Leveraging ICT Hardware Expenditure

Towards a Pan London Strategy

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1. OVERVIEW

This section sets out the purpose of this paper, explaining why leveraging ICT hardware expenditure is worthwhile for all authorities and provides the background as to why it was written.

1.1 PURPOSE

The LCE states in its 2006/7 Business Plan one of its key objectives as "*ensuring that our contribution towards delivering cash savings and efficiency gains is over and above what authorities can do on their own*". (See www.lcpe.gov.uk for further information on the Business Plan). This Pan London Strategy is the output from work that was instigated and led in 2005 by the LCE, looking at ICT hardware, its major direct suppliers and market characteristics. During 2005 the representatives from various public sector bodies who participated in the study accrued a significant amount of knowledge and information. This information has now been published so that public sector bodies in London and beyond can examine the way that they purchase ICT hardware, including that which is covered by existing contracts. The goal should be to seek a significant reduction in existing unit costs while simultaneously seeking to raise quality and service standards to higher levels.

1.2 BACKGROUND AND SCOPE

ICT expenditure is significant across the UK public sector. In London, it accounts for £151m across all London authorities (Source: LCE 2003/4 Expenditure Analysis), although at present it is difficult to segment this into the various component parts (e.g., hardware, software, maintenance). Research shows that the UK public sector often accounts for over 10% of the total Europe Middle East and Africa (EMEA) turnover of some of the largest global ICT vendors.

There is clearly scope for significant improvement in the purchase of ICT in the UK public sector. This can manifest itself in many ways including:

- Direct like for like reductions in prices paid
- Improved service levels and/or quality
- Adoption of standard specifications
- Reductions in fees and charges passed on by third party organisations
- Ability to resist market conditioning by vendors (i.e. buying products and services not required)
- Better commercial negotiation through shared intelligence

Given the scope of ICT expenditure, a project led by the London Centre of Excellence (LCE) comprising representative London boroughs, Office of Government Commerce (OGC) and the Procurement Agency for Essex (PAE) was set up to investigate the opportunities. The pilot project focussed on ICT hardware including desktop and laptop PCs, PDAs and servers.

The full background to the project is set out at Appendix B.

1.3 ACKNOWLEDGEMENTS

We would like to thank the people listed at Appendix A for their support and advice during this project. In addition, we should like to thank John Nicolson (OGC) and Bob Wesley (DfES) who have since moved on from these organisations.

2. UNDERSTANDING THE MARKETS AND YOUR IMPORTANCE

This section includes the supplier characteristics in the ICT hardware market, what authorities should be seeking to find out, from where and why it is important in the drive for ongoing cost reductions.

2.1 CURRENT EXPENDITURE

It is difficult to get an exact breakdown of ICT expenditure in London. Using a combination of the current General Ledger (GL) coding and specific supplier enquiries, we believe that ICT expenditure across the London authorities is about £151m per annum. However, it is difficult, at present to be precise for a variety of reasons:

- Coding in the financial systems is far from precise and there is no standard way in which information is stored or sub-coded (e.g. software / hardware / maintenance)

- A lot of the expenditure is likely to be hidden under outsourcing contracts, consultants, resellers or factor companies

- Payments from suppliers used by schools are often excluded from core systems or go through a third party financial system

Therefore, it is possible to carry out comparative analysis where authorities buy directly from suppliers such as Dell but very difficult to get information on expenditure with companies such as HP, Oracle or SAP. This does not mean that attempts should not be made to do this. The UK public sector is a very important market to many ICT providers and collectively we have leverage. Using the Dell Corporation as an example, we have been able to ascertain a lot more about the relative position between London authorities and the wider public sector.

