



Getting the best from panels of suppliers

Introduction

Each year, public organisations spend about \$42 billion on goods and services. It is important that New Zealanders get the best possible outcomes from public spending. Procurement processes that meet government expectations for transparency and integrity are also critical for people to have trust and confidence in the public sector.

One way that organisations can manage the procurement of goods and services is by setting up a panel of suppliers – a list of suppliers that have been pre-selected and have agreed to the terms and conditions of supply. We estimate that public organisations could be spending about \$2 billion¹ each year through panels they have set up for their own use.

During the last two years, we carried out work to learn more about panels of suppliers and how public organisations use them. We ran a survey of public organisations² to get more information about how many and what type of panels of suppliers are in use, as well as why public organisations have panels of suppliers and how they manage them. We then selected four panels of suppliers at different public organisations to look at more closely.

To get the best from panels of suppliers, public organisations need to ...

- ... be confident that a panel is the best procurement option.
- ... have good relationships with suppliers and be transparent with them about work going through the panel.
- ... monitor panel performance to see whether they are delivering the benefits expected.
- ... follow the Government Procurement Rules when setting up and using panels.

We considered:

- how well those panels of suppliers had been set up and managed;
- how effectively relationships with suppliers were being managed; and
- whether the panels of suppliers were established and operating as required by government procurement rules and consistent with good practice and the organisations' own policies.

1 This is an estimate based on the percentage of total procurement that organisations responding to our survey told us they spend through panels they have set up for their own use.

2 We surveyed all public organisations that are mandated or encouraged to comply with the Government Procurement Rules. More information about the Rules can be found at www.procurement.govt.nz.



As part of this work, we also talked with suppliers. They brought a different perspective to what good panel management looks like.

Our work identified aspects of organisational practice on setting up and managing panels of suppliers that might need improvement. In this article, we explain why these are important, as well as what the four panels of suppliers we looked at were doing well and what they need to improve.

We also pose a series of questions for public organisations to assess their own performance for panels of suppliers they already have or are planning to set up. These questions will help organisations be confident that a panel of suppliers is the right option, and to know how to set up and manage the panel in the most beneficial way.

We do not cover all aspects of, or requirements relating to, panels of suppliers, and this article does not replace other guidance and requirements. Public organisations should read this as a supplement to the Government Procurement Rules, our good practice guide for procurement,³ and any other relevant guidance.

What is a panel?

A panel of suppliers is a list of suppliers that an organisation has selected as being able to deliver the goods or services that the organisation needs, and with whom the organisation has agreed terms and conditions of supply.

As well as the panels of suppliers that they set up themselves, public organisations can use panels that have been set up centrally for all public organisations to use. These are either All-of-Government or Common Capability contracts. If an All-of-Government contract is available, organisations mandated to comply with the Government Procurement Rules must use it, unless there is a good reason not to. Some Common Capability contracts are also mandatory. Syndicated contracts, where one organisation sets up a contract but others can join, are another option.

A panel of suppliers can be a good procurement option when an organisation knows it will have an ongoing demand for a specific type of goods or service.⁴ With a panel of suppliers, an organisation

has to go through a full competitive procurement process only once – to select which suppliers will be on the panel and agree the general terms and conditions of supply. After the panel has been set up, the organisation can select a supplier for each item of work using a secondary procurement method.

Secondary procurement can be a competitive process (such as asking for quotes) or simply applying a fair allocation of work (for example, by offering opportunities to each supplier in turn). Suppliers can also be selected directly based on best fit or location.

Secondary procurement can be much quicker than a full competitive process, which means much less resource and effort is involved. This lowers the cost of procurement for both government and suppliers and allows the process to start more quickly. We found that this is the main reason that organisations choose to set up panels of suppliers.

What we found through our work

Two main aspects where public organisations could improve their panel management are:

- valuing relationships with suppliers – in particular, being more transparent about the panel of suppliers and the nature and level of procurement going through it; and
- monitoring the performance of the panel, including supplier performance.

The four public organisations we looked at all needed to improve in these two aspects. These two aspects were also identified as needing improvement in responses to our survey. Doing this well takes time and resources. The level of time and resources public organisations can commit will depend on the importance of the suppliers to them and on the amount they are spending through supplier panels.

