Additional CSM Guidance

Demand Management

What is Demand Management?

Open or close

Demand Management can be defined as:

“the alignment of a business’ consumption with its business requirements”

It is applicable to all goods and services where internal demand and consumption can be influenced to reduce costs.

Demand Management is a key aspect of effectively aligning external resources to meet requirements. When Demand Management is considered, it is often seen as a simple matter of stopping people spending money. However there are ways to look at Demand Management without completely preventing spend. These can provide notable savings and have a less drastic impact on the business.

Demand often results from internal practices and processes rather than from addressing a real need of the Organisation. The approach is about addressing change ‘in’ an Organisation. Therefore the starting point will be the culture, policy and behaviours of your Organisation.

Your Organisation can also participate by sharing best practice, benchmarking behaviour, creating policy guidance and undertaking peer review.

Demand Management can come at different points in the procurement process. For example, during the initial purchase point e.g. that software licences are purchased for the correct number of users at a single point in time. Demand Management can also occur in situations where costs are recurring as an ongoing activity such as in a category where spend is ongoing and regular (e.g stationery or postal services).

Principles of Demand Management

Open or close

Demand Management, including behaviour change, represents a significant and untapped opportunity.

In the short term	changing expectations
in the medium term	changing participation
in the long term	in the long term

There are 3 main principles of demand management:

1. Each business unit should have exactly what it needs in order to deliver its business objectives;

2. Any resources consumed above this level represents a waste to the Organisation;

3. There may be many and very different ways of meeting a user's needs. Each way represents a different level of resource to achieve the same outcome.

The three strategies listed below could be independently or jointly applied.

Eliminate	Is the requirement really needed? Can the consumption be stopped? e.g. cancel non-essential meetings, or stop the use of mobile phones for non-business calls.
Replace	Can we use lower cost or more effective alternatives? e.g. use video-conferencing for meetings or ensure non-confidential papers are not treated as confidential waste
Reduce	Can we use less of a product / service? e.g. don’t order a monitor with every PC purchase or, schedule meetings for the same day

With Demand Management you should consider:

- a reduction in the demand for goods
- if there is an option to use recycled goods to avoid buying new? Could recycled goods be supplied under an existing contract?;
- is there an opportunity to consolidate orders/ services to reduce costs?;
- improving your purchase to pay system to reduce transactional costs

Benefits of Demand Management

Open or close

There are a number of benefits to an effective Demand Management strategy. Many benefits are driven by:

- a change in the Organisation culture and outlook; and
- how goods and services are specified and requested.

When robustly implemented across all goods and services Demand Management drives public sector Organisations' efficiency and effectiveness. The Organisation uses all the external resources it procures to meet operational requirements.

The Demand Management process challenges the norms, standards, customs and practices of an Organisation. This is done to a degree not usually found in other processes.

Using Demand Management to prepare Strategic Sourcing, you can establish that the Organisation's requirements are sourced to a very specific level. This can avoid the development of a sourcing strategy for over-specified operational requirements.

Used routinely Demand Management can ensure the highest possible resource levels are directed at front line services. This is especially important in the public sector.

Forecasting Demand

Open or close

Consideration as to how the demand will be forecasted and fluctuations managed should be initially undertaken at the 'Shaping the Requirement' stage. This should be subsequently monitored and managed throughout the lifetime of the contract. Failure to do so could result in:

- excess material purchases and subsequent material write off/ waste disposal costs;
- inadequate material availability resulting in additional recovery costs and/ or service breakdown;
- excess, inadequate or inappropriately positioned resource;
- reputational damage as a result of service breakdown; and
- detrimental impact on the end user.

Effective Demand Management forecasts also give the supply base the opportunity to manage their costs. This can be achieved by positioning resource and materials in line with demand.

Demand forecasting should be based on considerations such as:

- historical consumption
- supplier lead times
- market forces
- service criticality
- key stakeholder input
- purchase cost; and
- information from other buying organisations, trade bodies and business support organisations e.g. Federation of Small Businesses and Chambers of Commerce, etc.

Where practical, you should look to reduce future demand and costs by using strategies such as:

- considering if there is an option to fully or partially transition to recycled goods, instead of buying new;
- reducing transactional cost by improving the purchase to pay system;
- innovating supplier(s) to reduce mutual cost which should have been previously written into the contract / agreement with the supplier.

For any supplier to operate effectively, it must understand and manage its demand. They can use this knowledge to tailor its resources and processes proportionately. This will ensure they deliver their service in the most efficient and cost effective manner. By understanding historical demand, an organisation can work with its suppliers to realise mutual cost and efficiency gains.

The most effective way to forecast future demand is to consider a combination of:

- historical demand;
- market forces;
- the Organisation’s business plan/strategic direction.

Forecasting is not an exact science and will never be 100% accurate. However these elements should provide sufficient information to allow the Organisation to develop forecasts. These forecasts should be accurate enough to accommodate demand fluctuations during the lifetime of the contract(s) with minimal cost.

