



ESPO MANAGEMENT COMMITTEE – 6 MARCH 2014

BUSINESS STRATEGY 2014-18

REPORT OF THE DIRECTOR

Purpose of Report

1. The purpose of this report is to advise members of the Four-Year Business Strategy 2014-2018, entitled 'Planning Our Future'.

Background

2. In planning ESPO's future direction, there are two key planning processes required to support the principles underpinning the ESPO governance and risk framework, which are ESPO's Business Strategy and the Medium Term Financial Strategy (MTFS) (contained elsewhere on the agenda for this meeting). This document sets out the 2014-2018 Business Strategy.
3. The previous strategy was written to consider the critical challenges of that period and the key objectives for the organisation in order to progress. These included the retirement of the Director and a number of members of the Senior Management Team, and the need to create more formal risk management procedures in the organisation.
4. The outcomes of that strategy were:
 - To put in place robust management to understand risk and take advantage of new opportunities;
 - To put in place fundamental management processes which were needed to allow the business to continue to grow and protect it from competitor and supplier challenge.
5. The previous strategy covered the period 2012-2016. These actions are well progressed (as summarised at the back of the attached document), a new senior management team has been installed, and firm foundations laid to move onto the next stage of ESPO's development.
6. In setting out the refreshed business strategy for 2014-2018, ESPO will now build up on these foundations, and has considered the current dynamic environment that our Members and customers are experiencing within the public sector.
7. Given the dynamic environment that we now operate in, it is critical that ESPO is alert to the challenging demands on our Members, and appreciates that their needs are evolving. To this end, ESPO is in a position to respond flexibly should it be called to do so.

8. The four-year strategy is aligned to the MTFS, and will be updated annually along with the MTFS and will be reported on, as necessary, as part of the Director's Progress Report.

Considerations in developing the 2014-2018 ESPO Four-Year Business Strategy

9. The assessment laid out in paragraphs 10-14 below considers ESPO's changing environment and how ESPO will respond to it. The challenges facing ESPO and its members are considerable, and now require more of an external focus than has been needed over recent years.
10. Development of the 2014-2018 strategy has involved:
- Analysing the external environment including changes in the public sector landscape, the competitive environment and factors that are challenging through the impact of changes in social, technological, economic, environmental, political, and legal factors;
 - Further understanding ESPO's culture through an All Staff Survey and understanding how this will impact the business strategy. Also, reviewing ESPO's current resources, capabilities, and competencies;
 - Analysing the current and potential procurement activities, and the warehousing and logistics activities of ESPO.
11. The public sector in the UK is facing a number of significant challenges in terms of local authorities being required to deliver increasing levels of efficiency savings through transformational change and becoming strategic commissioning bodies, making high-level decisions for their local communities, rather than always directly providing services.
12. The focus on risk management as laid down in the preceding strategy is now well embedded within the organisation and will continue to evolve. Risk management processes are key within both the procurement and the warehousing divisions of ESPO, and importantly as a tool through which the Senior Management Team (SMT) considers the organisation and aligns appropriate resources and effort accordingly.
13. In anticipating members and customers' needs, ESPO continues to progress its investment in technology to deliver its business solutions, and seeks to seize the commercial opportunities that it pursues, and also those which arise.
14. The governance arrangements as agreed by the Management Committee will continue to be observed, and the draft Consortium agreement and the associated constitution will be followed accordingly following its expected adoption in 2014.

Summarising the key strategic planks

15. ESPO's Mission Statement and Vision are as follows:
- Our Mission is 'To work in partnership with our stakeholders to drive Value-for-Money for the Public Sector, through comprehensive procurement solutions'.
 - Our Vision is 'To be the first choice provider of Public Sector procurement solutions'.
16. In considering the challenges over the forthcoming four years, there are six strategic planks to be pursued; these are set out in paragraphs 17 to 29 below. These are our strategies for Customer, Procurement and Compliance, Operations, Our People, Enablers (Finance and IT), and Continuous Improvement (key change projects required within the business in order to make progress).