Building strong relationships with suppliers requires ongoing effort from public organisations, but this has real benefits. Our discussions with suppliers provided useful insights into what they need from organisations. The need for more transparency was a strong theme. Public organisations can build

³ See the good practice section on our website, at oag.parliament.nz.

⁴ More information about when a panel might be appropriate is included in our good practice guide *Procurement guidance for public entities*, paragraph 4.42.

better relationships with suppliers through regular, two-way sharing of information and finding ways to work well together. Sharing information, such as who else is on the panel, upcoming work, who has been awarded work, and how secondary procurement is carried out will promote transparency and trust and provide ongoing benefits. These benefits include working with suppliers to develop better solutions that should lead to better value for money.

Monitoring panel performance helps an organisation to know whether a panel is achieving intended benefits and to identify where improvements are required. Monitoring is more effective when intended benefits have been clearly identified. This could have been done better by the four public organisations we looked at. By considering how work is allocated to the suppliers on a panel, monitoring can also support fairness and transparency.

Setting up and managing panels of suppliers effectively requires both time and procurement expertise. Organisations need to consider their staff capacity and capability to both set up and manage a panel effectively. If staff do not have the right expertise, or do not have time to do things well, it is more likely that panels will not achieve the public value intended.

Use of panels of suppliers

Just less than half of the public organisations that responded to our survey had panels of suppliers that they had set up for their own use. The public rightly expect that money spent through these panels will be spent appropriately. This means that it is vital that organisations set up and manage panels in a way that will deliver value for money and the best possible outcomes for New Zealanders.

In their survey responses, public organisations told us about the benefits and the challenges that come from setting up and managing panels of suppliers. The main benefit was reduced procurement costs. Many organisations also benefited from the convenience of knowing that all suppliers provided their services on the same terms and conditions and that they all met certain standards. Challenges related to monitoring, maintaining, and reviewing panels of suppliers, and a

lack of specialised procurement staff who knew how to set up and manage panels.

Setting up a panel

Planning for a panel

We expect public organisations to make an informed decision to set up a panel of suppliers or renew an existing panel. It is important that organisations know what is involved in setting up and managing a panel. Writing a procurement plan is a good way for organisations to ensure that they have gone through a thorough process to collect and analyse the information needed.

All four organisations we looked at closely had a procurement plan, but these varied in both the amount and type of information included. Each plan had aspects where it could be improved – analysis of the costs and benefits of the range of other options for example. Without this information, organisations cannot be fully confident that a panel of suppliers is the best option.

All four organisations used a template to create their procurement plan. Templates are helpful in making sure that plans contain all the necessary information, but will lead to a good-quality plan only if they are fit for purpose and completed properly. The templates we saw asked for a range of information, but the plans created did not always contain the information required or the depth of analysis we would expect to see. One plan had several sections with no information or sections noted as “not applicable”. For example, a question asking if any risks had been identified was answered as “No”. This plan resulted in a panel of suppliers that was non-compliant and, in general, had a poor selection of suppliers.

Panel costs and benefits

We expect public organisations to identify the potential benefits of a panel of suppliers in a way that allows those benefits to be measured. If a quicker procurement process is the main expected benefit, it should be possible to estimate how much time and cost a panel will save. None of the public organisations we looked at had done this. Without

this information, they will also find it difficult to know whether their panel of suppliers is achieving the expected benefits.

We also expect organisations to consider any risks or anticipated disadvantages from using a panel of suppliers. Again, this information will help an organisation know whether a panel of suppliers is the best option and, perhaps more importantly, will support the organisation to manage any risks associated with the panel.

The disadvantages of a panel of suppliers will vary according to the organisation or situation. Of the four organisations we looked at, two told us that suppliers cannot always provide what they need. This could be because no suitable suppliers had applied to be on the panel or the organisation had not done enough work to identify its needs before setting the panel up. In this situation, the organisation will have to go through a process to select another supplier and miss out on the benefits of having a panel of suppliers.

One organisation told us that having a panel means it cannot always benefit from changes in the market – such as when a new supplier enters the market. If an organisation has a panel of suppliers, it will not be able to use this new supplier, even if it is a better option. To mitigate this, panel contracts should have a fixed term, and include provisions for panel membership to be refreshed after a set period of time.

