



# How to buy complex services.

**A step-by-step guide for procurement professionals  
involved in buying complex service categories.**



**A smarter way to work.**

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# Introduction.

## Buying complex services is by definition never going to be a straightforward process.

In some respects the traditional procurement approach has to be set aside and a more 'agile' approach adopted.

If you don't get the buying process right, you'll be accused of not understanding the business and run the risk of stakeholders buying extensively off contract. Your credibility will suffer. It's important therefore to deliver a thorough tender and pre-tender process.

This guide is aimed at procurement professionals and other stakeholders involved in the buying process. Whilst Comensura's expertise lies in the temporary, permanent and contractor labour as well as Statement of Works categories. We however expect this guide to be a useful accompaniment to

support the purchasing of other complex services, such as marketing, accounting, consulting, engineering, financial advisory, legal and tax, etc.

### What is a complex service?

We define a complex service as one that involves multiple stakeholders and multiple decision makers in the buying process and, often for strategic purposes, where needs will often change from day to day. The Chartered Institute of Procurement and Supply apply the following definition:

*“Complex procurement occurs when the specification is difficult or is an innovative or bespoke product or service. Therefore, procurement becomes higher risk to the organisation given the degree of competition which*

*is often restricted to a limited market. The contract will often be more detailed and agreed using different commercial models.”*

Basically the buying of complex services is by definition, complex. This therefore requires the buyer to develop

a far broader understanding of the service, stakeholder requirements and political ramifications, to ensure that the service is bought effectively.

Complex services often deliver outcomes on which your organisation is dependent. Stakeholder views and needs have to be taken into consideration. The tender process should not solely be about price negotiation.

# There are a number of complex services.



# Before you start.

If you want to buy complex services effectively it's important that you understand the service itself, the way that stakeholders across your business use it and the options that are available in the market.

If there are any gaps in your understanding try to address these before going to market. You may wish to:

- ✓ Engage external consultancy support
- ✓ Canvass the views of relevant suppliers
- ✓ Establish the views of stakeholders

The aim of all this pre-tender work should be to not only fill the gaps in your understanding of the category, but also to establish the relevant factors that will define the success of the service.

We recommend three stages to undertake before you even begin the process of creating a tender specification.

**These are:**

1. Conduct a discovery analysis
2. Engage with stakeholders
3. Market test



# Before you start.

## 1. Conduct a discovery analysis

If all you know about the service is that you've paid supplier/suppliers a headline figure for it, then you should carry out some discovery analysis to get a feel for how those costs have been put together. A discovery analysis is research on the category to truly understand what is spent, with whom and for what reason.

For example, in the temporary agency staffing category, the unit cost for a worker supplied will typically consist of a number of components:

- ✓ Pay
- ✓ Employers national insurance
- ✓ Working time regulations
- ✓ Pension auto enrolment
- ✓ Agency workers regulations enhancements
- ✓ Margin

Agencies calculate their margins in different ways – some as a percentage of pay, some on pay plus statutory on-costs, some on pay plus some of the statutory on-costs and so on. Margins differ depending on the type of worker supplied and the level that they are at.

Pay rates for the same type of worker may be uneven. There may be stealth costs where actual usage has exceeded planned or permitted usage.

The best way of finding out this information is to ask suppliers to explain how their charges are put together and then make a comparison between them where like for like services are provided.

Better still, if you are considering managed services as well, find out if a managed service provider will do the discovery analysis for you and at **no cost**.

This is something Comensura undertakes for potential customers, as it helps us be clearer about the savings and benefits we can deliver.

If you are unsure of a process or require clarification, ask two or three suppliers for an explanation. You will be able to bypass any sales rhetoric where they provide common answers on the points raised.

**Smarter  
sees  
everything.**



# Before you start.

## 2. Engage with stakeholders

Imagine building a house for someone without consulting them on what they wanted, then asking them to pay for it. It's possible they might be happy with your choice of house, but equally likely that they might be slightly annoyed that you hadn't asked them what they wanted. If the house doesn't suit their purpose then there will be a problem!

The same principle applies for complex services – if the complex service forms an integral part of a stakeholder's delivery strategy, then they will most likely have strong opinions on the choice of service provider. Talk to your stakeholders, and find out what they want, but more importantly what they actually need.

Some stakeholders' views will be determined by brand or reputation, or by who has sold to them. Others may even gravitate toward a particular supplier due to long-standing relationships (often the case with agency staff usage). Most should however be able to cite specific qualities, experience or services that the supplier has to be able to deliver – these should therefore be noted as relevant factors to your overall evaluation.

