

Welcome to LM3 Online



calculate your organisation's economic contribution to its community.



Whatever your reason for looking at your local economic impact, LM3 Online is the fastest, most user-friendly, and most cost-efficient method available.

This document will walk you through how LM3 Online works and what you can expect.

LM3 Online for all sectors

LM3 Online enables any organisation to assess how its previous, current, and prospective spending will impact the local economy and therefore how to maximise this expenditure.



The private sector faces growing competition and increasing demand to demonstrate its value to its host community. Localising supply chains increases profits and helps companies attract investment and goodwill.



The public sector must deliver multiple targets using a shrinking budget. Using purchasing power strategically to promote local economic development through everyday purchasing saves money in the short-term and long-term.



The not-for-profit sector is coming under increasing pressure to demonstrate the value it adds to service deliver as public bodies moving away from grant-making and towards commissioning.

Contents

This document is divided into three parts. You can jump around depending on what you already know about LM3 Online.

Background

This section is useful if you are new to the concept of LM3 or if you need to explain LM3 to other people. This section will explain the development and evolution of LM3 since 2000, the theory behind the multiplier effect, and some practical examples of how LM3 works.

Process

This section comprises the majority of this document and is useful if you want to know exactly how LM3 Online works. This section will walk you through each step of LM3 Online so you know not only what to expect along the way but also what information you need to have prepared to get started.

Next steps

Anxious to get cracking? This section will give you some ideas of what you can once you have completed LM3 Online.

History of LM3 Online



LM3 (Local Multiplier 3) was developed by [nef](#) (the new economics foundation). LM3 was a response to a massive gap: a *simple* but *robust* tool for measuring local money flows that *anyone* could use.

Since its original development period in 2000-2002, LM3 is now a UK Government-recognised tool for measuring economic impact, efficiency, and sustainability, particularly for public procurement.

The objective has been to make LM3 more widely useable by reducing the work effort required.

While the license is designed to be cheaper than the time it would take to do LM3 manually, the LM3 methodology remains completely free. You can download [The Money Trail](#), the handbook for using LM3, from the [nef](#) website.

What LM3 means

LM3 stands for Local Multiplier 3.
The name represents how the tool works.

Local	LM3 looks at a specific local economy or set of local economies. This stands in contrast to traditional multiplier analysis, as well as input-output analysis, which looks at larger areas, such as whole nations or regions.
Multiplier	The multiplier is an economics concept used to denote how much a specific inflow of income into an area then circulates (or multiplies) in that area. The concept of a multiplier dates back to the 18th century and was popularised in the mid-20th century by John Maynard Keynes.
3	LM3 looks at three rounds of spending -- the original inflow, how that inflow is spent, and how that money is re-spent. LM3 stops at three rounds because 80-99% of the total multiplier effect is contained in those first three rounds, and measuring further is unnecessarily burdensome.

LM3 process

The overall process for LM3 is to calculate how much income is generated for the local economy and then turn that figure into a ratio.

Round 1

The starting point for the analysis. This is the source of income, or inflow, to be measured. The most common starting points are overall company turnover or a special project budget.

Round 2

How is this original source of income spent in the target local economy? This gives you some sense of your direct impact on the community.

Round 3

More importantly, how is the money you spent then re-spent by people and organisations? This step digs beneath the surface to understand what is really happening.

Total

Add up the income generated from Rounds 1, 2, and 3. This gives you a figure for total income generated.

LM3

LM3 is a relative figure, or a ratio. It shows how much income was generated relative to what money entered the local economy initially. The final step is to divide the total (Rounds 1-3) by Round 1 to understand the relationship between the original inflow and the total income generated.

Brief example of the LM3 methodology

An short example illustrates how the process works using cash figures.

Round 1	£ 1,000,000	The organisation's turnover
Round 2	£ 450,000	How the organisation spends its turnover locally
Round 2	£ 300,000	How suppliers/staff re-spend their incomes locally
Total	£ 1,750,000	Total income generated from Rounds 1 + 2 + 3
LM3	1.75	Divide the Total by Round 1 to derive a ratio

In this example, every pound the company earns generates £1.75 for the local economy, or an *additional* £0.75. The LM3 score ranges between 1.00 (no additional impact) and 3.00 (100% re-spending in Round 2 and 3).