- In 2004/5 the UK public sector spent (projected) £107m (plus £4m through GCAT) with the company which accounted for about 2.3% of their Europe Middle East and Africa (EMEA) turnover. In London, expenditure was projected to be about £15m, but it is not possible for the reasons given earlier to sub-categorise into laptops, peripherals, consultancy

- The UK public sector accounted for about 8% of their EMEA turnover, making it a significant player. Indeed in their analyst conference call, CEO Kevin Rollins hinted that the reported reduced EMEA profitability was partly as a result of the lower UK public sector spending, as "*usually the UK public sector is very profitable for us*"

- Where Dell is a key supplier, it usually accounts for about 10% of ICT expenditure in a typical local authority

- Average increase in spend on Dell from 2003/4 to 2004/5 is +21% for 14 authorities where comparative data exists

The key conclusion that can be drawn is that ICT expenditure is a fertile area for collaborative working in terms of current and potential opportunities to reduce costs, standardise approaches /

specifications, and leverage the UK public sector negotiation position.

2.2 MARKET CHARACTERISTICS

There are some general points about the global ICT hardware market – and in particular desktop and laptop PCs – which are worth considering before formulating a strategy to reduce ICT procurement costs. These attributes and forces are helping shape the strategies of the major hardware manufacturers, and therefore inevitably influencing their negotiating stance with customers. We have concentrated on hardware in this instance but the general principles can still apply when assessing market characteristics.

COMMODITISATION

There is no doubt that the desktop PC and laptop market is now close to being commoditised, making it a prime target for procurement managers seeking to reduce procurement costs without sacrificing quality. Raw material and manufacturing costs are falling fast – and prices are falling even faster: sometimes as much as 15% from quarter to quarter. At the same time, innovation in the segment has slowed with most hardware manufacturers preferring to target R&D investment towards server and printer technologies instead. With margins on such products extremely low (below 5%) or even negative, only the lowest cost manufacturers - such as Gateway and Acer - can eke out a profit in this segment. Others - HP and, to some extent, even Dell - must use these products as loss leaders to cross sell higher margin products, such as servers and storage systems, and services.

RAZORS AND BLADES

In the ICT hardware sector, a common business model (famously employed by Gillette, from whence it gets its name) is the Razor/Blade strategy. Just as Gillette sells razors very cheaply and its blades relatively expensively, HP can afford to sell a printer for little or no margin, because by putting that printer into an office it has secured itself years of high margin revenue from selling replacement ink cartridges.

Companies like Dell, IBM and HP have now begun to apply a version of this strategy to ICT services. The “razors” are the hundreds of desktop PCs and laptops – or in some cases even servers - sold to a business customer at little or no profit. The “blade” is the very high margin service, maintenance and replacement agreement which accompanies the sale – extending for up to five or even seven years. IBM has to date taken this strategy the furthest, having completely outsourced the provision of low margin “razors” by selling its PC division to a Chinese manufacturer, and concentrated all its efforts on infrastructure and service “blades”. It is also well worth noting, particularly in the more commoditised desktop PC and laptop segment where costs and prices are falling fast, that what appear to be excellent “razor” prices agreed today will seem far less attractive further on in the life of the contract.

MARKET SEGMENTATION

The last five years have seen the big three hardware suppliers (Dell, HP and Lenovo) compete aggressively for market share in the most profitable segment of the market: large enterprises which can deliver high unit volume across the spectrum of products and services. As this segment has become more competitive, however, efforts are broadening to target small and medium-sized enterprises and public sector organisations.

GEOGRAPHIC SEGMENTATION

As the US PC market approaches saturation, the three big US-based hardware suppliers have increased their efforts to penetrate more attractive geographic regions. Over the last two years, Europe (including the UK) has been one of the fastest growing markets for these companies and in particular for Dell. For all three, however, the UK is by far the largest and most mature market within Europe, and recent financial figures disclosed by HP and Dell suggest that underlying UK market growth is slowing considerably. The large sales, marketing, and distribution infrastructures that the major hardware suppliers maintain in the UK and Ireland are now under huge pressure to deliver revenue growth, most likely by aggressively competing for market share.

2.3 SUPPLIER CHARACTERISTICS

What do we want out of our negotiations with suppliers? In most cases, procurement managers would like to form relationships which are not only financially favourable to their business, but also operationally effective, amicable, and potentially sustainable over the long term. Successful supplier relationships like these, however, rarely emerge from aggressive negotiations with a one sided outcome in favour of either party.