## 3. Market test

It should be obvious that you should market test before tendering but in our experience, many procurement professionals don't, and make assumptions instead.

Some assume that market dynamics in the category have remained constant over a number of years. Some believe that they simply don't have the time to go to market.

Clearly if you don't know what the market has to offer, then you will not be buying effectively.



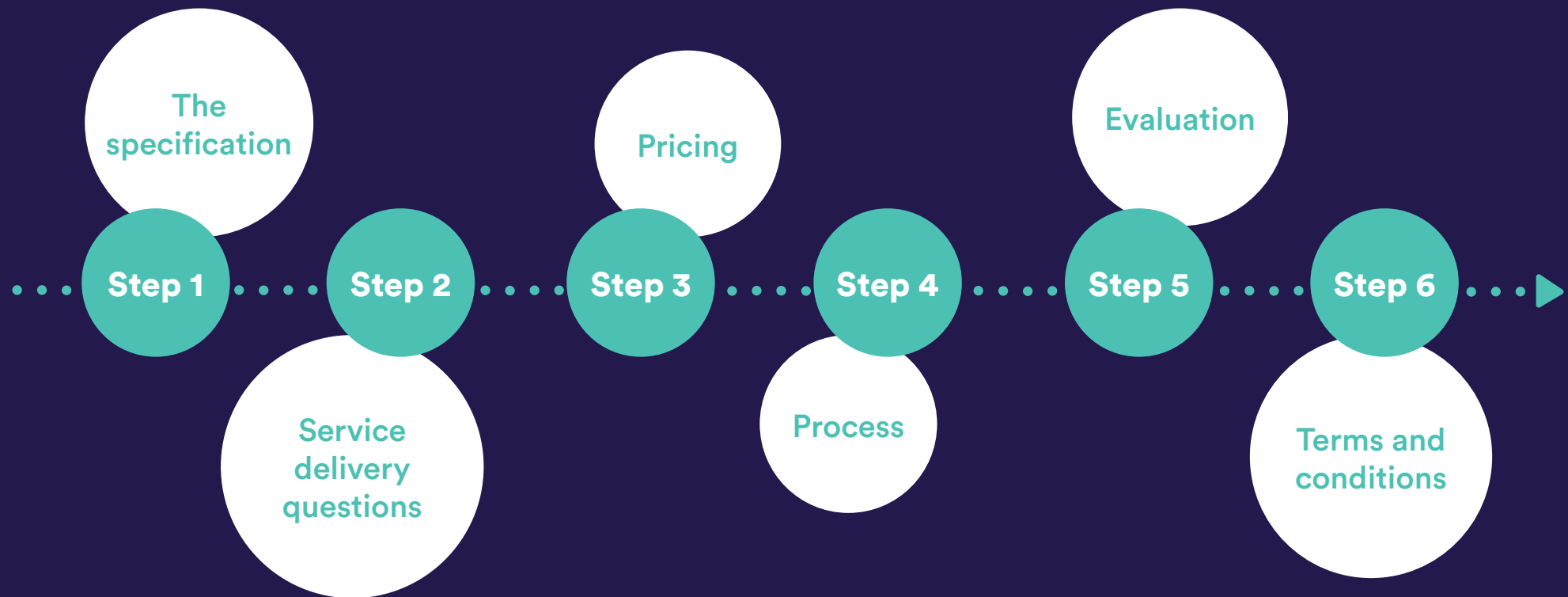
### The next step...

Once you have completed the three steps above and taken stock of the findings, you will be in a significantly better place to construct the tender process.

Some key steps on the tender process are highlighted on the following pages. These aren't meant to be definitive steps, rather key steps to follow and add to, subject to your own organisation's approach to tendering.



# The 6 steps to buying complex services.



# Step 1 – The specification.

The specification should provide a detailed outline of what you want from the procurement exercise; a summary of the service required, followed by a point by point synopsis of your expectations of each aspect of the service to be delivered.

## This will normally cover:

- ✓ Key aspects of how the service will be delivered on a day to day basis
- ✓ Account management
- ✓ Implementation
- ✓ Added value and continuous improvement performance indicator and measures
- ✓ Any applicable systems to be used

The specification should outline the benefits that you expect to receive and the minimum standards expected.

