an approximation – points to the haphazard and undefined nature of existing financial visibility. It is this complexity and confusion that is seen as a contributing factor to the problems and unnecessary costs of selling into the public sector:

- Different tender procedures
- Multiplicity of tenders and specifications
- Multiplicity of ‘duplicate’ contracts and contract managers
- Inconsistency of capability, expertise, processes
- Inability to introduce best-practice procurement techniques

In response, the National Audit Office and the Audit Commission have recently called for public bodies to work in greater harmony to maximise savings from procurement activities. Highlighting the fragmentary procurement landscape as a source of inefficiency, the report details the problem of duplicating procurement activity and a current inability to maximise purchasing power.

These are areas of concern, but they do not fundamentally differentiate public and private sector procurement. The strength in both usually resides in the individual not the collective – great policy makers but not great policy teams, leading to different departments following different procedures without any formal clarity of relationship. The result, even at Whitehall, can often be described as utter confusion.

The biggest difference is in engagement, and specifically in creating and developing meaningful commercial relationships. Civil servants are categorically not allowed to have any kind of relationship with suppliers – the Civil Service Code has recently been enacted into law, and prescribes exactly how government officials can interact with vendors and external experts.

As a result, people from the public sector have to be very careful, especially during any tendering process where even a simple dinner arrangement could open them up to legal recriminations. This is very different behaviour to the traditional lunching and corporate hospitality of the private sector, and in itself warrants a radical change in engagement strategy.

The actual procurement process, once any decision taken, is usually long, complex and drawn out. Approval by many committees is the order of the day to actively demonstrate that no one individual is responsible - hence the slowness of government procurement. The process itself is now far more formalised due to EU procurement directives, and these have to be rigorously followed to avoid open challenges in court.

The question is therefore how can product and service suppliers identify and act on opportunities in this challenging environment?

There are, as was confirmed during the Forum, excellent central buying departments, but many of these require reinforcement and the mandate to manage large procurement contracts for local as well as central government.

What is the experience of procurement from the client's perspective?

It has been, and remains, a very difficult time to work in the public sector; since the beginning of the economic downturn, and certainly including recent political developments, the situation has been described as 'unprecedented'.

It has certainly halted the practices leading up to this period of austerity, for the last five years government procurement has been at an all time high – a sense that there was nothing that couldn't be done in an era of £100 million IT projects calculated to begin delivering value over 5 years, or £200 million deals delivering over 10 years.

This was perfectly acceptable in a time of plenty.

But the era of billion pound deals is no longer sustainable in a time when the public purse is depleted. The concern is that government procurement advisors continue to adopt a mindset of plenty. Changing established views and practices is just one cog in the massive transformation that the public sector will be forced to pass through in the next five years, and vendors themselves quickly need to reappraise their expectations for long-term, high-value deals.

As previously mentioned, there is a general expectation that IT budgets will be cut by at least 30% in the coming weeks, and how to achieve this without impacting front line services is going to be the biggest IT challenge of the next five years. How will it be achieved? The general perception is that immediate savings can be achieved through squeezing profit margins on all subsequent supplier contracts. The question will be how sustainable is this practice and how sufficient will it be to meet the size of savings required?

Government will never undertake a contract with a vendor without certainty of supply – but they will be increasingly motivated to renegotiate contracts to deliver huge savings – and a large percentage of this will come from cutting into supplier margins. So we do indeed find ourselves in an interesting and challenging landscape!

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How can product and service providers best approach the public sector?

Despite a move away from large £100 million-plus IT contracts, the fact remains that the technological infrastructure in many government departments is creaking. The twin threat of obsolescent systems and an aging skills-base (the die or retire scenario!) places an increased need to invest at the point-of-need.

The only viable solution appears to a reduction in contract size – moving toward an average closer to £10-20 million – for smaller pieces of work, which in itself will lead to a significant difference in how public sector procurement will operate.

Efficiencies around travel, optimising the use and consumption of consumables – basically every opportunity for cost savings – will be explored. But this activity will consume management time, which in itself is quickly turning into a vital and scarce commodity. The direct impact of this will be to further reduce the time vendors have available to connect with government and pitch new products or services, as the management time to assessing these value propositions will simply not be available. It is this dearth of management time that will soon turn into the biggest obstacle to sales prospecting.

Hence why the focus is now firmly on vendors who can demonstrate a clear saving of over £10 million in year one with minimal up-front government investment. For public sector procurement teams this is the minimum amount required to gain their interest and justify management time, and in particular a £10 million saving that does not include or involve headcount reductions. If you can do this, they will listen and the Treasury will still provide funding.

The experience of many senior procurement officials is that many suppliers claim to offer all the answers to their problems – and some actually do. The trouble is that most business cases brought before the public sector collapse because they do not help address the ‘big game’ – the immediate and urgent need to find ways of taking massive amounts of spend out of government operations.

Innovation remains important, but only if it resonates with the pressing objective of solving the problems created by the budget deficit. What we don’t need right now is innovative technology that can and is being sold to a wide variety of business sectors promising complex technical benefits. These products may provide state-of-the-art solutions to architectural issues that have plagued IT departments up and down the country for years – but if they don’t help reduce the budget deficit, the answer is almost always going to be no, at least for the foreseeable future.

Also, if vendor does turns up with a credible USP, our first question will always be “are we going to have to run competition?” – competition being the tender process. Can we think of a way not to have to do this? If the supplier is so unique and we don’t run tender, then this saves untold monies and management time. If not, we are forced to go to tender, which is frustrating for the procuring organisation as well as for vendor as a general loss control is soon observed.

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In conclusion

There are currently a wide range of macro-economic forces strongly impacting on government procurement strategies in addition to the long-standing issues caused by the high cost of outsourcing, long time scales, complex procedures and specifications, and different finance and procurement systems in use across the public sector.

The outsourcing industry needs to create a vision for public service delivery, and to take the lead in eliminating obstacles and developing a model, best-practice approach. This needs to be a firm proposition that highlights to the new government exactly what can and what can't be delivered by the public sector, the strength and blend of competencies between the public and private sectors, and where outsourcing projects can quickly lead to measurable cost savings. In reality there is very little that can't be outsourced by government – even Whitehall policy work can be outsourced! – and if public sector management have the ambition and vision to follow a more ambitious outsourcing policy there is estimated a further £100-150 billion of services that could be run by the private sector.

The implications of a new government determined to significantly reduce government spending are massive, but this drive to cut costs also represents an outstanding opportunity for technology vendors to demonstrate options for driving operational efficiency and effectiveness. The baseline objective of any supplier should be to demonstrate an ability to deliver savings in the order of 25-30%, either on previous contracts or as process savings. Do this, and they will be ideally positioning IT as a force of innovation as well as equipping public sector workforces for future challenges.

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