

White Paper

Considerations when undertaking a Single Source procurement

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Introduction

Procuring organisations often choose to procure through competition. Bids are invited with the intention of generating competitive pressure on pricing and quality, on the basis that a bidder must closely control costs and submit a competitive bid, else risk losing to another bidder. This approach has resulted in a conventional 'compete where possible' approach which is normally regulated depending upon the market, for example EU Regulations resulting in Public Contracting Regulations 2015 (PCR) and the Defence and Security variant of 2011 (DSPCR) in UK Defence. Through an evaluation process, suppliers are progressively down-selected; either through non-compliance to an essential element or as a result of being uncompetitive when evaluated against the other bids. The competitive evaluation process results in one winning supplier (or more, dependent on the procurer's requirements/approach) that has provided the best value for money bid based on the technical and commercial factors.

However, there are situations where there is a need for a procuring organisation to procure from one supplier from the outset, without the competitive bidder down-selection – a Single Source procurement (the reasons why are discussed later in this paper). Aside from the obvious increased vulnerability and risk as a result of dependence on a single supplier, Single Source procurement brings with it a specific set of considerations:

- In the absence of competition, what can a procuring organisation do to ensure that it receives what it needs at a reasonable price?
- What can it do to replace competitive pressure and evidence that its procurement meets Value for Money (VfM) aspirations?

Why use a Single Source approach?

In the UK, the Single Source Contracting Regulations 2014 (SSCR) exist, but they are focused on how the decision to procure Single Source is justified rather than on how to establish the VfM of the single tender. Typical reasons for an intentional decision to procure Single Source include:

- development of a long-term supplier relationship, possibly centered on the inclusion of high capital cost facilities and skills development;
- the notion that only a certain supplier has the necessary acumen/capability to deliver successfully (this can be referred to as 'Sole Source');
- to meet an urgency that overshadows the advantages that a competition could offer such as the provision of a sovereign capability.

There are also circumstances in which an unintentional Single Source procurement can be forced, these include:

- an incumbent is considered by other suppliers to be unassailable;
- an incumbent is unsupportive of measures to develop a follow-on competition;
- an intended competition collapses either in part or in entirety because the competition is designed around a specific supplier's solution.

At this point, it's worth mentioning sole sourcing - single and sole source terminology is often confused. Noting that references differ globally, in the UK sole sourcing occurs when there is only one supplier who can provide the required solution, whereas single sourcing is where a particular supplier is purposefully chosen by the buying organisation, even when other suppliers are available.

BREXIT released the UK from strict adherence to EU regulations; a Green Paper (government paper setting out early-stage proposals for discussion) was developed in 2021 and there is an anticipation that subsequent regulation transformation will favour UK suppliers by a greater use of Single Source procurement. Mitigating the loss of competing pressure is therefore a priority - to ensure that procuring organisations can achieve successful outcomes while not losing focus on Value for Money (VfM). This Paper is not an examination of the SSCR and assumes that a Single Source decision has been taken. However, included are preparatory activities that could be conducted prior to a decision in order to improve the likelihood of a successful outcome.

Advantages of Single Source

The advantages offered by adopting Single Source procurement are not wholly in the suppliers' favour and the following benefits should be seen by UK buyers:

- Accelerated delivery due to the absence of a competitive process
- Development of exportable UK-developed and/or manufactured equipment and services
- Political UK 'first' approach (international competition v UK spend)
- Fostering long-term relationships to promote mounting benefits, such as:
 - Critical mass in key industries
 - Inclusion of meaningful Social Value and efforts to counter climate change through long-term initiatives
- The procurement process may be more straight forward in terms of the evaluation overhead, but may be more complicated if there is a need to work with the supplier to improve alignment to requirements and to establish the VfM of their solution.

What is said about Single Source?

Competitions provide constraint on what suppliers offer and the price they are likely to ask. If presented with a Single Source opportunity a bidder may not feel that these constraints are as definite. A natural desire to maximise business potential may encourage straying across the boundaries that competition would otherwise set. The following paraphrased and anonymized quotes show familiar attitudes to Single Source procurement

When considering price strategy for Single Source opportunities

Finance Director: *"Is this a Single Source or competitive bid?"*

Bid Manager: *"Single Source."*

Finance Director: *"That gives us opportunity to be profitable without being overly concerned about being competitive."*

When attempting to push a procurement to Single Source as an incumbent

Business Development (BD) Director: *"Have we heard any more about the re-compete for this programme, do we know if they are going to run a competition?"*

Bid Manager: *"We still haven't heard anything more, there's no option for them to extend again so it's possible that they will have no alternative but to go single source as they are running out of time. The customer would need some information from our programme team in order to*

run a competition."