Why local money flows matter

A comparison between two contracts, taken from real life, illustrates why local economic linkages matter. You can generate more local income by spending less money!

Contract 1		Contract 2	
Round 1	£ 1,000,000	Round 1	£ 1,800,000
Round 2	£ 700,000	Round 2	£ 200,000
Round 2	£ 400,000	Round 2	£ 100,000
Total	£ 2,100,000	Total	£ 2,100,000
LM3	2.10	LM3	1.17

At first glance, it appears that both Contracts generate the same total income for the local economy. LM3 helps us to drill down into this figure, and we see that Contract 1 is in fact worth almost *twice* as much as Contract 2. Even though both contractors are based in the local economy, they spend their money very differently.

LM3 Online homepage

Your LMAreas					
Project Name	Started on	Notified suppliers	Last step completed		
JSCT LM3	17/Jul/07	17/Jul/07	Have notified suppliers	Survey	Results
JSCT renovation LM3	23/Sep/07	23/Sep/07	Entered project name	Survey	Continue

When you log in, the homepage will display a list of your LM3 Online projects and project status in the 'Last step completed' column. The link on the far right, e.g. 'Results' or 'Continue' above, will take you to wherever you left off. In the projects above, JSCT LM3 has been completed, so the user can now view 'Results'. JSCT renovation LM3 is still being completed, so the user sees 'Continue'.

LM3 Online process overview

JSCT LM3 – Survey Summary		
Entered project name	<input checked="" type="checkbox"/>	Edit
Identified local area	<input checked="" type="checkbox"/>	View map
Entered budget info	<input checked="" type="checkbox"/>	Edit
Have uploaded data	<input checked="" type="checkbox"/>	
Have notified suppliers	<input checked="" type="checkbox"/>	
Is now gathering results	<input type="checkbox"/>	

If you follow the 'Survey' link, you will see the overall process for your LM3 Online project divided into steps. As you complete each step, the system will tick the box.

Some steps can be altered over the course of the LM3 Online, and you can edit the information by clicking the 'Edit' link next to the step.

Project name

Start LM3 Online project		
To set up your LM3, please name your project. The name of your project will appear in communications with all of the suppliers you survey, so use a name that will make sense to people outside of your organisation.		
Project name	<input type="text" value="JSCT renovation LM3"/>	e.g. Acme Borough Council or Smith School Renovation.
<input type="button" value="NEXT"/>		

The first step is to name your LM3 Online project.

The name of your LM3 Online project will appear in external communications, such as the email to your suppliers, so it should be something that people outside your organisation understand.

You can edit your project name throughout LM3 Online.

Identify local area

Find the postcode you wish to add and click the add button

LM3 Online calculates your LM3 using the local area you specify. Use the drop-down menus to select the postcodes you wish to be considered your target local economy. The three most common definitions are:

- Political boundary (e.g. local authority area)
- Radius (e.g. 30-mile radius from specific point)
- Neighbourhood (e.g. BN1).

To upload multiple areas and/or districts, please add them one at a time, or select **All districts** if you are interested in the whole area.

Area District

Defining your local area can be the trickiest question in the LM3 Online process.

The short answer is: it is the area you are passionate about and where you want to see change happen. The most common definitions organisations use are:

- Political boundary, e.g. a local authority area
- Radius, e.g. a 30-mile radius from your location (more common in rural areas)
- Neighbourhood, e.g. a part of your area such as BN1 (more common in urban areas)

Identify local area: Select postcodes

Find the postcode you wish to add and click the add button

LM3 Online calculates your LM3 using the local area you specify. Use the drop-down menus to select the postcodes you wish to be considered your target local economy. The three most common definitions are:

- Political boundary (e.g. local authority area)
- Radius (e.g. 30-mile radius from specific point)
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To upload multiple areas and/or districts, please add them one at a time, or select **All districts** if you are interested in the whole area.