Another way to mitigate this is to have an open panel. This is where suppliers can apply to be on the panel at any time. The downside of an open panel is that the organisation might have to evaluate applications from prospective suppliers at any time, which negates the advantage of having to go through a procurement process only once. Having an open panel can also make it harder to manage the size of the panel.

Looking at other options

Setting up a panel of suppliers is one method that public organisations can use for procurement. Other options include going through a full competitive process for each procurement, using other types of supplier lists (for example a pre-qualified supplier list⁵) or, for low-value procurement, going to a supplier directly.

We expect public organisations to consider other options before deciding to set up their own panel of suppliers. In some cases, other options are available that should be used before setting up a new panel (for example, an All-of-Government contract, a Common Capability contract, or a syndicated contract when one exists).⁶ The Government Procurement Rules have more information about when organisations have to use these types of panels.

The four organisations we looked at took different approaches to considering alternative options.

One organisation investigated other options and included this information in its procurement plan. This included talking to the Ministry of Business, Innovation and Employment to get clarification on a proposed All-of-Government contract that might have met its needs. This organisation also considered using an existing syndicated contract. This approach helped the organisation have confidence that setting up its own panel was the best option.

For another organisation, a suitable All-of-Government contract is now available that was not when it set up its panel of suppliers. This organisation is in the process of moving to the All-of-Government contract because its own panel has come up for renewal. This organisation regularly reassesses whether having its own panel of suppliers is the best option and has been prepared to change when a more appropriate option becomes available.

Two organisations did not include any analysis of different procurement options in their procurement plans, although we are aware that neither had a suitable All-of-Government contract available. One organisation even noted in its procurement plan that it had not considered any other options.

Following good practice

As for any procurement process, there are requirements and good practice expectations when setting up and managing a panel of suppliers. Complying with these expectations helps public organisations achieve public value and support principles of accountability, transparency, and fairness.

We used the Government Procurement Rules⁷ and our own good practice guide to see what the four

5 A pre-qualified supplier list is different to a panel in that terms and conditions of supply have not been agreed and opportunities still have to be openly advertised.

6 The Government Procurement Rules have more information about when organisations have to use these types of panels.

7 The Government Procurement Rules are published by the Ministry of Business, Innovation and Employment. Depending on the type of organisation, all public organisations are required, expected, or encouraged to apply the Government Procurement Rules.

organisations we looked at had done well in setting up their panel of suppliers and where they could have improved. We did not carry out a complete assessment of compliance with the Government Procurement Rules.

We did identify some specific areas for improvement. For example, one organisation did not enter into an ongoing contractual agreement with the suppliers it had selected. Instead, it had a formal agreement only for each piece of work as it is awarded. This means that, technically, its arrangement is not a panel of suppliers and the rules for secondary procurement do not apply.

This organisation did run a competitive process to select its suppliers. However, some information we expected it to provide to prospective suppliers was missing or lacked detail. For example, there was little information about the types of work that would be required and no explanation of how responses would be evaluated. This organisation told us that it is unlikely to award work to some of the suppliers on its panel because they did not have the right experience. We consider that the organisation might have had a better outcome if it had been more specific in its requirements.

We also observed some examples of good practice. Some organisations issued a notice of procurement (for example, a request for proposals) that contained most of the required information for a procurement process, went through a competitive process to select suppliers, and agreed terms and conditions of supply through a contract with each supplier. The suppliers we spoke to were also satisfied with the process of setting up the panel. They understood the process, were able to comply with it easily, and received enough information about the panel they were applying to be part of.

However, there were some aspects all four organisations could have done better. In particular, they could have provided more information about:

- how they would evaluate and select suppliers to be on the panel;
- how many suppliers would be on the panel; and
- how secondary procurement would work.