BD Director: *"Be helpful but not excessively, we don't want to gift information that might be useful to possible competitors."*

BD/Capture Manager: *"We had to find out the hard way by actually delivering, so let's make sure that we keep that edge over the others."*

Reaction to a re-let going to competition as an incumbent

BD Director: *"I thought they were going to extend or go Single Source with us, what happened with our shaping?"*

BD Manager: *"Yes, that was their plan but someone in commercial felt they could get a better deal with a competition."*

BD Director: *"Right, in that case we can't rest on our laurels and we need to be prepared to get much leaner on our price to ensure we win this. It should be ours to lose."*

These quotes suggest that the perception of a less stringent approach to the measurement of VfM results in poor supplier behaviours which may be difficult to counter without competitive pressure. This leads to the question of whether the benefits of using Single Source can be realised while also retaining the advantages that competition provides.

Analysis of Competition vs Single Source

While UK regulation is expected to change, how does Single Source procurement currently compare with the use of competition? A review of recent procurements in the UK MOD at Table 1, totaling some £20Bn, shows that approximately 25% are Single Source and that these are, on average, seven times lower than the value of competitive procurements. This suggests that as the value of a procurement rises, there is an increasing likelihood that it will be competed. While there is no hard, supporting data, it can be surmised that there is an increasing desire to restrain costs through greater focus on VfM as budgets increase. If a similar degree of VfM assurance could be achieved in Single Source procurement, then it could strengthen justification for its use as an approach on higher value procurements.

	Competitive	Non-Competitive	All
Number of Contracts	255	103	358
% of Contract Type	71%	29%	100%
Total Value	£ 20,186,958,069	£ 1,160,519,310	£ 21,592,783,596
Average Value	£ 79,164,541	£ 11,267,178	£ 55,508,441

Table 1: Spend analysis of MOD contracts

Challenges of Single Source Procurement

Once the decision to follow a Single Source process has been made, the perceived simplicity of the procurement can precipitate a relaxing of the discipline seen as necessary in competition. If achieving a successful VfM outcome is an aim of the project and/or required to be demonstrated to senior stakeholders – and why would it not be - then there is a need to adopt a procurement process that delivers an appropriate Single Source contract. Bidding and buying teams will come at the procurement from different perspectives, which will need to become aligned as far as possible through an informed negotiation that works towards a win-win outcome. These two organisations will become allies when they are on contract, the basis of which will be strengthened if each believes it got what it needed from a fair process. Hence, the desire to achieve VfM for the procuring organisation must also be balanced

with sufficient profit incentive for the supplier. An extreme imbalance is unlikely to set the right conditions for harmonious participation in contract, and to assess balance requires knowledge. Therefore, a structured information set is as essential in Single Source procurement process as it is in competition. This information set might include the development of:

- Detailed user requirements with defined measures of effect at both threshold and objective levels, providing for a range of performances which will, at least, deliver a system or service that performs adequately. The need described in the user requirements or a statement of work should be combined into sets for the major system components. The threshold requirement in these descriptions should be confirmed as meeting the minimum expectation of users.
- A 'should cost' model aligned to the major system or service components of the requirement, with an understanding of how cost will change depending on the quality of those components.
- An interconnectivity model of the major system or service components, showing how capital investment in one area might realise savings in the operation of another part.
- An analysis of how the system will be used operationally, ideally articulated as a set of scenarios against which the modelled system or service can be tested, and against a subset of which prototypes and/or early production variants can be tested for real.
- An understanding of the high-level options and their effect on the VfM of major system or service components and the overall price.
- Criteria with which to evaluate the supplier's bid and ascertain the likely quality and VfM it represents.
- Criteria with which to provide points for negotiation.

This information is important because it focuses the procuring organisation to document what it considers 'good' should look like and what latitude it can accept in negotiation. With these thresholds established and provided to the supplier, any offer is more likely to be aligned to what the buyer wants, and gives basis to negotiation before an offer is accepted. A supplier can improve its bid in concert with the buyer by considering the costs of the inclusion of each major component of a draft solution and asking a simple question – could the cost reduction realised by the removal or reduction in quality of that element improve the VfM and, thereby, its attractiveness to the buyer? However, establishing whether VfM is improved requires a comparator. In a competitive scenario this is the analysis of competitors' likely offers derived from market intelligence. However, as there are no competitors in Single Source there are three alternative comparison options:

- competing with the procuring organisation's 'should cost' model;
- competing with the supplier's offer with all major components delivered to objective levels; or
- a combination of the two.

This is not a straightforward linear process and should be conducted by a combined procurer and supplier team as an analytical negotiation. Facilitation by a neutral referee can improve the chances of achieving balance in the resulting solution.

Walk away

While it would be hoped that the successful Single Source supplier would cooperate in the definition of the solution and its intrinsic costs, that may not be the case and a more robust incentive may be needed to generate pressure to comply. Where does that pressure come from without competition?

The supplier must believe that the procurer is willing to walk away should a VfM threshold not be met, and also that it is willing to absorb the costs and time so far sunk in prosecuting the procurement. That threat is easily undermined if the procurer has shared with the supplier a 'drop-dead' date for delivery. The process will be far more successful where the procurer has sufficient time, budget, and stakeholder support to stop and start again, either with the same supplier, a different Single Source supplier or even a competition. This may require careful messaging and control of information with the supplier, and discipline within the procurer's team. It may also necessitate that procurement action is initiated earlier than a corresponding competition might in order to retain the walk away bargaining chip.