Area District

Select a District
All districts
2
3

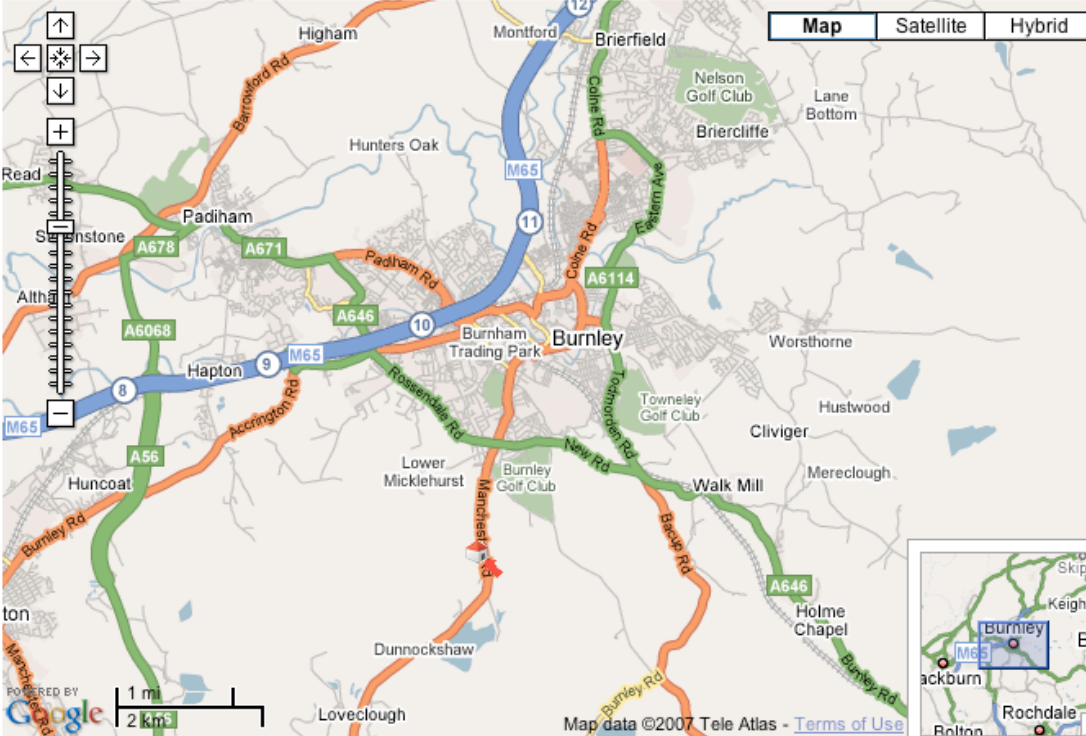
LM3 Online allows you to define your local area by selecting the postcodes included in that area. The system uses the first half of UK postcodes (e.g. KT23, SE15). To select a postcode, use the first dropdown menu (Area) to select the letter (e.g. JE above), and the second dropdown menu (District) to select the number (e.g. 2, 3 above). Click the 'Add' button for each one. You can also select 'All districts' if you wish to add all districts to the local area, which is faster than adding each district one at a time. The system also allows you to remove areas and districts before finalising your local area. You cannot change the local area once you move to the next step!

Identify local area: Map of your local area

Postcodes you have added to this Area

 BB11					
--	--	--	--	--	--

I have finished adding all my postcodes and wish to now upload data



Map data ©2007 Tele Atlas - [Terms of Use](#)

When you select your postcodes, you will see a map corresponding to this postcodes. The map will change as you add/remove postcodes.

Round 1: Gross project income

Project Budget: Non-payroll	
The project budget figure you use should be the gross income for that project, whether it is a specific project, contract, or company turnover and should include the personnel costs you will itemise below.	
Project Budget	<input type="text" value="1000000.00"/> e.g. 100,000 DO NOT use a £ symbol
Personnel and payroll budget	
The LM3 Online process uses proxy indicators for personnel expenditure. We have adopted this method because most organisations find surveying staff to be tricky. Bases on historic data results from LM3, we use the following proxies for personnel spending:	
<ul style="list-style-type: none">• Local staff spend 66% of their total income• Non-local staff spend 33% of their income locally	
Total payroll Enter total payroll bill excluding NI, tax and pension contributions. Note we will not include NI, tax and pension contributions on the basis that these are consistent figures across all employees.	
Local Area	<input type="text" value="60000.00"/> e.g. 100,000.00
Non Local Area	<input type="text" value="120000.00"/>
<input type="button" value="SAVE"/>	

This is the full screen for Round 1. We'll break this down in the next two slides.

