POSITIONING PRIVATE SECTOR ENGAGEMENT FOR SUCCESS THROUGH A MULTI-SUPPLIER STRATEGY

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Introduction: Outsourcing can provide governments with access to efficient, reliable services that leverage the private sector's expertise and existing assets. Partly due to the COVID-19 response, there is an increasing focus on using private sector logistics firms for in-country public health logistics operations, mostly for warehousing and transportation. In addition to competition, using multiple suppliers, through a multi-supplier strategy, can have major benefits.

Through the years, VillageReach has brokered public-private partnerships successfully, and it believes that the global health sector is just scratching the surface of possibilities. To promote this model, this briefing was produced to share learnings on the important topic of multi-supplier strategy based on VillageReach work introducing private sector capacity into public health supply chains.

Competition and Supplier Strategy: Using competition when contracting for logistics services is a well understood imperative to get value for money. Competition motivates contracted firms to differentiate in service, quality and price and creates value for customers. In logistics services, deciding on the most appropriate supplier strategy (i.e. a single supplier vs multiple suppliers), is also critical and can be the difference between success or failure. While more complex to manage, having multiple suppliers eliminates information asymmetry as governments can compare supplier costs and operating models. Multiple suppliers are also key to supply chain resilience. If, for instance, the sole supplier decides to exit a given country or region, or goes bankrupt, the government can find itself without an operating supply chain. Additionally, a multiple supplier strategy reduces the possibility or even appearance of favoritism and collusion.

What VillageReach has learned about the advantages of a multiple supplier strategy: Our work with private sector logistics firms has focused on the transport of health commodities from the provincial level to health facilities in the DRC, Malawi and Mozambique. We have worked with 4PLs (Fourth-Party Logistics) and 3PLs (Third-Party Logistics), with 4PLs providing management services, and the 3PLs doing the actual transportation. Many of these firms have not previously worked with the public health system. Their government counterparts typically have limited experience managing these firms. Here are some of our key learnings:

- **Begin with the end in mind:** Supplier strategy needs to be set at the start of your outsourcing journey. Unlike buying products, logistics services require a high level of operational process integration between government and private sector; otherwise, services will not be cost efficient or sustainable. To support integration, jointly agreed standard operating procedures and Service Level Agreements are needed and should be based on your own operating model standards (Metrics & Performance, Organization & Governance, Processes & Practices and Technology & Systems). A multiple supplier strategy makes it easier to switch suppliers if needed and avoids creation of an incumbent advantage that could inhibit future competition.
- **Be proactive with supplier cost and performance improvement strategies:** Logistics firms have different cost models leading to differences in cost performance (cost per cubic meter, cost per km, etc.) and capital expenditure levels, particularly for information systems. A multiple supplier strategy provides governments with access to several companies' data and provides insights on cost differences and on how to reduce costs.
- **Leverage the capabilities of firms with higher operational maturity:** Logistics firms vary in sophistication when it comes to important activities such as data analytics, local supplier development and information systems use. A multiple supplier strategy allows you to transfer best practices from the more mature to the less mature firms so they can better meet your cost and service targets.
- **Define target operational models:** Logistics firms have major differences in their operating models, particularly when it comes to use of technology, staffing model & locations, and which services they provide through their

own staff vs those, which they sub-contract. These decisions affect costs, service quality, and the development of smaller local firms. A multiple supplier strategy allows you to understand these differences and make decisions based on your own strategic priorities and operating model standards.

What do you do when there is only one viable supplier? In some countries or sub-national units, the logistics supply market may feature only one viable supplier, or the total volume may be too small for multiple suppliers, so a single supplier strategy is the only option. While governments could embark on an effort to develop the supply market, this can easily, take several years. In this situation, special attention needs to be paid to supplier management and collaboration practices. The practices listed below are also recommended for a multi-supplier situation, but they are especially critical when you have only one viable supplier.

- **Benchmark logistics costs:** During the procurement phase, ensure that you have access to the costs for similar services based on the actual experience of the firm's other customers. This will enable you to compare the quotation with external benchmarks.
- **Use open book pricing and ensure transparency on actual costs:** Ensure you have access to the private sector firm's detailed costing including an identifiable profit margin. Insist on detailed monthly invoices so you can identify cost variances and jointly identify cost improvement actions. Conduct monthly cost variance reviews.
- **Consider unbundling tools from services:** Understand the cost of information systems and tools such as vehicle tracking systems, transport management systems, proof of delivery systems, etc. Investigate whether you should purchase those tools directly. Purchase costs and yearly service charges can be significant.
- **Collaboratively manage a cost reduction plan:** Define cost savings objectives and have the logistics firm define a cost savings plan with yearly targets. Review the cost savings plan each quarter. When possible, define a gain sharing agreement where savings are shared with the private sector firm. Be aware that effective gain sharing requires a high level of data integrity and agreed rules to calculate performance vs baseline.

While a multiple supplier strategy means more complexity to manage, given the implications for political acceptability/public trust, supply chain resilience and long-term sustainability, VillageReach believes the effort is well worth it. Fortunately, there are a number of tools that can be leveraged in navigating private sector engagement with logistics firms. In 2020, an Outsourcing Toolkit (OSTK) was developed to support governments as they consider outsourcing. OSTK development was led by Africa Resource Centre (ARC), with support from the United States Agency for International Development (USAID), the Global Fund to Fight Aids, Tuberculosis and Malaria (The Global Fund), and the Bill & Melinda Gates Foundation. The World Health Organization recently published A Guide to Contracting for Health Services during the Covid-19 Pandemic (2020), a practical manual on supplier evaluation, selection and contracting that provides useful mitigation practices.

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