To maximize the chances of a lasting, mutually favourable deal, both parties need to understand, to as great an extent as possible, each other's perspective. For example:

- What is your supplier's basic business model? Where do its profits come from?
- What are your supplier's key financial and operational targets? How important is your business (or the UK public sector's business as a whole) to your supplier achieving its targets? For a big, multinational supplier, consider the percentage contribution of your business to its European or UK turnover.
- What areas of its business is it trying to grow? What short and long term pressures is it facing? What flexibility does this suggest?

The greater your understanding of these kind of issues, the more possibilities there are for you to identify mutually beneficial negotiating tradeoffs on issues including price, quantity, timing, delivery, contract length, service, and specification. Some of this understanding can and should develop through effective communication between parties before and during negotiation. But the most critical preparation for negotiations with suppliers is doing the proper homework beforehand. Even conducting the most basic research can reveal information worth thousands on the negotiating table.

WHERE DO WE GET THIS INFORMATION?

The good news is that there is a great deal of valuable information in the public domain about any supplier whose parent company has securities (i.e., shares or bonds) traded in the public markets. Virtually all the major ICT hardware manufacturers do have publicly traded securities. This information can be analysed to give an insight into their flexibility to negotiate. Key information to look out for:

- Strategy statements: entering new markets, plans to defend or expand market share in existing ones; future investment; businesses which the company may be seeking to exit
- Financial targets: many companies release revenue and/or profit growth targets, for the

parent and even for individual divisions or geographies. Knowing when the financial year end is for that company may help when considering the timing of a contract negotiation

- Explanations of financial results: when discussing their most recent financial performance, companies may reveal information about margins and cost pressures; pricing and promotional tactics; new product release strategy; areas where investments have been made; or operational difficulties

Information on companies falls into three broad categories: regulatory, non-regulatory and third party. Regulatory information - meaning information companies are required to reveal by law - is easier and quicker to find, as it appears on a regular basis and is very widely disseminated. In contrast, non-regulatory information – facts and comments that companies opt to release to the public – is a little harder to find, but often can be more revealing. Finally, third party information consists of what you may glean from sources such as analysis, opinion and speculation in industry research reports and newspaper articles. The independent perspective of these sources is useful, but accuracy cannot always be relied on.

REGULATORY INFORMATION

All the regulatory information below is normally instantly available as soon as it is announced via newswires such as Reuters and Dow Jones, or from the investor relations section of the company's own website.

Stock Exchange announcements: UK public companies are required to report financial results to the market twice a year, within three months of the end of the reporting period. Alongside the profit and loss, balance sheet and cash flow statements, management provide a detailed description and analysis of the events of the reporting period and will also provide a breakdown of revenue and profit by operating division.

Securities and Exchange Commission (SEC) filings: US public companies – and any company with bonds traded in the US - must report detailed financial results quarterly (known as a 10-Q filing) to the SEC. A press release, with a summary of the past quarter's financial performance and management's analysis of the figures, is usually released at the same time.

Annual reports: Most public companies in the US and UK publish glossy annual reports, although the perspective is usually historical, recapping the performance of each division over the previous year, rather than giving many clues as to the future direction of the company. In the US, companies with publicly traded shares or bonds also file a very detailed 10-K financial report with the SEC once a year.

Earnings guidance announcements: In order to manage the market's expectations, many public companies publish their own estimates of their future financial performance in the short to medium term. This guidance must be updated if and when the company thinks its performance may either fall significantly short or significantly exceed its existing forecast range of revenues and/or earnings. As it is forward looking, this information can be extremely useful to anyone contemplating entering negotiations with the company.

Monthly revenue figures: Some companies, particularly in sectors such as retail, oil and gas, choose to publish sales figures monthly. The information has the benefit of being extremely up to date, although because of month-to-month anomalies it may not present an accurate picture of trends in a company's performance.

DISCRETIONARY INFORMATION

In addition to the compulsory filings companies must make to their local regulatory authorities, they may also choose to provide their shareholders with additional information and opportunities for dialogue. For US-listed companies, SEC Regulation FD requires that all information is made available on an equal basis to everyone at the same time. This has driven a boom in investor conference calls and webcasts in the US. There is no equivalent of Regulation FD in the UK, however, and thus many UK-listed companies still tend to discuss performance with their major institutional investors and stock analysts behind closed doors.