Round 1: Gross project income: Project budget

Project Budget: Non-payroll	
The project budget figure you use should be the gross income for that project, whether it is a specific project, contract, or company turnover and should include the personnel costs you will itemise below.	
Project Budget	<input type="text" value="1000000.00"/> e.g. 100,000 DO NOT use a £ symbol

Round 1 is the gross income you wish to measure, such as your organisation's turnover or the budget for a specific project.

The Project Budget figure should include both payroll and non-payroll items.

Payroll includes all personnel expenses excluding National Insurance, tax, and pension contributions.

Non-payroll is everything else, such as supplier costs and overheads.

Round 1: Gross project income: Payroll/Personnel

After you enter the project budget, you should enter the payroll/personnel budget that is part of the overall project budget. You should enter the amount that goes to personnel residing in the local area and the amount that goes to personnel residing outside the local area. LM3 Online uses historical data to estimate the local re-spending rates of these staff. Personnel are separated from the survey process because many organisation's are concerned with surveying staff. You can survey staff, just contact us.

Personnel and payroll budget	
The LM3 Online process uses proxy indicators for personnel expenditure. We have adopted this method because most organisations find surveying staff to be tricky. Bases on historic data results from LM3, we use the following proxies for personnel spending:	
<ul style="list-style-type: none">• Local staff spend 66% of their total income• Non-local staff spend 33% of their income locally	
Total payroll Enter total payroll bill excluding NI, tax and pension contributions. Note we will not include NI, tax and pension contributions on the basis that these are consitent figures across all employees.	
Local Area	<input type="text" value="60000.00"/> e.g. 100,000.00
Non Local Area	<input type="text" value="120000.00"/>
<input type="button" value="SAVE"/>	

Round 2: Uploading spending data

Upload a file

LM3 Online uses your supplier data to survey suppliers and calculate your LM3. The file must be in Microsoft Excel format (.xls). Your document should contain nine columns of data:

- Supplier: Name of the supplier, for communication purposes.
- Contact: Name of contact at supplier, for communication purposes.
- Email: Contact's email address, for sending survey request.
- Value: Total amount spent on supplier, required to complete LM3.
- Address1: For use in hard copy survey request, optional.
- Address2: For use in hard copy survey request, optional.
- Address3: For use in hard copy survey request, optional.
- Address4: For use in hard copy survey request, optional.
- Postcode: Supplier's postcode, required to complete LM3.

We strongly recommend that you use the **Template** spreadsheet provided. The maximum file size is 8MB.

You can leave Address1-4 blank if you do not intend to send suppliers a hard copy letter by post, though you should retain the headings in the Excel file.

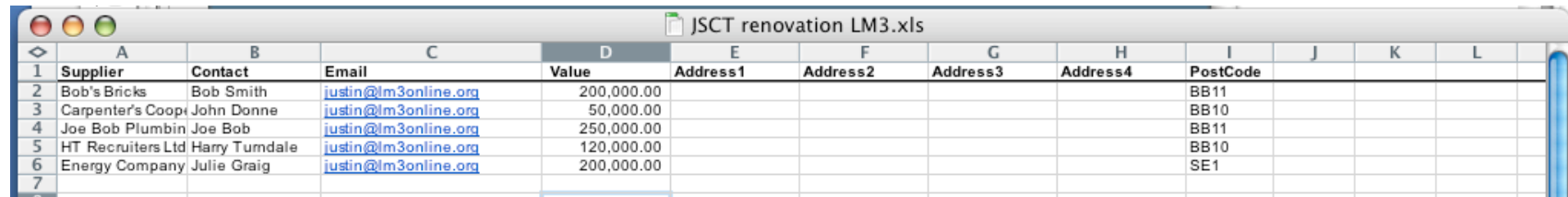
Browse Browse...

