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Corporate Plan Output: 8.2.0 Libraries & Information	

The purpose of this report is to seek the Committee’s approval for Canterbury Public Library to enter into partnership arrangements with selected library suppliers for the provision of library materials and associated services.

PURPOSE OF THIS SUBMISSION

Council approval is sought for the Library to:

- Consolidate the majority (80%) of its purchasing of library materials and associated services.
- Enter into arrangements with a small number of selected suppliers for the provision of these materials and services at a total cost of approximately \$2.2 million.
- Establish these arrangements on the basis of long-term partnerships rather than standard contracts.

BACKGROUND

Since April of this year the Library has been preparing implementation action recommended in an earlier review of its Collection Services functions. That review was the subject of a seminar meeting of the Committee in May this year. This work is nearing completion and will result in significantly increased efficiencies and improved customer services. Implementation is planned for early October 1999.

Amongst the improvements are proposed changes to the Library’s relationships with its suppliers. These changes will have two major effects:

- They will better enable the Library to utilize its buying power, thereby reducing the prices paid for library materials and related services
- Even more importantly, the particular type of arrangements proposed: partnerships rather than standard supply contracts, will enable considerable streamlining of materials processing at both the Library and supplier ends of the process chain, resulting in major cost reductions and service improvements

The central requirement to achieve these outcomes will be the establishment of partnerships with a greatly reduced number of suppliers, each of whose volume of library business will be greater than the Library’s present highest volume supplier. As well, much more in the way of technical capability and range of services will be asked of each of these suppliers than is currently demanded of existing suppliers.

These arrangements will cover the relatively standard type of materials and services which amount to approximately 80% of the Library’s annual purchases.

OVERVIEW OF THE SUPPLIER SELECTION PROCESS

To this end expressions of interest were invited from all potential suppliers whether or not they were currently doing business with the Library. In accordance with the Council's local supplier policy, care was taken to ensure that all local suppliers were aware of the invitations; 'local' meaning Christchurch and New Zealand generally.

Those who expressed an interest to proceed to the full tender stage were evaluated and shortlisted. Shortlisting was based on the suppliers' ability to meet only the most essential of the requirements. The shortlist was therefore more inclusive than exclusive and contained ten companies

The shortlist did not, however, contain any of the eight Christchurch-based companies who had expressed interest, as none of them could satisfy even the most basic technical requirements.

Library management held a special meeting for local suppliers to provide the opportunity to discuss the situation more fully. A number of these suppliers nevertheless requested they be permitted to proceed to the full tender. After consultation with the Council's Corporate Services (Inventory Unit) this was agreed to and, along with the shortlisted companies, local suppliers were provided with the full tender specification. Ultimately tenders were received from seven of the ten companies on the shortlist, plus two Christchurch-based suppliers.

Only one tender was received for periodical material and related services (magazines, journals, etc) with the other eight being interested in monographic services only (books, audio-visual materials, etc).

The tenders have been extensively evaluated against a broad array of technical and performance criteria and, of course, on the basis of prices offered for both materials and services. The assessment has been performed on an absolute basis, and in the case of monographic services, on a comparative basis as well.

THE PROVISIONALLY SELECTED SUPPLIERS

In the case of periodical materials and services, the only tender received has been assessed as satisfactorily meeting the requirements. It is proposed that, subject to Council approval and satisfactory outcome from continuing discussions on price and several technical issues, a partnership be established with this company. The company is Ebsco. Like the majority of its competitors, Ebsco is an international firm and has its headquarters in the USA.

Of the eight companies tendering for monographic materials and services, including the two local suppliers, the assessment concludes that two companies are very considerably more suitable than another relatively equivalent group who do not meet some of the more important requirements.

The two local suppliers rated less well than this second level group and, in fact, are unable to meet any of the more essential needs. This is unlikely to change in the foreseeable future, as they are unlikely to reach a scale of business which would justify the considerable capital investment required to develop the technical capability and infrastructure needed to provide the required services.

Further discussions are presently taking place with the superior of the two best-rated tenderers. It is proposed that, subject to the satisfactory outcome of these discussions, approval be given for a partnership with this company. The company is Peter Pal Pty Ltd, which is based in Queensland and presently operates both in Australia and New Zealand.