This should flow from your stakeholder engagement sessions and be placed into context of what offerings are available on the market and the outcomes of your discovery analysis.

Try to steer clear from asking bidders to create a service that doesn't currently exist. Some stakeholders will tell you what they want to see, but if the

market has no experience of delivering it you could be creating a recipe for disaster, and an expensive one at that. Where the stakeholder has a request for a technology based process to be incorporated, remember that the Internet and technology are powerful things, but even they have their limitations.

The more detailed the specification, the fewer questions you will get from bidders at tender stage, and the better the quality of response should be.





## Step 2 – Service delivery questions.

**The questions section should ask bidders to detail how they will deliver against the specification.**

Before drafting your questions have a think about the tender process and its different stages. If you are not planning to hold interviews with bidders then the tender responses should carry a high level of detail to enable you to evaluate the bidder properly. If you are interviewing bidders, it may be prudent to limit the word count on responses so that bidders provide a summary in the tender and a more detailed response at the interview. This is particularly important if you have asked stakeholders to attend the interviews as they are more likely to read tenders in advance where the responses are brief.

Some bidders will provide an executive summary of how they plan to deliver the service. This may be a generic summary or tailored to your specification. In order to assess bidders on a like for like basis we would recommend that the first question you ask of bidders is how they would deliver the specification. This not only ensures that you receive an executive summary from all bidders, but also enables you to identify those that have read the specification and those that haven't.

It's important to remember that the service you are tendering for is complex.

Use open questions throughout so that bidders can discuss their service in their own terms. Use generic questions for generic topics only – for example 'outline how your account management structure operates'.

If you are looking for a specific response, place a context to the question before asking how the bidder would act. You may want to incorporate stakeholder questions or concerns here.



## Step 3 – Pricing.

If you have carried out some discovery analysis prior to tender, or have asked a service provider to do this for you, you should have a good handle on the varying pricing structures associated with the category. Share the discovery findings with bidders in the tender process.

### Margin pricing

Wherever possible, be prescriptive over how providers show their margins. For example, in the agency staffing industry, some agencies apply margin to worker pay rate, whereas others apply margin to worker pay plus statutory on-costs. If the margin is in percentage terms, the latter approach therefore becomes more expensive. Make sure all pricing items are covered, and that you understand them fully.

### Gain-share or shared savings pricing

Shared savings models, where the bidder is expected to provide the service at a lower rate than you currently pay, retaining a proportion of the savings, can be fraught with problems if you do not fully understand the savings potential.

For example, if you are currently paying way over the odds, you may continue to pay above market averages in a shared savings model, despite the fact you are making savings. Conversely, if there are minimal savings and insufficient funds to sustain the incoming provider, you could risk agreeing an unsustainable deal.

If you have asked for pricing on a shared savings basis, ask the bidder to provide an explanation of what level of saving they expect to deliver and in what circumstances. Ask each bidder to explain their ability to deliver savings. This will establish:

- ✓ Whether stated savings are realistically achievable by the bidder without impacting service quality
- ✓ The bidder's ability to deliver savings in like for like circumstances
- ✓ Whether the bidder's pricing is sustainable.



## Step 3 – Pricing (continued).

If you have carried out some discovery analysis prior to tender, or have asked a service provider to do this for you, you should have a good handle on the varying pricing structures associated with the category. Share the discovery findings with bidders in the tender process.

### Gain-share or shared savings pricing

If you do not provide bidders with sufficient detail on your current costs, it is likely that bidders will provide gain-share pricing based on previous contracts that they have operated, or will caveat savings 'subject to audit/due diligence'. In any case bidders will not be pricing accurately, which may create additional cost, either straight away or further down the line as the contract progresses.

### Service provider fee

Try to establish what revenues the service provider will make from the contract. If the revenues are excessively low or high, ask the bidder to qualify these. The level of margin could reflect service quality, but equally could reflect how well the bidder controls costs, and leverages economies of scale.

### Add-on costs

Ask bidders to identify any potential fees that may apply outside of the stated pricing, and in what circumstances.



## Step 4 – Process.

**Having engaged stakeholders prior to going to market, it is advisable to incorporate them in the tender process.**

Complex services are often emotive for the stakeholders that use them, so it is important to involve them in the tender process so that they too become accountable for the choice of provider.

Given that the service is complex, it will likely attract different interpretations from different potential providers, so a supplier interview process with stakeholders involved is recommended, once bidders' submissions have been received and marked. If you don't involve stakeholders, you may find them exerting influence to delay or prevent an award of contract.