The easiest way to ensure your file is in the right format is download the **Template** and replace that data with your own. If you are exporting data from a financial programme like Sage, just make sure you export those types of data into Excel. You will need to specify all columns apart from the 4 address columns unless you wish to use the mail merge feature to produce letters that you can post to your suppliers. In the next step, LM3 Online processes your Excel file for errors, so you can revise it if there are problems.

UPLOAD TEMPLATE

Next, you need to upload your spending data. You can download a template from this page to see what column headings to include.

Round 2: Uploading spending data: Template



	A	B	C	D	E	F	G	H	I	J	K	L
1	Supplier	Contact	Email	Value	Address1	Address2	Address3	Address4	PostCode			
2	Bob's Bricks	Bob Smith	justin@lm3online.org	200,000.00					BB11			
3	Carpenter's Coop	John Donne	justin@lm3online.org	50,000.00					BB10			
4	Joe Bob Plumbin	Joe Bob	justin@lm3online.org	250,000.00					BB11			
5	HT Recruiters Ltd	Harry Tumdale	justin@lm3online.org	120,000.00					BB10			
6	Energy Company	Julie Graig	justin@lm3online.org	200,000.00					SE1			
7												

The spending data must be uploaded as an Excel file with the headings specified in the template. This document will be used to contact all suppliers about their spending behaviour.

If you are using an accounting programme like Sage, then you just need to export the appropriate fields and rename the column headings. If you are producing this type of list for the first time, you should just download the template from LM3 Online and enter your data there.

The following content is required to process your data:

- Supplier name
- Supplier email address
- Amount spent on supplier
- Supplier postcode

Round 3: Supplier survey: Preview email

Suppliers



Below is a template email that you can use for contacting your suppliers. You can change any part of the letter except the items specified below.
There are **5** suppliers that will be notified.

























































































Words that you must not change

The following keywords refer back to your data upload and will be replaced automatically when you send the supplier notification:

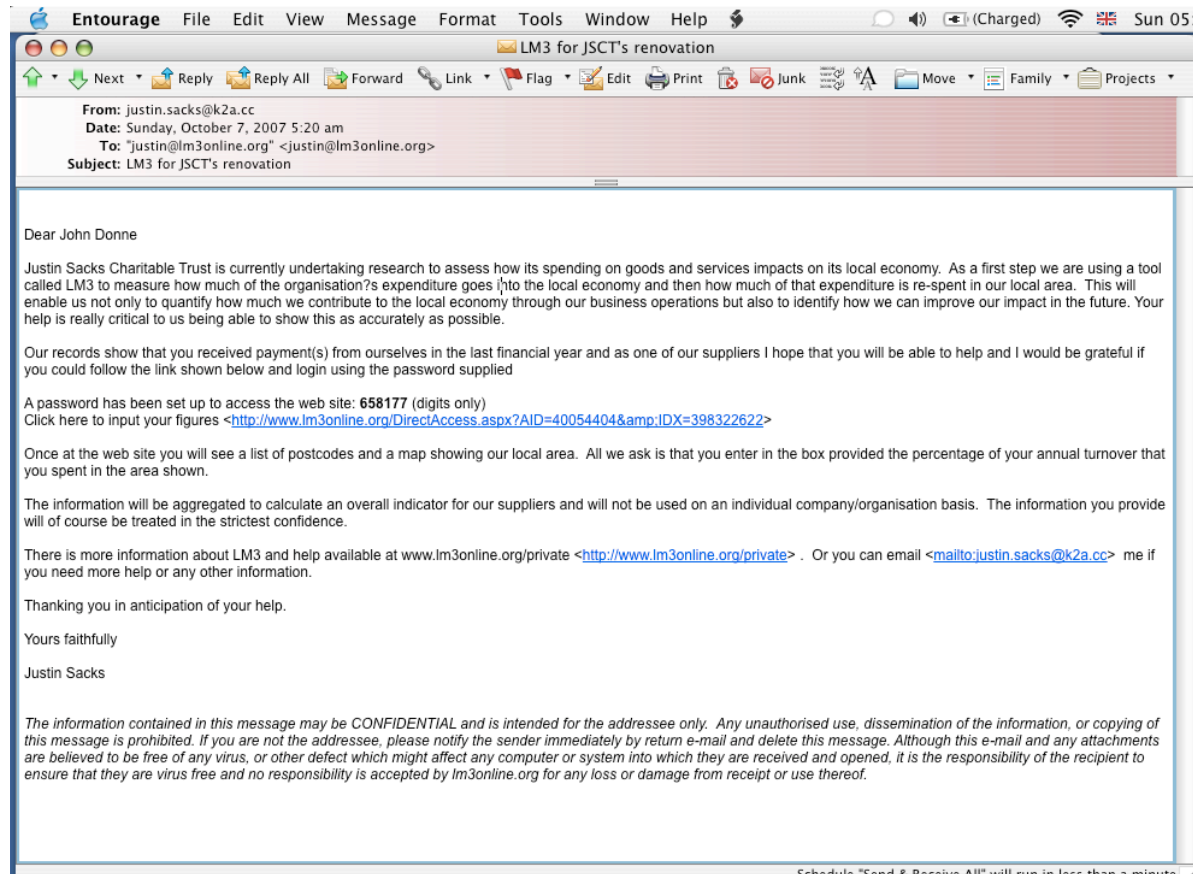
- \$\$CONTACTNAME\$\$ - The suppliers contact name
- \$\$ORGANISATION\$\$ - Your organisations name (Justin Sacks Charitable Trust)
- \$\$PASSWORD\$\$ - The password the supplier will use to login with
- \$\$CONTACT\$\$ - Your name (Justin Sacks)
- \$\$CONTACTEMAIL\$\$ - Your email (justin.sacks@k2a.cc)
- \$\$URL\$\$ - The URL given to the supplier so they can login to the system

