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## A MARKET INTELLIGENCE SYSTEM

This report could represent the first step in establishing a 'market intelligence' system that could bring significant benefits to the region. Existing analysis could be combined with a pipeline of upcoming regional public procurement opportunities and correlated with the capacity of regionally based businesses, to create a strategic planning tool for both the region and businesses based within it.

This approach would require analysis of the current performance of North East businesses in competing for public procurement contracts outside the region and opportunities for businesses to compete. Matching the two would indicate where strategic investment in capacity would be likely to bring the greatest return and could facilitate partnering between public, private, and third sectors to make the most of regional opportunities to build businesses that can compete more effectively at a national and European scale.

The attached table (Appendix 2) shows that the North East currently represents only 4.3%<sup>1</sup> of total national GVA despite the public sector accounting for around 33% of the economy. This clearly demonstrates the vulnerability of the region, as there is a continuing move to aggregation of public service contracts; however, at the same time, it represents a significant opportunity for the region to win more business from other parts of the public sector.

A 'market intelligence' system would be well suited to public procurement as anticipated demand is better able to be determined than in many other market sectors, and it is possible to develop strategic partnerships (such as the Regional Procurement Forum) to maximise opportunities. By preparing ahead for the predicted shift to national procurement, the North East should be able to secure a competitive advantage for its business base, harnessing the spending power of the public sector to secure the RES growth objectives.

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## SUMMARY

This project has broken new ground in a number of areas. It has looked for the first time at the economic role of public sector procurement, using a combination of Input-Output and LM3 research to develop and demonstrate the potential impacts on the regional economy as a whole. The key findings are:

- The public sector spends £3.4 billion per annum on procurement and around £1.57 billion or 45% of this amount within the North East.
- Baseline re-spending of 45% results in an additional contribution to the region of a further £1,160 million GVA and approximately 35,600 FTE jobs.
- Data regarding the FTE occupations shows that changes in employment would focus on professional, and managerial types.
- A likely base scenario demonstrates a net reduction in GVA of £56m million by 2016, with the vast majority of this reduction being born by the construction and service sectors. The reduction in FTE was projected to be approximately 1,700 jobs within the region.

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<sup>1</sup> Source. Regional GVA 2005, Office for National Statistics

- Mitigation of these consequences can be achieved by increasing the propensity to re-spend public budgets regionally. An annual 1% increase in the regional re-spend rate from 2007 to 2016 is projected to offset the impact of cashable efficiencies.
- Following the recommendations below would further advance this approach from a statistical base to a practical but strategically targeted delivery mechanism, which would be able to draw together public, private, and regionally agendas around creating and efficient use of resource and growing the regional economy.

These findings, coupled with the optimistic scenarios, reveals how the public, private, and third sectors could work together to make a positive impact on the economy by procuring smarter. As both individual buyers and viewed as a whole, the North East public sector, working alongside the private and third sectors has the ability to shape the regional market by combining a shift in its spending behaviour with enterprise support for potential growth areas. This would also strengthen the region's businesses to compete for national and European public sector procurement contracts.

## RECOMMENDATIONS

The broad theme arising from this report's analysis is the opportunity for ONE to lead the development and delivery of a 'market intelligence mechanism' for public service delivery. Such a mechanism would serve to:

- Build on existing investment by ONE and others in understanding public procurement behaviour and acting on the results,
- Offer a cohesive regional approach to delivering on both public procurement and regional economic development targets, and
- Grow regional businesses based on actual, rather than anticipated, opportunities.

The components of this entail the development of both the demand side and the supply side of the market:

- Demand: Identify procurement opportunities in advance of formal tendering to ensure they are structured in the best way possible to achieve multiple targets and true efficiency. This approach could be applied across the private and non-profit sectors as well.
- Supply: Identify and stimulate supplier development to deliver the procurement opportunities identified, including consortium development and second/third-tier contracting opportunities.
- Performance management: Use LM3 Online (or other tool) to measure ongoing progress of this approach as well as to identify opportunities for improvement.

Taking such a place-making approach builds on the strengths of the region to increase competitiveness and address opportunity. Such an approach would sit particularly well within the Regional Procurement Forum. It should also be noted that such an approach would also make a significant contribution to a mechanism to decide how to utilise business support to maximum effect in realising RES objectives.

## DEMAND SIDE

Growing a competitive regional economy depends not just on shaping the supplier base but also shaping what buyers ask for. A 'market intelligence' system should address the demand side of the market; that is, what and how buyers ask for goods and services – identified forward procurement opportunities. A regional approach to identifying procurement opportunities as they arise, exploring how these opportunities can be best exploited for regional economic benefit, and mainstreaming these approaches in the future, would be beneficial.

## SUPPLY SIDE

Suppliers require support to access and compete for public contracts. A regional approach to matching supplier capacity with identified forward procurement opportunities in the North East and nationally (and in the EU) would be beneficial. By identifying solid opportunities for commercial activity, ONE can focus enterprise support – through Business Link and other complementary initiatives such as the Growth Project - towards those markets where there stands the greatest economic gain.

## PERFORMANCE MANAGEMENT

The ongoing efficacy of the market intelligence mechanism and opportunities for its improvement can be most directly and simply captured using LM3 (though other tools could be used). LM3 demonstrates where public spending circulates in the local and regional economy. This approach would build on ONE's previous investment in the North East LM3 Project, for which almost all local authorities have produced a benchmark figure. By shifting existing LM3 data onto a web-based platform, such as LM3 Online, the region can ensure ongoing application and use of LM3 results as well as the ability to share results across the region.

By encouraging the integration of this approach into tender and contract obligations, the region would build an invaluable source of actual economic behaviour and data that could inform progress towards RES objectives via DBS and other models.

## SPECIFIC ACTIONS

For this approach to succeed the following elements would need to be in place:

1. A picture of forward procurement opportunities across the North East classified by potential for regional procurement,
2. Agreement to target these opportunities with forward planning of the tender process,
3. An appreciation of supply chain capacity which is regionally based, or in which regional businesses formed a significant part of national or international consortia,
4. An appreciation of labour market capability against procurement opportunity,
5. A study of current performance by North East businesses in competing for public sector procurement outside the region and within Europe, and

Adoption of LM3 Online or a similar tool to enable ongoing data collection and performance management