

Framework Agreements – can one size really fit all?

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Abstract: *Framework agreements and contracts are seen as a fast-track, low-cost, low-risk procurement route for public sector bodies. Organisations such as the “Pro5” local government buying units, OGC buying solutions, the Cabinet Office, DfES and HMRC have invested much time and effort in putting these arrangements in place through competitive processes and most are available across the public sector. However, framework agreements are not a silver bullet and although their use might be appropriate for one-off purchasing, organisations considering using them for more complex outsourcing transactions would be well advised to consider them as only one option among many and to make an objective assessment of the benefits and potential drawbacks of this approach when developing their sourcing strategy.*

Framework agreements and contracts are seen as a fast-track, low-cost, low-risk procurement route for public sector bodies. The Office of Government Commerce (OGC) gives the following advice:

“Using pre-existing contracts and frameworks can deliver significant efficiency savings for your organisation. By aggregating your demand with that of other public sector organisations, you can achieve extremely competitive prices. And because all the contracts... have already been competitively tendered and are open to other public sector organisations, you can make further savings on procurement tendering time and costs.”

Indeed it is logical that use of a framework contract will reduce transaction costs and the amount of time taken to get to contract signature which, in itself will allow the business case benefits to be realised earlier. There are further advantages such as the ability to re-use previously developed specifications and contracts instead of reinventing the wheel; access to pre-configured service elements and an established service model; clear and committed commercial structures; access to economies of scale; and the confidence that comes from applying “best practice”, or at least proven practice.

It sounds compelling, but is a framework always the right route and can their “one size fits all” approach work when the hurly burly of real life means that each public sector body can be defined by its differences? If a framework is appropriate then it can deliver tremendous benefits as described above, but failure to undertake an objective assessment of whether it is appropriate may lead to an unsustainable relationship between customer and supplier; an undesirable outcome for both parties.

In fact, there are pitfalls presented by the use of frameworks which mean that their use should be carefully considered and weighed up. The principal objection is that any strategic sourcing initiative should be undertaken in order to achieve the specific objectives of the organisation, and therefore how can a framework (one size fits all) be the best solution? Although cost reduction is a common objective across local government, there will be other local objectives and considerations to be incorporated into the sourcing strategy such as local employment, inward investment or access to scarce skills. A framework is at best generic or at worst designed to achieve the specific ends of the originating or controlling body and might compromise the ability to achieve these local objectives.

The commercial and legal terms of the contract should also be taken into consideration. Do they offer appropriate levels of protection for your particular needs? Too much and you might be paying for more than you need, too little and you might find yourself exposed. Does the contract incentivise the behaviours that you desire from your supplier? Are the proposed service levels appropriate? Which terms are capable of modification and which are ringfenced? What is the consequence of changing them? Will there be a cost implication, or might modifying one part of the contract affect the coherence and robustness of the whole?

In private sector outsourcing suppliers always come to the table with “here’s a contract we have signed before, with one of our other clients”. And in every case, our client insists on going through (and probably changing) every aspect of the contract, including contract terms, commercial aspects, indemnities, service levels, etc. They don’t do this just for the sake of it; they do it because their circumstances and needs are different from the last client the supplier “signed up”. So, whilst frameworks may be great for procuring simple, repeat goods or services, in the context of complex outsourcing contracts, we question whether such a one size fits all is appropriate.

If the new supplier relationship is going to fit into a portfolio of existing contracts then another important consideration is whether the governance structure included in the framework contract fits with the current governance processes and if not, whether it can be modified. Further, internal competencies in supplier management and maturity of the internal processes will affect whether the intended benefits of the contract will be realised.

In fact, the use of a framework is an interesting option that should be considered as part of the sourcing strategy development alongside the other available options, through a structured, objective analysis. The other options might include re-engineering the internal function, going out to a full procurement or collaborating with local or neighbouring bodies. A clear understanding of the costs and the benefits of each approach, along with the risks of each and the differing internal competencies that would be required to implement each change successfully will enable a dispassionate assessment of which option will best allow the organisation to achieve its objectives.

When searching for the perfect suit, if you are a “standard” shape, then off the peg is a great way to buy – it’s quicker, cheaper and will fit well enough. But if you are not a standard shape, you will end up making compromises and may regret it. Creating the right outsourcing relationship is no different.

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