Earnings conference calls: To assist shareholders fully to understand the drivers of its financial performance, a company may hold a conference call on the same day its quarterly, half yearly or full year results are announced. Companies with shares and bonds listed in the US (including some UK-based companies with multiple listings, such as BP or BA) widely publicise their conference calls in advance and open them to anyone to listen to. Stock analysts at the major banks and investment institutions are, however, allowed to ask questions. Recordings of the call, and sometimes transcripts, are always archived on the company's website.

About 25% to 50% of a typical conference call is a scripted statement read out by management. The CEO and CFO will analyse the last financial period, discuss big picture strategic issues and future plans for investment and growth, and update guidance on the company's projected financial performance.

The last part of the call, however, is a Q&A session. Because it is harder to script, management do sometimes make very revealing comments and asides in this portion of the call, and may also discuss the performance of geographic regions or divisions which were not formally disclosed in the financial results. As such, earnings conference calls are extremely useful sources of information for anyone entering into negotiations with the firm in question.

Investor Days and Conferences: Throughout the year, many US-listed companies also give in depth strategy presentations to analysts and investors at their own events, and at industry conferences hosted by investment banks. There is usually a Q&A session. The presentations, which are generally telecast and/or webcast via the company's website, can be extremely informative.

Analyst presentations – UK: Companies listed only in the UK, on the other hand, tend to prefer group or one to one meetings with stock analysts and institutional investors behind closed doors. Presentation slides are usually subsequently placed on the company's website, but the Q&A sessions and transcripts are generally not available to the public. A few of the largest UK companies, or UK based companies with dual UK and US listings, do offer webcasts.

THIRD PARTY INFORMATION

Stock and credit analysts: Investment banks and stockbrokers have large teams of specialist industry analysts, whose research is generally available (for a fee) to the public. Some analysts have a great in depth knowledge of the industry they cover, and their independent interpretation of industry events and corporate financial results can be invaluable. Quality varies, however.

Media reports: Newspaper reports can give a good general impression of a company's financial performance and management, and also provide insight into less tangible issues such as customer service and culture. Although they do not like to admit it, most journalists are susceptible to some extent to lobbying, leaking and rumour spreading, and their stories may not always be entirely balanced or accurate.

2.4 ASSESSING POSITION

It is important to assess your position in relation to that of your key suppliers before deciding on your strategy for seeking cost reductions and/or service improvements. The following table sets out some of the factors that you should consider before deciding on your options.

Issue	What to look for	Options to consider
Level of business	What is the annual value of the business with the supplier and how much of their total turnover does it account for? What is the likely level of future demand?	Anything over 2% makes you a significant player on your own. Look at how much other local authorities / public sector organisations spend either sub-regionally or regionally
Risk	What would happen if the supplier was taken over (common in the ICT business) or, worse still, went bust? Have you put in place a recovery plan?	Securing supply is even more important in some instances than efficiency savings Carry out a full supply positioning exercise on your high value and/or strategically important suppliers and ensure you have a supplier engagement strategy
Range of products / services supplied	What range of products / services is supplied? Is it possible to buy some separately to take out potential margins?	Larger companies tend to provide an extensive range of products and services. Some of these may be unique, others in common supply. They may not all need to come from the same source. Significant margins may be included in terms of finder's fees and business partner introductions. For larger ICT contracts, look carefully at where margins may be hidden (third party products and consultants may have up to a 30% mark up included)
Managing the market	If you are in a monopoly situation or alternative suppliers are few in number, what can you do to encourage more into the market? How can you as a buying organisation make yourself more attractive to suppliers?	Monopoly suppliers are commercially bad news whatever they may tell you. Suppliers may think it is not worth entering the market because of issues such has investment needed or a belief that the market it tied up (it is in some instances for ICT) Some excellent supply organisations do not trade with the public sector as it is too bureaucratic. Although the sector is regulated, this is no excuse for over zealous interpretation of rules and procedures. Also remember that the costs of sale are always recovered so the more paperwork and meetings you use the more you will end up paying Think about joining forces with other public organisations to make the deal more attractive. Also, with ICT products, guaranteed future volumes rather than just options will attract far better competition
Return on Investment	How much resource will you need to put in in order to get something back? (I.e. spending a year to save £50k is not a good return on investment if resources are scarce) What are the timescales and internal expectations? Invariably the larger savings can take longer and are more difficult to access	Don't concentrate all your resources on the easy targets (e.g. ICT peripherals). Use contracts / deals from other organisations to gain results here Look at arrangements for collaboration and sharing resources with others. It may be more cost effective to contribute resources to another organisation working on your behalf rather than trying to do it all yourself