The Organisation should ensure the supplier stays in regular contact with all key stakeholders (including other suppliers). This will ensure that all parties are aware of the supply/demand position, especially during periods of fluctuation.

Innovation/Value Add

Good Contract and Supplier Management processes should encourage both supplier and organisational innovation. It should be recognised that suppliers often have innovative ideas to improve their own and their customer’s service. However suppliers can be blocked in their attempts to put these ideas forward.

You should want to be a customer of choice i.e. suppliers will invest and bring innovation to the contract. You should adopt these behaviours and allow supplier innovation and added value activity to flourish:

Quickfire Guide

Quickfire Guide

How to Promote Innovation

- **Embrace your suppliers as an extension of your business.** Learn from their ideas and build open and trusting relationships where innovation will thrive.
- **Establish a culture of trust and encourage ideas from suppliers**, as they often know your business better than some of your own team.
- **Define and share your Organisation's definition of supplier innovation**. This way suppliers can understand your internal process, where they fit in and your expectations of them.
- **Share as much information as you can with your top suppliers.** The earlier suppliers can see your product / services roadmap, the sooner they can provide ideas to improve it.
- **Implement a consistent governance framework.** If a supplier's idea has potential, assign an internal owner to investigate and develop this ensuring there is accountability and development continuity.
- **Innovation does not have to be 'ground breaking'.** Even minor service or process adjustments can bring cost and/or efficiency gains.
- **Encourage collaboration within the teams.** Let them know there will be some ideas that will be more successful than others, but all ideas will be considered. Publicise and reward innovative contributors appropriately.
- **Publicise supplier innovation success stories.** A brief email outlining real supplier initiated added-value and the mutual benefits will encourage others to do the same.
- **Consider innovation as a standard KPI** and ensure innovation is on the agenda at performance reviews.

Innovation is a two way process. Your organisation should be equally active in exploring innovative ideas which will help your suppliers improve their performance and service delivery.

Data Protection

Open or close

Contract management activities must include sufficient checks to ensure suppliers are meeting their Data Protection Legislation obligations as the Processor. These checks may include audits undertaken by the controller or a third party auditor.

If obligations are not being met, organisations should take urgent remedial action with the supplier to address issues and risks.

More detailed information can be found in Additional Resources.

Overbilling

Open or close

Weak interactions between an Organisation's finance, commercial, and contract management functions provide an opportunity for fraud and overbilling. This could be as a result of error and inefficiency, or by deliberate intent.

Without basic scrutiny of payments and performance an Organisation's departments may rely on the supplier to interpret the contract correctly which may result in errors . Better scrutiny of payments and improved contract knowledge within your Organisation will identify any possible overbilling and fraudulent activities Organisations can then take appropriate action.

Fraud Awareness and Prevention

Open or close

Guidance on fraud can be found in the Additional Resources section of the Procurement Journey

Risk Management

Open or close

A key element of Contract and Supplier Management is the proactive identification and management of risk. Guidance can be accessed on the Risk Management page.

Blacklisting

Open or close

Blacklisting refers to the practice of systematically denying individuals employment who would otherwise be able to be employed. This can be on the basis of information, accurate or not, held in some type of database.

The Scottish Government regards blacklisting or the compiling of a blacklist as unacceptable.

Effective contract management ensures the practice of blacklisting does not occur in public contracts.

The Employment Relations Act 1999 (Blacklists) Regulations 2010 provide rights for individuals if blacklisting results in refusal of employment, detriment, dismissal or redundancy.

Any bidder which has been found to have breached, or has admitted breaching, these Regulations must be excluded from the procurement process for a period of three years. This is unless it can demonstrate to you that it has taken appropriate remedial steps. The Scottish Government regards blacklisting or the compiling of a blacklist as totally unacceptable. Blacklisting refers to the practice of systematically denying individuals employment, who would otherwise be able to be employed, on the basis of information, accurate or not, held in some type of database.

Contract Management for Joint Procurement Exercises

Open or close

If entering a joint procurement exercise with one or more public sector organisations you must have already agreed the legal status and requirements of such an exercise.

A “lead” authority may have been agreed at strategy stage. Legally they are responsible for forming the contract with the awarded supplier(s.

Alternatively a truly “joint” exercise may be initiated. Here procurement conduct is carried out in the joint name(s) of the participating organisations.

In either case, the organisations each remain responsible for meeting their contractual obligations.

Where you have determined only part of the procurement will operate as a joint exercise, the organisations will be jointly responsible for those activity areas declared as joint. Each organisation will retain sole responsibility for the activities carried out on its own behalf.

All of above factors determine the subsequent approach to contract management. Although considered at Strategy Development stage when deciding subsequent practical considerations these must remain a factor when determining the operational approach such as:

- who is responsible for contract management,
- how Key Performance Indicators (KPIs) will be managed and communicated and
- the reporting / communication network needed both between your organisations and the supplier(s).