Subject

Paragraph Font Size Color **B** *I* U **abc** **x** **x**  

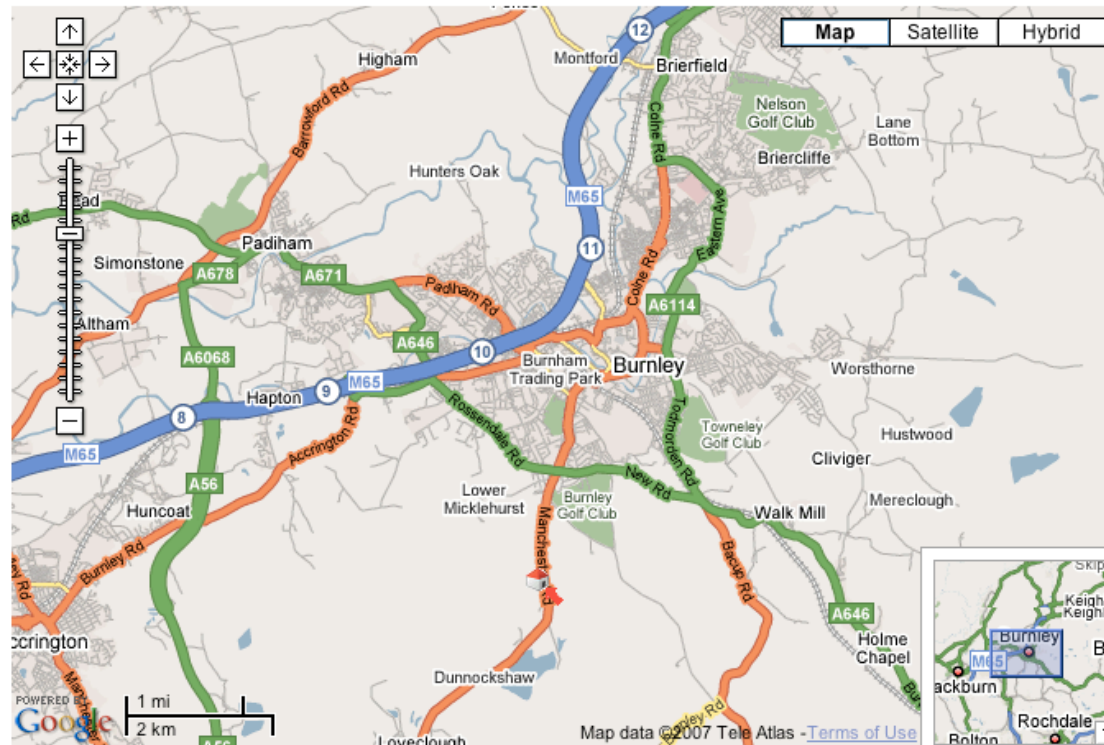
Round 3: Supplier survey: Example email



The supplier receives the email with a unique username and password, which s/he uses to log in and complete the spending survey.

Round 3: Supplier survey: Survey screen

Contract	
Please enter the percentage of your gross turnover that you spend in the following postcodes below:	
Percentage	<input type="text"/> Save
Project	JSCT renovation LM3
Postcodes	BB11



The supplier sees the map and postcodes you have selected and completes the survey. LM3 Online's default survey form is simple and therefore easiest for the supplier to complete. If you wish to use more complex survey forms, please contact us.

Round 3: Supplier survey: Thank you screen

Thank you

Thank you very much for taking time to participate in our LM3 Online evaluation. Based on responses so far, we have identified that the local economic impact of **JSCT renovation LM3** is at least **£2,004,950.00**.

If this has made you think about how much your organisation is contributing to your local economy, we encourage you to use [LM3 Online](#) as well. LM3 Online works for all sectors – public, private, and non-profit.

Thanks again for taking the time to help.

After saving his/her information, the supplier will see a 'thank you' screen that shows how his/her spending has directly contributed to your organisation's LM3 Online.

This also raises awareness amongst your supply chain about the opportunity to use LM3 Online to measure and improve their impact.

Round 2: Uploading spending data: FAQs

How recent should this data be?

When analysing turnover as the project budget, organisations tend to use the most recent year's completed accounts since this information is well-organised already.

What do I do if I have no contact details for a supplier?

The LM3 Online process is a good mechanism to engage or re-engage with your suppliers. Strengthening your relationship with suppliers will be key to taking action in the future to improve your LM3.

What if I don't have email address for my suppliers?