Encourage the stakeholders to ask bidders difficult questions. It is likely that stakeholders will focus on exceptions 'what happens if...' type scenarios. This is a good way of testing bidders' capability, cutting through the sales veneer.

Remember to send copies of the tenderers' responses prior to the interviews, or even better, be prepared to give stakeholders a high level overview of the suppliers' tender response. In our experience, stakeholders rarely read bidders' tenders prior to interview, and often at best print the tenders off on the day for a quick skim through.

**Set a timetable in the tender outlining key milestones:**

- ✓ Tender return date
- ✓ Date of supplier interviews
- ✓ Anticipated date for notification of successful and unsuccessful bidders
- ✓ Expected service go-live date

By providing bidders with a timetable you should be able to avoid spending time dealing with status update questions from bidders, as well as setting expectations internally.



## Step 5 – Evaluation.

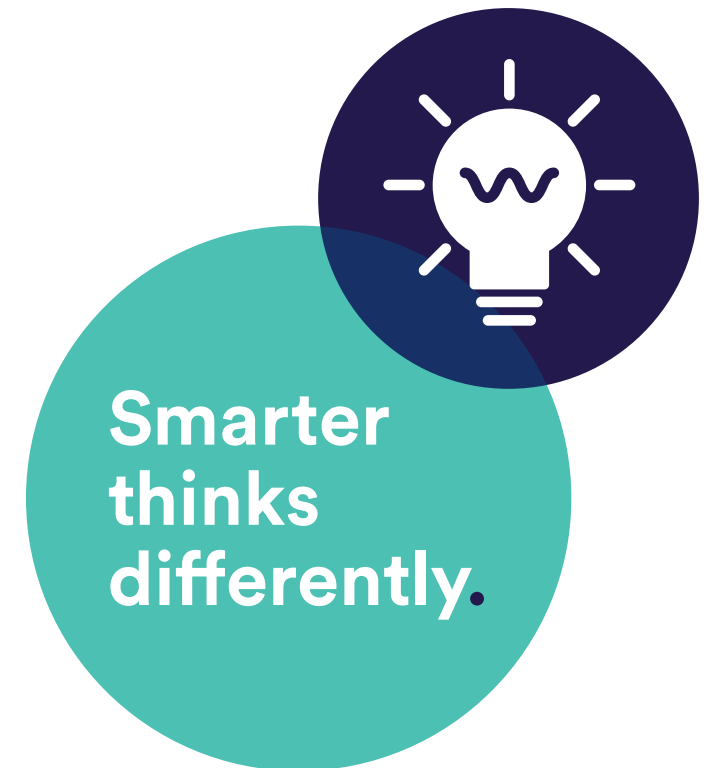
Once you have completed your pre-tender research and analysis, you should have established a number of relevant success factors, and have incorporated these within the service delivery questions and interview process.

We would not wish to be prescriptive about the percentage score weightings applied to service delivery, interview and pricing as these can be determined by a number of factors. You may be able to drive a harder bargain on price negotiation in a recession for example.

If you have market tested thoroughly and you understand the category you should be able to establish a reasonable picture of market provision. If all bidders are able to deliver the required success factors to an acceptable level, the weighting placed on price could be justifiably high. If it is obvious that some bidders deliver a low

level of service compared to others, a higher weighting on quality should be applied.

In terms of assessment, we'd recommend asking each evaluator on the assessment team to mark independently. This will give a balanced opinion when the results are put together. Evaluation by verbal consensus is very dangerous, as it can allow certain people to dominate or overtly influence proceedings.



## Step 6 – Terms and conditions.

**If you typically use a standard ‘goods’ contract, it is unlikely to be suitable for complex services.**

Ask bidders to provide their standard contract to use as a template upon which you can apply terms specific to your contract.

It's also worth asking bidders to provide their outline of a Service Level Agreement and key Performance Indicators. You need to make sure they are aligned to your procurement exercise. This is important to ensure service and performance meet your expectations throughout the contract.



# About Comensura.

**Comensura is obsessive about delivering a smarter way to work for customers with complex resourcing requirements. We give them access to the contingent and permanent labour they need through a network of specialist recruitment suppliers. Our independent approach helps them resource all their staffing requirements, with efficiency and control at every step.**

Comensura is a supply management specialist who manages the supply of temporary, permanent and consultant labour into large organisations in the public, private and not for profit sectors.

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