Customer strategy

17. We recognise that we need to focus our expertise based on Members' needs and those of our core customers. ESPO will continue to prioritise the pressing needs of its customer base, and develop solutions which demonstrate Value for Money.
18. ESPO's business over the past few years has moved from being purely a catalogue business and a procurer of goods to the comprehensive procurement of goods and services for the public sector. In developing this further, ESPO will need to engage more with the providers/suppliers, clients and customers, collate the data gleaned, and interpret such information into intelligence about specific markets, and then use this to develop our knowledge to give advice and support to clients, thus improving the benefits of better procurement.
19. ESPO's customer strategy has four key strands stretching across the common customer base of both of the key divisions. The four priorities are:
1. Protecting our core business and customer retention;
 2. Extending uptake of existing product range to existing customers;
 3. Expanding our customer geography with our existing offering; and finally
 4. Looking to new areas of business (both customers and product range) that we can readily adapt to, or require in order to ensure a strong customer base in the future.

Procurement and Compliance strategy

20. ESPO's agenda for procurement and compliance will be characterised differently to the efficiency and growth agenda of our catalogue and stores operation. The demonstrable value to Members is in the range and quality of our procurement activities be that framework agreements or public contracts. The Member rebate is very small in comparison to the cost and risk avoidance Members enjoy from using ESPO, as well the contract savings themselves as a consequence of ESPO growing its reputation for 'good procurement'.
21. That said, the function must continue to be commercially positioned to contribute to delivery against wider ESPO policies of a flat cost line with a

growing income line as a proxy measure for engagement in our procurement offering.

22. The 2014-2018 work programme can be summarised as follows:

- External focus
A programme of work to include continued efforts behind collaboration and extended use of ESPO's procurement solutions, a focus on training internal and member professional staff, and using our strength participate in shaping the National Procurement Strategy for Local Government.
- Internal focus
A programme of work invests in the appropriate level of resource and skills to deliver the desired procurement outcomes, continued attention to evolving and embedding ESPO's risk management processes and procedures including the development of a formal Risk Strategy. Further to this, we will invest in technology including e-tendering, GEMS replacement energy system, ISYS time management system, and critically an investment in Spend Analytics from a member perspective.

Operations strategy

23. ESPO's operational strategy is to provide an efficient and scalable supply chain capable of delivering products to its customers, on-time and in-full. To ensure that ESPO continues to meet customer requirements now and into the future, it will need to develop its logistics capability. This action plan sets out the direction of travel and highlights the improvements that are needed to deliver the strategy. This will ensure that we deliver Value for Money through an efficient service.

24. The 2014-2018 work programme can be summarised as follows:

- External focus
A programme of work to include a review of the warehouse operations and the logistics arrangements, followed by implementation of proposed changes.
- Internal focus
A programme of work invests in the appropriate level of resource and skills to deliver the desired customer focussed outcomes. The commitment to investment in technology includes the stock ordering system, and the RDT (Radio Data Terminal) system, with a view to continued warehouse automation, and an ability to transact with our customers electronically. Further to this, using intelligence to inform our customer promise in terms of order frequency, order value, and delivery frequency will further shape how we accommodate our customer demands.

Our People strategy

25. The delivery of ESPO's strategy will be realised as staff are further developed and coordinated to enable ESPO's strategic priorities to be delivered. ESPO needs to ensure that both the numbers of staff and their capabilities meet the future demands on the business.

26. To strengthen the organisation's capability to enable the business outcomes to be achieved in the future, the workforce needs the required skill sets to be developed.