The overriding messages here is do not always start with a blank sheet of paper. Almost certainly someone has carried out a similar or identical exercise. You have choices:

- Undertake the exercise on your own
- Take immediate advantage of a contract and/or experience from another public sector organisation
- Collaborate either sub-regionally or regionally with a view to aligning future requirements

3. DRIVING OUT THE COSTS

This section looks at the ways in which costs can be taken out in the future and how the LCE in partnership with others such as OGC is working towards giving boroughs options for cost reduction.

3.1 MODEL SPECIFICATIONS

There is a compelling case for model specifications, particularly for hardware which will help to drive out cost and help eliminate the proliferation of different specifications. The Project Team considered this in some detail and is in the process of establishing models for high /medium / low specifications for laptops as a starting point. Each specification would allow a range of standard 'add-ons'. The advantages of model specifications are that they:

- Help reduce cost and allow for the purchase of greater quantities – hardware is a typical 'leverage' product
- Allow for the standardisation of equipment and peripherals
- Simplify the process of specifying and acquiring equipment
- Support cost avoidance by reducing the opportunity for over specification and acquiring unnecessary 'add-ons'

Model specifications will need to be reviewed regularly to avoid the danger of obsolescence and allow technological improvements / changes to be incorporated. For ICT hardware it is important to know where the product is in its life-cycle (i.e. is it brand new or due to be superseded by a new range)

The LCE is working with the OGC to help introduce model specifications

3.2 PLANNING AND TIMING

There can be significant cost advantages to be had from planning and timing purchases to coincide with any combination of the following factors:

- Supplier quarter / financial year end to take advantage of the urgency of closing forecasted business
- Release of profits warning or commitment to investors to increase market share
- Time just before the launch of new hardware models where existing technology and specifications will meet the requirement
- Planned purchases from neighbouring authorities / public sector organisations (see 4.4 and e-auction case study at Appendix C)
- Availability of excess capacity in the market
- Potential to align ICT contracts with neighbouring authorities / public sector organisations.

It is important to realise that planning and timing is not a precise science. In some areas it will be impossible to achieve alignment for justifiable reasons. The main point is that ICT hardware is a classic area where collaborating with other public sector organisations will deliver positive results in terms of unit cost reduction.

The LCE has introduced a Pan London Contracts Register Service (CRS) which is open for all London public sector organisations to access.

3.3 RESEARCH AND NEGOTIATION POINTS

The buying organisation always has the upper hand in negotiations before it signs a contract. Up to this point, suppliers can be very flexible in the need to secure business. Suppliers in the hardware market have different approaches to customers ranging from direct sales to use of third parties and resellers. In addition there are significant variations in the breadth of products and services available which in turn command wide variations in profit margin (see 2.2 razor and blades).

It is important that the buying organisation has an understanding not only of how bids are structured but also what they wish to secure from the deal. In the case of the latter, this may not just be the need for unit cost reduction but matters such as improved service / maintenance levels, longer periods of spares availability or even a greater commitment to use of environmentally friendly packaging material.

Both the buying organization and suppliers have commercial agendas and these may not necessarily be compatible. Some of these issues may have been handled prior to the submission of bids, but others can only be handled afterwards. If there is any doubt, open clarification with suppliers is always recommended for higher value deals. At the end of the process there should be no doubts on either side as to the exact nature of what is going to be delivered and what resultant expectations are likely to be. All outcomes and points of agreement should be recorded in a letter and acknowledged. In some cases, particularly where commitments are made by a supplier, this letter should become a part of the contract.