As mentioned earlier the level of library business which these two partnerships would collectively undertake would be approximately 80%. Of the remainder, something approaching 5% relates to material for the Library's New Zealand collection. A separate tender for this is currently being called. It will undoubtedly be awarded to a local supplier, most likely to a Christchurch-based company.

Of the remaining 15% of material, this will continue to be sourced from other suppliers, the majority of which will be sourced from New Zealand, including Christchurch-based suppliers.

Approval of the arrangements outlined above and assuming a successful outcome of the continuing discussions with the preferred tenderers, the following would apply:

Type of Material	Company	% of Total Business	Value of Business (Rounded) (\$000s)	
Serials	Ebsco	11%	Materials	300
			Services	10
Monographs	Peter Pal	64%	Materials	1,800
			Services	265
New Zealand Monographs	Local company yet to be selected	5%	Materials	100
			Services	-

It is intended to reflect the proposed partnerships in performance-based contracts for periods of up to five years, with a right of renewal subject to satisfactory performance.

BENEFITS TO THE LIBRARY

The proposed arrangements will have the following major benefits:

• Savings from reduced material prices	\$100,000
Net Cost reductions from process streamlining	\$460,000
Total Savings	<u>\$560,000</u>

- Service benefits:
 - a reduction in average purchasing turnaround time of 50% (5 weeks)
 - improved control over and efficiency of purchasing process
 - improved selection of library materials

As indicated in the original proposal, the benefits will not be realisable until the second year of the project, as investment in achieving the changes has been required in year one.

The motivation of the review has always been to achieve savings which can be reallocated within the unit to enable us to cope with the growth in business, or which can be reallocated to providing services in different ways, particularly through technology.

From this point of view the review has been successful. The non-financial benefits which will flow from the changes are also significant.

THE VALUE OF PARTNERSHIPS

The main benefits of establishing a partnership rather than the usual contractual relationships are:

- The longer-term nature of the partnership enables:
 - services to be further improved over time through the mutual pursuit of improvement objectives;
 - a more effective working relationship between the contracted parties;
 - lower price margins due to the longer-term business security of the supplier.
- More effective management of performance and performance deviations.

Provided the appropriate controls are built into the partnership agreement, a partnership is paradoxically more effective in the very areas on which arguments for the standard, short-term contract are typically based, namely:

- to maintain competitiveness;
- to keep options relatively open;
- to promote performance incentives.

With unambiguous performance, improvement objectives and effective partnership management, partnerships can be far more effective in these three areas than short-term contracts because of:

- partnerships being entirely performance based and, despite expectations of longevity, can be terminated at short notice;
- the value of partnership business both in unit scale and potential for long-term business security are powerful incentives to perform competitively and consistently.

The nature of the Library's materials and services requirements and the supply context itself are well suited to the partnership arrangements. Effectively managed, it holds great potential for on-going benefits into the future.

IMPLICATIONS FOR LOCAL SUPPLIERS

Despite the fact that a Christchurch-based supplier will almost certainly be selected to provide material for the New Zealand Collection under the yet to be finalised tender, there will be a net reduction in the business volume of local suppliers under the proposed arrangements.

All of the materials whose purchase will transfer from Christchurch suppliers to the proposed new vendors are published off-shore. The present Christchurch suppliers currently source these from their various off-shore agents and publishers. Therefore, in estimating the financial effects on the local economy, the actual effects are restricted to the gross profit margin achieved by the local suppliers from the prices paid by the Library.

This figure can be estimated reasonably accurately. The aggregate gross profit margin from the total business which the new arrangements will redirect away from Christchurch suppliers would be not greater than \$100,000. Of course this would be distributed over the ten local suppliers with whom the Library presently has any significant business. The supplier who currently has the highest proportion of this business would have a gross margin reduction of about \$25,000.

Many if not most of the Christchurch suppliers will retain some Library business, nevertheless. The need will remain for urgent supplies of popular and high-use materials, for one-off purchases and local interest items.

- Recommendation:**
1. That the information be received.
 2. That the three proposals in paragraph one of this report be approved.

Chairman's

Recommendation: That the Libraries Manager be authorised to complete negotiations with:

- (i) Ebsco for the provision of "serials",
- (ii) Peter Pal for "monographs"

and with local supplier(s) for New Zealand "monographs".