Are You Ready for a Single-Source Contract? Part 1

It can be risky but rewarding to promise a lot of your production capacity to a single client.

If your margins are squeezed by constant demands for lower prices, maybe it's time to develop a more strategic approach. For example, consider what it would take to earn a single-source contract from your biggest client.

Although single-source contracts involve risks, you could win an agreement that promises millions of dollars of work over two or three years without having to separate bids for every project.

In Part 1, we'll look at some risks, benefits and clauses of single-source contracts. Looking ahead to Part 2, we'll look at technologies, tactics and support networks that can help more printing businesses promote themselves as single-source providers of marketing-support services.

Single-Source vs. Multi-Source vs. Sole-Source

A single-source contract is different from a multi-source or sole-source contract.

In a **multi-source** contracting approach, customers accept competitive offers for specific services from various suppliers on an open market. The customer can choose a "best-in-breed" supplier on the basis of price, quality or service.

A **sole-source** contract implies that your company is the only one capable of providing the specified service or product. It would be difficult for your clients to take their business elsewhere.

In a **single-source** contract, the customer selects a single supplier to deliver a range of services over a period of several years. Under the terms of a single-source contract, your company is responsible for hiring subcontractors and ensuring that they provide the agreed-upon level of services. Clauses included in most single-source contracts enable the client to take some or all of their business elsewhere if your company doesn't perform as expected.

Why Do Buyers Want a Single-Source Contract?

Single-source contracts have been used for decades to improve efficiencies in fields such as construction and just-in-time auto manufacturing. Now they are being negotiated as a means of controlling

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costs in the increasingly complex fields of marketing communications and retailing.

According to InfoTrends*, "The relevance of print-only outsourcing contracts is in decline. Enterprises are seeking external support for cross-media communications, creative services, data management, analytics and other value-added services."

Here are a few reasons why buyers are migrating toward single-source contracts:

Omnichannel marketing strategies can be mind-blowingly complicated. Omnichannel marketing is defined as providing consistent experiences for your customers no matter where they interact with your brand. Retailers are striving to give customers a simple, consistent experience whether they are researching and/or buying products in stores, on mobile devices or online.

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Delivering a personalized, consistent experience across multiple platforms can be particularly difficult and inefficient when different suppliers produce different elements.

Retail procurement expert Bryan Eaves of Sourcing Business Solutions says buyers really don't want to order separate pieces of the puzzle from 10 different companies and then figure out how to pull all the pieces together: "It's a lot easier to manage relationships with one or two suppliers than trying to manage 10 different relationships."

Plus, says Eaves, it's easier to hold one vendor accountable when problems arise (i.e. "there's just one throat to choke"). He says graphics companies that promote themselves as a one-stop shop tend to get the buyer's attention. "It implies that your company will be easy to do business with."

Data-driven marketing is making traditional marketing plans obsolete. Relying on a single supplier for multiple marketing services gives buyers the flexibility to change tactics based on the measureable behaviors of their customers. Today, marketing automation tools can analyze which devices customers are using to research products, what information they consider important, and what channel each customer uses to place the order.

Although well-managed companies may still establish marketing strategies with defined starting points and end goals, the tactics in between will frequently be revised.

Success is easier to measure and report. When business attorney Richard Trimber served as COO for a national replacement remodeling contractor, he implemented marketing communications strategies for home-improvement retailers. At first, he accepted the adage, "I know I'm wasting half of my marketing dollars, I just don't know which half." But things improved quickly after his company selected a single supplier to develop and manage their messaging over all platforms: print, the web, social media and direct engagement in showrooms. All work formerly done by several service providers is now handled by the one supplier they identified as the most innovative.

"The single-source contract immediately improved our ROI. It cut the lead cost and improved the quality of the leads, improving our close rate by 25 percent," says Trimber. "From this, we improved our customer communications and sales process."

Monthly review meetings were also more productive, because multiple service providers weren't competing to take credit for successes and pointing fingers at each other when something didn't work.

Contract-management practices are being refocused on achieving success instead of punishing failures. The shift to single-source contracting is occurring in all types of enterprises for many types of functions. According to Tim Cummins, CEO of the International Association for Contract & Commercial Management (IACCM), some procurement officials are moving away from their narrow focus on short-term savings. Enterprises are seeking suppliers that can deliver sustained improvements in cost, quality and innovation and support flexible, market-oriented operations.