3.4 EAUCTIONS

eAuctions involve suppliers bidding online to win a package of business specified by a customer. They are particularly well-suited to the ICT hardware market, since:

- Requirements are easily specified
- Numerous suppliers exist in the market
- Pricing is a key factor (although not the *only* one) in the ultimate sourcing decision

Since September 2005 the Office of Government Commerce (OGC) has been facilitating a series of collaborative eAuctions for ICT hardware, with participants drawn from across the whole public sector. By July 2006, 35 customer organisations had taken part in 5 eAuctions, achieving price reductions of £12.7m on business previously worth £44m. The 5th eAuction, in which the Procurement Agency for Essex was the major participant, achieved a saving of 41%.

The OGC programme has consistently demonstrated that eAuctions can deliver the best pricing available. The successful completion of an eAuction places demands on the customer organisation as well as suppliers, however, and prospective users of eAuctions should consider the following carefully:

- Public sector eAuctions are governed by EU rules. These require that the process is transparent and objective, and buyers must be able to demonstrate compliance
- eAuctions are "live" events and they provide little scope for the late correction of errors and misunderstandings. Preparation on the part of the customer and the suppliers must be of a high standard
- eAuctions, like any bidding process, rely on intense competition. At least 3 (ideally 5 or more) bidders are required, and business of £0.5m or more should be offered in order to focus bidders' attention. Collaborative procurements, involving a number of different customer organisations and high levels of spend, are one way of ensuring that suppliers compete strongly

The LCE will continue to work with the OGC and others to ensure that e-auctions are used wherever possible for all suitable products and services.

3.5 TERMS AND CONDITIONS

Terms and Conditions (T&Cs) are essential to support the execution of a successful contract, but also in the aim of reducing cost and/or improving service levels. Typically, many organisations just dwell on the legal side of T&Cs while missing the essential need for commercial input. T&Cs need to be framed in such a way to ensure that both supplier and buying organisation are clear as to the expected outcome. The resultant contract needs to be workable and written in plain language so that there is no scope for any misunderstanding as to what is required from both parties. Apart from minor or routine purchases, they also need to be negotiated. Badly worded or inflexible T&Cs can sometimes cause significant cost uplift, for example by demanding excessive or unrealistic levels of public liability insurance, always insisting on the inclusion of a liquidated damages clause and putting in cost uplift clauses as standard where the duration is greater than one year . There are many similar examples. All T&Cs should therefore strike a balance between minimising legal risk while optimising commercial advantage that requires high quality/service levels and cost containment.

3.6 CONTRACT MANAGEMENT

Contract Management is a major weakness for many organisations (public and private sector). There are a number of reasons for this, including:

- No resources and / or limited expertise available to undertake it
- Failure to understand the commercial opportunity and benefits for ensuring that it takes place
- Belief that contract management is only about legal compliance
- Concern that it might upset the supplier if it was used on a regular basis

Successful contract management has three main objectives (there are others):

- Ensure legal compliance with the contract
- Ensure that the product / service is delivered to the right quality / timeframe and cost
- Resolve any issues and/or concerns that may arise between the buying organisation and supplier

In some instances the supplier may try to recover margin that has been sacrificed in order to secure the business. Areas where this may occur for ICT hardware includes:

- Upgrades
- Purchase of peripherals
- Maintenance
- 'Value add' services and/or 'add ons' such as third party products/services
- Unforeseen cost increases, usually from sub-contractors

These may often be justified, but the scope for such events occurring should be understood prior to contract signature. If they are likely to occur then they need to be part of the contract management process.

The LCE is funding a Contracts and Relationship Management project to help develop understanding in this area and help to fill the skills gap.

3.7 MARGINS AND MARK UPS

As with most requirements, the bigger and more complex ICT projects are made the more chance for suppliers to introduce cost, regardless of whether it has been through a competitive process. The following table sets out some of the areas where direct and indirect costs may be found in other ICT projects beyond hardware only.