Suppliers from all four panels also told us that they were not informed about how many other suppliers were on the panel or who they were. The Government Procurement Rules include

Questions for public organisations to consider when deciding to set up a new panel or renew an existing one

- Are you confident that a panel is the best procurement option?
 - Have you considered other options, including All-of-Government and syndicated contracts?
- Can you identify the benefits, risks, and drawbacks from using a panel?
 - How are you planning to assess whether you are achieving the benefits?
 - How are you planning to mitigate the risks or drawbacks?
- Are you confident that your staff know what they need to do to comply with the Government Procurement Rules and your own organisation's procurement policy?
- Do your staff have the capacity and expertise to go through the process of setting up a panel?
- Have you provided enough information to suppliers on:
 - the types of work and the skills and experience required so you get suitable suppliers on the panel?
 - how you will evaluate and select suppliers to be on the panel?
 - the number of suppliers on the panel?
 - how secondary procurement would work?
 - who was successful in getting on the panel?

an expectation that, for transparency, public organisations should publish the names of all suppliers appointed to a panel as part of their contract award notice.⁸

Capability and capacity

Setting up panels of suppliers is not something a public organisation does frequently. Even staff members who regularly carry out procurement are unlikely to have a lot of experience in setting up a panel of suppliers. We expect organisations to make sure that suitably qualified and experienced staff either lead this work or are closely involved. This will ensure that the panel of suppliers is set up well and complies with the Government Procurement Rules.

In three of the organisations we looked at, procurement staff led the process to set up their organisation's panel of suppliers or a procurement specialist was closely involved. However, the fourth organisation had only minimal input from the procurement team. The difference in approach was evident in the quality of both the process and the supporting documentation.

Although panels of suppliers are often used to reduce lengthy procurement processes for each purchase, a lot of work is still involved in setting up a panel. Public organisations need to go through a full competitive procurement process to select suppliers to be on the panel. To do this well, organisations need to make sure that they commit enough resources to setting up the panel. Organisations can contract additional resources for this if needed.

There is still work to do after a panel has been set up. Although there might be less effort required subsequently for each piece of procurement, effort is required to manage the panel effectively to get the most value from it.

Managing a panel

Valuing supplier relationships

In our view, the most important thing public organisations can do to get better results from their panels of suppliers is to build their relationships with suppliers. Suppliers told us that they are more likely

to go “above and beyond” for the organisations they have a strong relationship with. One supplier told us they offer lower prices when they have built trust with an organisation.

When there is a strong relationship between organisations and suppliers, suppliers are more likely to understand how the organisation works and what it is trying to achieve. This helps the supplier to provide better value because they can provide targeted ways of meeting the organisation's needs. Having a strong relationship can also help procurement go more smoothly and make it easier to resolve any problems that come up.

All four organisations we looked at could be doing more to engage with suppliers and create more transparency about the panel. Suppliers told us that the organisations rarely contacted them unless it was about a specific procurement – for example, if the organisations were asking suppliers for quotes. Although some information, such as pricing, can be commercially sensitive, there is a lot of information that can be shared. As well as not knowing who else was on the panel, suppliers did not know what work was going through the panel. It can be difficult for public organisations to build trust with suppliers without transparency.

Suppliers told us they would like to have better communication from the organisations and more opportunities to engage with them. In particular, suppliers would like to know more about upcoming work, how the panel works, and which suppliers have been awarded work through the panel. It is good practice for organisations to share this information.

Monitoring panel performance

Monitoring how well a panel is performing is also important. This helps an organisation know whether a panel is working as intended or whether improvements are needed.

Monitoring can also support fairness and transparency. For example, performance information could help show whether some suppliers are getting a disproportionate share of work through the panel.

How well a panel performs will depend, to some extent, on how well the selected suppliers perform.

⁸ Public organisations must publish a contract award notice on the Government Electronic Tenders Services (GETS).

Monitoring supplier performance can help organisations to identify and address problems quickly, and it can help organisations to understand which suppliers are providing better value. When a supplier is not performing well, feedback can help improve performance.

None of the four organisations we looked at were routinely monitoring the performance of their panels of suppliers, including the performance of individual suppliers. Even though some could generate information about the panel of suppliers easily, they did not routinely do this. This also meant that they could not reliably state how well the panel was performing against expectations. Understanding how well a panel is performing can also help public organisations decide whether to renew a panel when its term has ended.

Despite this, all four organisations we looked at told us that they considered their panel to be working as intended, and that some benefits had been realised. However, none of the organisations could substantiate this. One organisation, which had wanted a quicker procurement process, told us “there’s no benefits monitoring, we just know that it’s quicker”.

The relative size of the panels of suppliers we looked at was a factor in the level of panel management. When the amount of procurement being carried out through a panel was a small proportion of the overall level of procurement, organisations were less likely to actively manage the panel. Two of the organisations we looked at had systems in place to manage relationships with their most important suppliers and monitor their performance. However, the level of procurement carried out through the panels we selected was beneath the threshold for this. The other two organisations did not have any structured supplier management in place.