A recent IACCM survey revealed that almost 60 percent of contract practitioners expect contracts to become more 'relational' and less 'transactional' in the next few years. Some contracting professionals now realize that transactional contracts constrain change rather than anticipate and enable it.

How Single-Source Contracts Are Structured

A typical RFP for a single-source contract will ask you to provide a master list of prices instead of detailed estimates for specific jobs. The customer will pay a premium for the convenience of dealing with a single source for multiple services. Plus, the customer will pay an agreed-upon mark-up for the cost of subcontracted services.

The exact terms of a single-source contract will depend on the type of services being provided and the relative sizes of the two companies involved. A large company contracting with a smaller company will typically have the leverage to negotiate more favorable terms. But a small company with very specialized skills or hard-to-find expertise in emerging technologies will also have some bargaining power.

Length: According to Eaves, a typical single-source contract for a printing services might be two years, with options for one-year renewals. But the initial term could be longer if your staff will be directly involved in managing or analyzing data and recommending cost-effective solutions.

Rock LaManna, CEO of the LaManna Alliance* print-business consulting firm, has negotiated several single-source contracts for clients in the graphics communications field. From his experience, contracts typically start with a three-year term and guarantee the print-service provider at least $1 million in purchases per year. If the supplier succeeds in helping their customer grow, the supplier can expect the contract to be extended with even higher levels of anticipated purchases.

Percentage of Sales: You don't have to be a big company to attract interest from big customers. In some cases, a well-managed, growth-oriented marketing-services provider could attract the attention of a big company that would like to become their biggest customer.

Once a buyer knows that their company is your firm's biggest customer, they will expect you to always put their company's needs and interests ahead of your other clients. This type of leverage can be particularly beneficial in situations such as multi-store POP campaigns in which all pieces must be delivered and ready for display by a popular target date (e.g. the first of the month or pre-holiday date.)

LaManna recalls a contract in which a single client provided 90 percent of the company's sales. He points out, "There's nothing wrong with having multimillion dollar accounts, as long as you can keep them."

Escape Clauses: When a client awards you a single-source contract, they are taking the risk of trusting you to deliver everything they expect. To protect themselves, they typically insist on an escape clause that that lets them take some of their business elsewhere if your company under-performs.

For example, some service providers may overstate their readiness to handle some of the contracted services. Or, they may fail to meet important deadlines or quality standards.

According to Eaves, some graphics firms request a 90-day "cure" period to fix any problems that arise. That sounds good in theory, he says, "But when things are working badly, 90 days is a long time — especially if the marketing manager is getting his butt chewed out by the company CEO every week."

In reality, no buyer really wants to walk away from a single-source supplier. There's too much at stake for both sides. If you have established a strong working relationship, however, a client will identify potential issues as they arise. And, they will give you plenty of opportunities to resolve little problems before they morph into big problems.

Outsourcing Markups: Eaves says when a buyer hires a single-source contractor, they typically don't expect you to have to outsource more than 20 percent of the work in the contract. When you do outsource, the contract might include a cap on how much "cost-plus" you can charge for managing the outsourced service. For example, you may be asked to state that your cost-plus fee "will not exceed" 20 percent of the amount you paid to the subcontractor.

Master Price Lists: When supplying your master price list, Eaves encourages suppliers to build extra costs for rush charges or change orders into their prices: "Buyers do not like to get nickel-and-dimed over the course of a contract. Yes, it may cost you an extra $500 every time certain changes are made, but the client doesn't want to see those charges on the invoice. It creates problems with auditors and procurement groups. It's better to build it into the pricing and make sure you have the processes in place to handle changes as inexpensively as possible."

If you worry that higher-than-average prices on your master price list will make procurement officials nervous, Eaves recommends a simple fix. On your price list, clearly state that the listed prices are all-inclusive and your company won't charge extra for last-minute changes.

Should You Accept an Invitation to Bid?

Large single-source contracts are typically sent out for bids from a few chosen suppliers. Sometimes, a company executive may decide to forgo the six- to eight-week competitive bidding process if they have already worked with a supplier they can trust to achieve their desired goals. But most companies require that contracts that exceed a certain dollar amount must be sent out for bids.

Being asked to bid on a single-source contract is an honor, says LaManna. "If your company is invited to compete for a single-source contract, it means you have been proven to excel or are perceived to be have the potential to grow with your client."

He notes that competing for a single-source contract can involve a significant investment of time and resources. All that effort could be wasted if your company doesn't win the contract. Losing the client after winning the contract can be even more painful — especially if you have added production capacity to accommodate that client's needs.