Most UK organisations use email, so it is worth contacting your supplier for an email address. If it is impossible to do so, you can get the information from the supplier via the hard copy survey and enter the data yourself. Just make sure to put your email address in the Round 2 upload so you can log on and enter the response.

What if the suppliers don't respond to the email?

LM3 Online allows you to send a reminder email three weeks later as well as to generate a PDF of the letter so you can print and post the survey request by post.

LM3 Results: Homepage

Results Home





Supplier analysis

Results

| By location

| By type

| By location and type

LM3 Results	
Summary	
Round	Round Totals
1  Gross project income	1,180,000.00
2  Project expenditure	510,000.00
3  Money re-spent locally	436,450.00
 Total	2,126,450.00
 LM3	1.80



Every **£1.00** of the gross project income generates an additional **£0.80**
The total local income generated from your project is **£2,126,450**

The LM3 Results screens enable you to keep track of and assess your LM3 Online evaluation. The 'Results Home' screen shows you the summary of your LM3 Online: income generated by round and your LM3 score. The green box explains your LM3 score in words. You can then break down these results by type or location.

LM3 Results: Homepage: What if scenarios

What if?

Enter Target shift (in %) to see impact on local economy if achieved

10



LM3 Results

Summary

Round		Round Totals
1	Gross project income	1,180,000.00
2	Project expenditure	510,000.00
3	Money re-spent locally	518,450.00
	Total	2,208,450.00
	LM3	1.87



The impact of increasing your local spend by **10%** is:

The total income now generated from your project is **£2,208,450**

and this increases your annual contribution to the local economy to **£518,450.00**

Every **£1.00** of your project's gross income now generates an additional **£0.87** for the local economy

The pink 'What if' box enables you to model future scenarios. For instance, you can see how shifting 10% of your spending from non-local to local suppliers can impact on the local economy. The green box again explains these figures in words.