Residual Risks

Inevitably there are risks in managing a Single Source procurement. Some common major risks and their generic mitigations are shown at Table 2 below.

Risk	Mitigation(s)
Supplier's offer lacks detail	<ul style="list-style-type: none"> • Advertise that contract award is not automatic and offer will be checked/evaluated
Supplier's offer contains excess cost	<ul style="list-style-type: none"> • Advertise how offer will be evaluated and will be subject to VfM comparator • Explain that excess capability beyond requirement will only be accepted if it offers enhanced operational benefit and can be delivered within VfM expectations
Procurer loses focus on VfM	<ul style="list-style-type: none"> • Develop 'should cost' model and design an evaluation to compete
Solution fails to impress or achieve minimum VfM expectations	<ul style="list-style-type: none"> • Develop negotiation strategy, defining the minimum and maximum expectations and latitudes the customer will accept (such as minimum in some areas if high performance can be delivered in others)
Offer is insufficiently assured	<ul style="list-style-type: none"> • Ensure minimum requirements are tested in evaluation to identify capability that is below minimum expectation • Negotiate to bring capability within acceptable range • Have offer revised accordingly • Be prepared to walk away
Delivery beyond maximum requirement is not checked, considered, and removed	<ul style="list-style-type: none"> • Ensure maximum requirements are checked/confirmed • Any capability which exceeds requirements tested for operational benefit • Excess capability with no operational benefit removed • Have offer revised accordingly
Business case lacks evidence	<ul style="list-style-type: none"> • Conduct evaluation, negotiate, finalise, and agree

Table 2: Common Risks and Mitigations

How can Commerce Decisions support?

Commerce Decisions offers software and services solutions to support procurers in their Single Source and competitive procurements. Our expert services are underpinned by AWARD®, our market-leading software solution that is specifically designed to support complex, strategic, high-risk procurements. AWARD® and our supporting services are just as applicable to Single Source procurements as they are to competitive ones, specifically:

- **Procurement planning:** mapping an evaluation strategy and refining each stage to progressively refine and improve the alignment of the supplier's offer and the measurement of its VfM.
- **Structured Criteria Development:** a facilitated process supported by AWARD® to critically examine the procurer's needs and translate these to inquisitive criteria for the evaluation of the supplier's offer.
- **VfM and War Gaming:** a facilitated process supported by AWARD® to establish the appetite for VfM and define critical parameters in its calculation.
- **AWARD® build and evaluation support:** create a repository in AWARD® to accept and facilitate the evaluation of the supplier's offer and provide a detailed audit trail, inclusion of stakeholders in the process and support to negotiation.
- **Evaluation assurance:** ongoing independent assurance of the evaluation process to give confidence in results.
- **Reporting:** translation of all activity into reports suitable for supporting business case.

Conclusion

A decision to adopt a Single Source procurement does not abdicate the need for diligence in development of information and analysis to ensure delivery of a viable solution. Moreover, effort is required to ensure that the solution is acquired within known and agreed VfM parameters with 'gold-plating' removed but retaining justifiable profit that promotes an ongoing healthy relationship with the supplier. The benefits of using Single Source procurement should not overshadow the need to align the solution to customer needs and to achieve a defined VfM outcome. Single Source is not, therefore, a soft option and requires considerable effort to get right.

About Commerce Decisions

Commerce Decisions has been supporting strategic, high-risk procurements globally since 2001, and is at the forefront of best practice procurement. With a unique focus on complex evaluation, we have unrivalled experience in tender evaluation and are a trusted provider of procurement services to the public and private sectors. We deliver a robust and defensible procurement process to our clients, proven time and time again across many sectors including construction, transport, education, health, defence and facilities management – to date, we have supported over 17,000 strategic projects, collectively worth over \$500billion. This enviable experience and in-depth knowledge have enabled us to develop proven methodologies, supporting clients to deliver the best possible outcome on strategic and complex procurement projects.

Headquartered in Oxfordshire, UK, and with offices in Canberra, Australia, and Ottawa, Canada, Commerce Decisions provides software and services to support complex procurement processes for buyers. We improve the efficiency and effectiveness of the evaluation process to make the best buying decision based on all the relevant criteria, underpinned by our AWARD® software

About Jim Phillips

Jim Phillips has years of experience in a wide variety of roles in the public and private sectors. His 33 years in the RAF were spent in many differing roles giving him a wide appreciation of product design, usage, maintenance, and adaptation. Jim has elected to exploit this wealth of relevant experience into the role of direct client support to help overcome some of the pitfalls he experienced and realise the best possible outcomes for clients. He takes great personal pride in providing the best service for clients and quickly becomes a reliable and effective team member.

Jim is a senior consultant, delivering a range of procurement support mechanisms directly to project teams. Through a very varied career as an engineer, logistician and programme manager he has accumulated deep experience across a wide arc of procurement types and sizes.