Issue	Opportunity	Potential Solutions
Use of Business Partners	Business Partners are a standard part of many ICT bids. Typically, resellers or partners will be incentivised to sell a given product or service. This may take many forms including a direct % of the deal if there is no cost of sale or giving the partner service revenue if a product is sold. Sometimes administrative costs are added	Always check the cost of buying directly from the third party Ensure that you actually need what is on offer from the third party Seek a cheaper alternative product / service
Consultants	Consultants can play a valuable role in ICT projects. However, they often have third party deals with third party ICT providers and/or in-house implementation practices	Ensure that they declare all their formal third party alliances and where they have an implementation practice of a product /service you may look at, particularly where they are involved in specification preparation or competitive evaluations
Contingency	Many ICT vendors are wary of getting caught by a poorly managed ICT project that they automatically factor in extra cost	This is sometimes hard to spot. Ask for a breakdown of costs if in doubt and have bids looked at by an

Issue	Opportunity	Potential Solutions
	as a contingency. This can be as high as 30%.	independent organisation if in doubt
VAT on VAT	Where travel costs are claimed separately, check for billing VAT on VAT in areas such as accommodation. The supplier will usually reclaim the original VAT which makes you pay twice	Always check receipts to ensure that you only pay VAT on the non-VAT element
List Price Discounts	List prices are simply an aspiration of what a supplier what like to get in the ideal situation. The supplier will often give you a high % discount to make you believe that it is a good deal	Confirm best customer discount applies in writing and signed by a senior manager from the supplier organisation Check accounts to see how development costs have been recovered and what is spent on product upgrades If you need to pay maintenance, check that it is on actual price paid rather than list price
Market Conditioning	Sales people will often try to persuade you to buy more than you need by appealing to your desire for success or quoting the need to meet some external target. This can mean paying out far more money then is required	Benchmark yourself against similar sized organisations – what are they buying If you are public sector organisation you invariably do not grow in turnover to the point where you need a bigger system Understand the motive of the supplier and the commissioning structure used for sales people and account managers
Fragmentation of requirement	While many public sector organisations seek commonality, some ICT suppliers may try to convince you that you are “different”.	There are areas where this may occur (usually scale related) but most processes and systems governed by statute or regulation can be implemented using a common approach Always approach User Groups particularly where requirements or changes are in response to a change of statute so that a common solution can be developed

In fairness, there are also many areas where buying organisations ADD cost including:

- Seeking a ‘special’ rather than a ‘standard’ or ‘off the shelf’ solution
- Changing the specification after sign off
- Always upgrading regardless of whether there is a business case or operational need
- Failure to collaborate with other organisations undertaking identical / similar purchases
- Seeking complexity when a simple solution will deliver most of the requirement
- Not changing underlying business processes
- Not exploiting the full potential of the solution

4. USEFUL SOURCES OF INFORMATION

This section lists useful documents, websites etc. for more information.

The OGC's ICT hardware category team can provide guidance on benchmarks, contracts and framework agreements in place, recommended specifications, and the OGC's collaborative eAuction programme. The team can be contacted via OGC Service Desk.

Tel: 0845 000 4999

E-mail: servicedesk@ogc.gsi.gov.uk

See also the OGC's website which provides detailed guidance on eProcurement, including eAuctions

http://www.ogc.gov.uk/guidance_eprocurement_guidance.asp

Gartner provides a range of reports on ICT hardware products, market trends, and recommended specifications and pricing levels. (Most information must be purchased)

www.gartner.com

Kable conducts market research aimed at ICT within the UK public sector. (Once again, most of Kable's reports must be purchased.)

www.kablenet.com

A more comprehensive guide to procurement of ICT products and services is *Procurement of Information Technology* by Ian Taylor (Spiro Press, 2001. ISBN 1 904298 47 8)

APPENDIX A – LIST OF CONTRIBUTORS

The following people contributed to the LCE / OGC ICT Hardware Project. We are grateful for their active participation and support

Name	Organisation
Peter Quinn	Procurement Agency for Essex
Eamonn Burnell	Essex County Council on behalf of the Essex Online Partnership
Chris Chettle	OGC
Will Harman	OGC
Simon Norbury	City of Westminster
Linda Bonner	LB Enfield
Steven Blantz	LB Camden

APPENDIX B – LCE / OGC HARDWARE PROJECT BACKGROUND

COMMODITIES WITHIN SCOPE

The project will focus on ICT hardware including desktop and laptop PCs, PDAs and servers.