LM3 Results: Homepage: Breakdowns

LM3 Results			Breakdown			
Summary						
Round		Round Totals	Local	Re-spending	Non-local	Re-spending rate
1	i Gross project income	1,180,000.00				
2	i Project expenditure	510,000.00				
3	i Money re-spent locally	436,450.00	161,500.00		274,950.00	
	Payroll	79,999.98	40,000.02	67%	39,999.96	33%
	Non-payroll	356,450.00	121,500.00	27%	234,950.00	64%
	i Total	2,126,450.00				
	i LM3	1.80				



The breakdown enables you to compare how people and organisations based in the local economy re-spend their incomes with those people and businesses based elsewhere. In Round 3 in the table above, local people (payroll) spend 67% of their incomes locally while non-local people spend 33% of their incomes locally. Local organisations (non-payroll) spend 27% of their incomes locally while non-local-organisations spend 64% of their incomes locally.

You can breakdown your results by type (contribution of payroll vs. non-payroll) or location (contribution of locally-based people and organisations vs. non-locally based) or by both.

LM3 Results: Supplier analysis

Survey Summary				
		Total	Local	Non-Local
Number		5	2	3
	Completed	3	1	2
	Unreturned	2	1	1
Cash Value		£820,000.00	£450,000.00	£370,000.00
	Completed	£420,000.00	£250,000.00	£170,000.00
	Unreturned	£400,000.00	£200,000.00	£200,000.00
Percentage value		100%	55%	45%
	Completed	51%	30%	21%
	Unreturned	49%	24%	24%

The other tab in the Results area is Supplier Analysis. LM3 Online allows you to view supplier responses so you can not only assess the validity of results but also engage with your suppliers about ways to improve the local multiplier effect in the future.

On this screen, you can see a summary of how many surveys have been completed and how much of your gross project income is represented by those responses.

LM3 Results: Supplier analysis: Breakdown

All responses						
Supplier Name	Contact Name	Email	Contract Value	Local	Non-Local	In Area
Carpenter's Cooperative	John Donne	Email	£50,000.00	£30,000.00 (60.00%)	£20,000.00 (40.00%)	No
HT Recruiters Ltd	Harry Turndale	Email	£120,000.00	£80,400.00 (67.00%)	£39,600.00 (33.00%)	No
Joe Bob Plumbing Ltd.	Joe Bob	Email	£250,000.00	£67,500.00 (27.00%)	£182,500.00 (73.00%)	Yes

You can then drill down into any of the results for a breakdown of that summary by supplier. On this page, you can see how the suppliers responded and contact them about future activity.

Accreditation

Want to ensure your results are robust and accurate?

LM3 Online also offers data cleaning and accreditation for additional fees.

We can clean your Round 2 records at any time.

Our accreditation methodology is based on two sets of activities.

First, we produce a confidence analysis to accompany your results. This analysis is based on a statistical evaluation of your supplier survey results.

Second, we communicate with a sample of your supply base to assess the quality of their responses. We can also amend their responses during this stage to improve your results.

Integrating data collection to hit multiple targets

Concerned about your impact on SMEs, minority-operated businesses, and third sector organisations?

LM3 Online can embed any number of questions into the supplier survey for wider data collection purposes. For instance, you can include a question on the survey page that asks for the company size.

Similar to the suppliers' financial information, LM3 Online can assess and accredit suppliers' responses so you can present your evidence with confidence.

The process also highlights how you can improve your future impact.

LM3 Online for supply chain management

Want to harness the spending of your supply chain?

Once you are using LM3 Online, it is a small step to using the platform for cutting-edge supply chain management.

The bespoke supply chain management system enables you to manage expenditure as it takes place! You can monitor or enable your suppliers to monitor how projects are implemented so you can identify opportunities to improve local economic linkages over the course of the project.

The supply chain management system gives you real-time feedback so you can act quickly, strategically, and effectively.

Contact details

LM3 Online is flexible so you can measure what matters to you.

You can apply LM3 Online to just one project item (e.g. one contract) or a million project items.

And you can run LM3 Online on the same project as many times as you wish (e.g. annually, quarterly).

Contact us for more information or to get started.

Email: info@lm3online.org

Telephone:

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