We understand that all organisations have to prioritise and make decisions about how much resource they can commit to each activity, including managing panels of suppliers. What we found from this work, and in particular from talking to suppliers, is that there is scope for organisations to get more value out of their panels if they put in more effort and resources. We recommend that all organisations with their own panels of suppliers consider what they could do to get more value from them.

Knowing how to use the panel

The people who set up a panel of suppliers will not always be the ones to use it. To make sure that a panel is used as intended, the organisation needs to ensure that all relevant staff know that there is a panel of suppliers available, when they should use it, and what processes they need to follow. There are different ways organisations can ensure that staff have the information they need, such as by providing training or process guides.

The panels we looked at were all used by only one team in each case. This meant that panel use was easy to control. Staff we spoke to all knew about the panel of suppliers and how and when to procure work through it.

Two of the organisations provided written guidance for staff. This guidance included a list of all suppliers on the panel and, where applicable, agreed pricing. The guidance also explained the process that should be followed for secondary procurement. New staff who might need to use the panels received some information at induction, and refresher training was available for all staff. Staff also had access to support from the organisations’ procurement specialists when required. As a result, staff were more likely to use the panel as intended and comply with any requirements.

Secondary procurement

Public organisations told us that the Government Procurement Rules about secondary procurement are not clear and that it is easy to justify direct procurement. One organisation told us that the Government Procurement Rules could be interpreted as “do whatever you like”. For example, the Government Procurement Rules state that a competitive process should be used “unless there is a good reason not to”. This can include when the procurement is low value and low risk or where the organisation already has enough information to make a selection. For panels of suppliers, our survey data suggests this will be the case in many instances.

The Ministry of Business, Innovation and Employment told us that the Government Procurement Rules are intentionally permissive, to allow agencies to meet their own needs. Although allowing some flexibility

has benefits, too much flexibility can defeat the purpose of having rules. Direct procurement might be more convenient but will not always result in the most public value or fair treatment of suppliers. We encourage public organisations when carrying out secondary procurement, to ensure that they are upholding the five principles of government procurement⁹ that apply to all procurement.

Three of the organisations we looked at did stick consistently to one or two permissible secondary procurement methods. All three used a competitive process most or all of the time and also had to get approval for contracts over a certain value. This is good practice.

These organisations did not do so well with keeping suppliers informed about what work was being awarded through the panel and who it was awarded to. Without this transparency, some suppliers might feel they are being treated unfairly even if they are not.

As discussed earlier, the fourth organisation did not follow good practice when setting up its panel of suppliers and, as a result, its arrangement does not actually meet the definition of a panel. This means that this organisation should not use secondary procurement processes and instead go through a full comprehensive process for each contract.¹⁰

The Government Procurement Rules are clear that organisations must decide the secondary procurement methods they will use in advance and this should be disclosed in the information provided to prospective suppliers applying to be on the panel. Two of the organisations we looked at provided a brief description in their procurement documents of the secondary procurement methods they would use. The other two did not provide this information. As well as being a requirement, providing more detail about secondary procurement is fairer and more transparent for suppliers.

Questions for public organisations to consider for effective management of their panels

- How often does your organisation talk to all suppliers on its panels to share information about:
 - work that has been awarded through the panels and upcoming work?
 - different ways suppliers can deliver what your organisation needs?
- Is the method of secondary procurement being used to award work clear to all suppliers on the panels?
- Does your organisation regularly review:
 - the suppliers on the panels (for example, to allow for new suppliers to enter the panel)?
 - who has been awarded work through these panels?
 - the performance of the suppliers being awarded work ?
 - the spending through the panels across the organisation?
- Does your organisation know what improvements could be made to its panels?
- Does your organisation provide training and support to all staff who might use the panels?

⁹ The five principles of government procurement are set out in the Government Procurement Rules. They are: plan and manage for great results, be fair to all suppliers, get the right supplier, get the best deal for everyone, and play by the rules.

¹⁰ This applies to contracts with a value of more than \$100,000. However, for smaller contracts, the five principles of government procurement still apply, and it is good practice to have a robust process for selecting suppliers. This can also include getting quotes.