27. It is intended to ensure the right people with the right skills at the right time and cost are available to meet the changing demands of our customers and deliver the required business outcomes.
28. ESPO undertook a staff survey in 2013, which was well supported and insightful. This has been used as a basis for an ESPO organisational development plan structured around the following key themes:
- Communication
 - Reward and recognition
 - Learning and development
 - Management and leadership
 - Investment in kit and resources to achieve customer outcomes
 - Brand update

Enablers (Finance and IT) strategy

29. The financial strategy supports the stated objective of ESPO to provide value for money for its users and to grow the net worth of the organisation. Inherent in that strategy is to drive headline growth, seek further efficiencies in the cost base (allowing growth with no further net investment), and to provide an appropriate return for members relative to the risks they take.
30. Key financial hallmarks of the strategy over the next four years are as follows:
- ESPO commitment to value for money, the organisation's main objective;
 - Clear focus on achieving cost efficiencies, being transferred into business growth initiatives and sustained lower prices;
 - Secure and adapt to maintain core business;
 - Grow Stores volume by 20% through competitive pricing and outstanding service;
 - Maintain rebate income through increased numbers of frameworks offset by pressure on rebate margins;
 - Develop staff capabilities and new skill sets;
 - Expand the services offered to customers thus broadening the offering and hence the customer base;
 - Spread the benefit of ESPO to all users in the form of competitive pricing;
 - A fair return to members relative to the risk they take;
 - Grow the net worth of the business;
 - Minimise risk and maximise opportunities by growing ESPO capability and unique skills.
31. As a result of the pricing and volume strategy, the trading surplus is forecast to rise from £2.1m in 2013/2014 to at least £3.0m in 2017/2018 and beyond. Of this, 80% will be returned to Members which will mean that over the four-year period, over £6.9m is targeted to be paid as dividends to the Members of the consortium.
32. Members have clearly stated that a dividend is not the principal reason for being a part of the consortium. A target of 3.5% return on capital has been set but ESPO will need to achieve more than this if it is to maintain sufficient working capital, asset and resource replacement, and contingency funding.

Continuous Improvement strategy

Key projects

33. The continuous improvement programme is seen as a means of delivering key change projects which are required to deliver the business strategy. We will move away from focussing on lists of small tasks to a programme focussed on business priorities. These will be aligned to the strategic priorities of the organisation.
34. The top eight key change projects are as follows:
- E-tendering
 - Peak planning
 - Warehouse & logistics review
 - Demand planning
 - GEMS
 - Customer Relationship Management system
 - Spend analytics
 - Supplier relationship system

With the following ongoing projects delivered through the existing structure:

- Thought leadership
 - Indigo implementation
 - Health & Safety
 - People Plan
 - Customer analysis
 - Internal financial reporting
35. The continuous improvement programme is led by a programme director supported by project managers to coordinate the activity. We currently draw upon resource from the Leicestershire County Council support team to deliver this.
36. The programme will look to mapping the organisation's key processes and stakeholders including management committee, customers, suppliers, staff, and unions. The European Foundation for Quality Management (EFQM) methodology provides a proven means of engaging with stakeholders and a project governance framework.
37. Investment pipeline for the continuous improvement activity - Using the business case approval process, the projects will be sponsored with all investments being fully supported by a business case and rigorous analysis before being enshrined in the project plan, and the annual budget. Operations and Finance within ESPO will work closely together to ensure mutual understanding of all costs and business benefits.

Resources Implications

38. Resources to support the deliverability of the Medium Term Business Strategy are contained within the Medium Term Financial Strategy

(MTFS) 2014/15 – 2017/18 contained elsewhere on the agenda for this meeting. Should Business Strategy priorities change over time, these will be reflected within future versions of the MTFS.

Conclusion

39. The four-year business strategy presents an understanding of ESPO's Member and customer requirements, an according growth plan, and a realistic approach to the finances required to achieve these ambitions.
40. The unique combination of ESPO being derived from a service-led organisation, but needing to survive in an increasingly aggressive commercial market makes this a very challenging period that we are embarking upon. I believe, with this management team and financial investment, we are capable of responding to these challenges.

Recommendation

13. The Management Committee is asked to approve the four-year business strategy document 2014-2018, attached as Appendix 1 to this report.

Equal Opportunities Implications

41. The business strategy impacts Members, staff, customers and suppliers but is unbiased in its impact.

Risk Assessment

42. Risks are addressed within the business strategy.

Background Papers

43. None.

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Appendices

Appendix 1: Business Strategy 2014-18

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