Nevertheless, LaManna says winning a single-source contract can be very rewarding. It can assure that your company will have a steady stream of business over the period of the contract and boost the value of your company when you decide to sell it.

Before bidding, LaManna says it's important to thoroughly understand the customer and how they prefer to work. You must have tools and systems in place to make it very easy for the client to work with you.

It's also important to ensure that your prices will be stable over the three-year-term of the contract. This might require you to go to your own vendors to get some assurances of stable pricing.

As you prepare your bid, keep in mind that the decision to award the contract won't be made by a single person. Instead, you will deal with a committee that may include department heads from finance, process engineering, product development, marketing, logistics and procurement. They will expect full disclosure on questions such as in-house capabilities, outsourcing partners, operating costs, inventories, sustainability and strategic vision.

Once you win the contract, you can't take the account for granted. Maintaining face-to-face relationships with key influencers at the client company is critical.

"If you are the owner of a small business, you will be the one responsible for maintaining the primary relationship," says Eaves. But because your time and attention gets pulled in so many different directions, it's essential to appoint a back-up person who will always be available to help the client.

Rock LaManna compares a single-source contract to a long-term strategic alliance. He says in some ways, the integration process is like a merger, only better. "I look at single source contracts as a tremendous advantage for both the client and the supplier, because you're working toward the same goals. It's like a marriage. There's commitment involvement and you have to trust each other. If there's an issue on price or quality, you have to sit down and work it out."

Some Firms Have a Head Start

Companies that began as document printers started repositioning themselves as full-service "marketing service providers" several years ago — especially when the Great Recession of 2008–2009 prompted cost-cutting businesses to shift to online communications and shorter print runs. Other document-printing companies have constantly reinvented their business models.

For example, R.R. Donnelley (www.rrdonnelley.com) (founded in 1864) has evolved from printing telephone directories, mail-order catalogs, encyclopedias and weekly newsmagazines. Today, R.R. Donnelley defines their mission as helping "organizations communicate more effectively by working to create, manage, produce, distribute and process content…The company assists customers in developing and executing multichannel communication strategies that engage audiences, reduce, costs, drive revenues and increase compliance."

At GlobalShop 2016, R.R. Donnelley showed retailers how they could handle all aspects of their visual communications. They now provide creative and design services, innovative graphics and POP displays, and workflow technologies that improve in-store communications.

"Combined with skilled experts and advanced production facilities, R.R. Donnelley is positioned to help retailers and brands effectively engage wherever they are — in store, at home, on the go or online," said Dan Knotts, R.R. Donnelley's Chief Operating Officer.

RR Donnelly has grown so big they are reorganizing into three separate entities. Donnelly Financial Services will specialize in financial communications. R.R. Donnelly Sons will be a $7 billion global communications management company. LSC Communications, with about $3.5 billion in revenues, will provide publishers, merchandisers, and retailers with products, services, and technology offerings that combine print, e-services, warehousing, fulfillment and supply chain management.

In the UK, ProCo promotes itself as a marketing operations partner that can make its clients' internal processes more focused and efficient. In addition to lithographic, digital and large-format printing and finishing, ProCo services include project management, operational strategy and workflow solutions. Clients can hire ProCo to provide asset and document management, marketing operations, dynamic publishing, web-to-print services and supply chain management. If there is a service they can't cover, ProCo promises their clients they will "scour the market to find the best solution possible."

It's More Than Taking Orders

When you position yourself as a single-source supplier, you can't be just an "order taker." Instead of telling you what they want you print and when, your clients will expect you to be a strategic partner that can help them identify new ways to measure and achieve their goals.

According to LaManna, companies seeking single-source contracts tend to be very progressive and very smart. They want partners that have the key core competencies they need, a proven track record, and a commitment to the growth relationship. These customers want a single-source provider to help them increase speed to market, meet global quality standards and compliance, and save time and money over the long term. They also want the peace of mind that comes from a "worry-free relationship."

Being a single-source provider can be difficult and the expectations will be high. Eaves encourages his clients to always have a back-up plan in case the single-source provider doesn't work out. So, clients who have already engaged a single-source supplier will continue to meet with sales people from competing vendors just to remain aware of who else might be qualified to step in if needed.

In Part 2 of this series, we'll examine some technologies, tactics, and support services that can make it less risky to position yourself for single-source service provider — whether you serve national accounts or cater to small, local businesses.

***SGIA Members, in order of mention:**
InfoTrends, member since 2016
LaManna Alliance, member since 2014

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