The project team will also measure and analyse expenditure on related services provided by ICT hardware suppliers as this is likely to influence the commercial positions of the vendors and the participating public sector bodies.

GOVERNMENT DEPARTMENT, BODIES AND AGENCIES WITHIN SCOPE

During the initial phase of the project it is envisaged that an approach will be co-ordinated amongst a small number of London boroughs, in combination with supportive authorities within Essex. Ultimately the project may expand to incorporate all of the members of the Association of London Government (ALG) which consists of 32 boroughs and the City of London, in addition to the Greater London Authority (GLA) and the Procurement Agency for Essex (PAE) which incorporates Police, Health and Fire services.

Although this project may identify learning points and best practices which can be adopted by the OGC Co-ordinated Procurement Division in its efforts to improve ICT hardware procurement across the public sector, it is proposed that the project scope remains within Essex and London to ensure that it is achievable within an acceptable timeframe.

PROJECT OBJECTIVES

The primary project objective is to help local authorities agree more favourable commercial terms with ICT hardware suppliers, on behalf of participating public sector bodies. This could include the provision of additional services as well as unit price reductions, and should allow for third party managed service providers (where they are utilised by public sector organisations) to benefit from the most competitive pricing.

Simultaneously, existing levels of quality and service must be maintained or improved. Enhanced terms may take a number of forms, but include reduced unit prices and a rebate scheme.

A secondary objective is that the project acts as a "pathfinder" for the public sector, leading the development of data and principles, which can be disseminated across the wider public sector by the OGC and used for other high value suppliers to the public sector.

APPENDIX C – RESULTS OF OGC E-AUCTIONS

Public sector participants	eAuction date	Items purchased	Baseline cost at current prices £	Price reduction £	Price reduction %
Herts / Beds NHS Procurement Confederation **Thames Valley NHS Procurement Confederation**	14 September 2005	Desktop PCs Laptop PCs Monitors PC Accessories	£5.8m	£1.3m	23%
Procurement North East NHS Procurement Confederation **Lifesource Collaborative Procurement Hub** **Greater Manchester Collaborative Procurement Hub** **Healthcare Purchasing Consortium** **North Central London** **South West Peninsula Group** **(Representing 137 Trusts in total)**	21 October 2005	Desktop PCs Laptop PCs Monitors PC Accessories	£16.1m	£4.6m	28.6%
DfES **Luton Borough Council** **Surrey Health Informatics Service** **Sussex Health Informatics Service** **Kent and Medway NHS Supply Management Confederation** **Bristol and Weston NHS Purchasing Consortium** **St. Mary's NHS Trust** **West Middlesex University Hospitals Trust** **Hillingdon Hospital NHS Trust** **Central and North West London Mental Health NHS Trust** **Chelsea and Westminster**	14 December 2005	Desktop PCs Laptop PCs Tablet PCs Monitors PC Accessories	£10.6m	£2.4m	22.4%

Public sector participants	eAuction date	Items purchased	Baseline cost at current prices £	Price reduction £	Price reduction %
NHS Trust					
West Midlands NHS Procurement Alliance **Hampshire and Isle of Wight NHS Supplies Confederation**	30 January 2006	Desktop PCs Laptop PCs Monitors	£5.7m	£1.72m	30%
Countess of Chester Hospitals Trust **Scope** **Procurement Agency for Essex** **Anchor Trust** **Office of Government Commerce** **Northampton General Hospital Trust** **Mersey Care NHS Trust** **Mid-Cheshire Hospitals NHS Trust** **Central Cheshire Primary Care Trust** **East Cheshire NHS Trust** **Finmere C E Primary School** **Barts and the London Trust**	24 May 2006	Desktop PCs Laptop PCs Monitors Tablet PCs Thin client devices	£6.6m	£2.7m	41%
TOTALS	**5 eAuctions**		**£44m**	**£12.7m**	**29%**

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