



COLIN CRAM, FORMER HEAD OF THE JOINT PROCUREMENT UNIT AT THE RESEARCH COUNCIL, DISCUSSES THE BENEFITS, PITFALLS AND ISSUES SURROUNDING COLLABORATIVE PROCUREMENT.

TWO HEADS: ALWAYS BETTER THAN ONE?

THIS ARTICLE SETS OUT THE MAIN TYPES OF PROCUREMENT COLLABORATION AND, THROUGH CASE STUDIES, THE BENEFITS AND DISADVANTAGES OF EACH. IT INDICATES SOME OF THE ISSUES ONE SHOULD CONSIDER BEFORE ENGAGING IN COLLABORATIVE ACTIVITIES. IT PROVIDES A METHODOLOGY FOR DETERMINING THE MOST APPROPRIATE COLLABORATIVE PROCUREMENT MODEL. FINALLY, IT ATTEMPTS TO FORECAST FUTURE DEVELOPMENTS IN COLLABORATIVE PROCUREMENT ARGUING THAT THESE WILL RESULT IN MAJOR CHANGES TO THE WAY PROCUREMENT IS ORGANISED IN THIS COUNTRY.

Collaborative procurement is when two or more groups of people or organisations, engaged in procurement, work together for mutual benefit. It is most commonly thought of as collaboration between independent bodies. However, it also applies to organisations that have a federal structure with devolved decision making.

WHY COLLABORATE?

The main reasons for collaboration in procurement are:

- Increased leverage resulting in better value for money and service.
- The ability to use each other's agreements (subject to the agreement of suppliers).
- Improved efficiency by avoiding both duplication and re-inventing the wheel.
- Quicker progress, for example in letting agreements, developing a training programme or implementing e-procurement.
- Access to specialist expertise.
- Cross fertilisation of ideas and information.

The benefits of collaborative procurement are becoming more generally recognised. In 1995 the Department of Trade and Industry (DTI) advocated that, to remain competitive in the increasingly global economy, businesses would need to collaborate in many areas, including purchasing. There are increasing signs of this in the private sector; motor manufacturers have collaborated on e-procurement; several international airlines are proposing to collaborate in the procurement of aircraft to maximise their purchasing power; and several local collaborative groups have been set up in the UK. Also there is the growth of 'agencies' such as The Buying Team who negotiate deals

on behalf of their clients, making use of the aggregated purchasing spend. This approach is consistent with the 2002 CBI and DTI initiative, *Fit for the Future*, set up to encourage businesses to share knowledge across all sectors, thus improving their performance.

Collaborative procurement is vital for the public sector given the huge purchasing spend (in excess of £70 billion annually in central government, local authorities and the health service) and the need to secure value for money for the taxpayer. Because public sector organisations are not normally in competition with each other, the constraints on collaboration are fewer than in the private sector.

COLLABORATIVE MODELS

Collaborative models range from purchasing networks, benchmarking clubs, commodity groups, affinity groups (to tackle a variety of topics, both commodity and non-commodity), consortia, and Centre Led Action Networks (CLANs) through to mergers of independent procurement organisations; each approach more structured than the last. There is overlap between the models and many organisations, particularly in higher education, may participate in several partnerships. Generally speaking, the more structured the approach, the greater the potential benefits. The exception is the 'network' which can provide many benefits at little cost.

EXERCISE CAUTION

Collaborative procurement is not a silver bullet. It can be expensive in terms of time, travel and other investment. It often requires compromise and the majority of work tends to be done by a few volunteers. There are often concerns about loss of control and status, and support may be less than solid. Internal politics can be extremely damaging as can changes of personnel within an organisation, either in yours or your partner's. In short, the disadvantages can easily exceed any likely benefits.

There are several rules of thumb for budding collaborators:

- Be clear about the objectives and benefits you wish to achieve.
- Be clear about the possible costs.
- Select the model that is most likely to enable the achievement of your objectives.
- Be sure that you have support at the right level within your own organisation, both for the concept of collaboration and your preferred model.
- Be prepared to reduce your ambitions if your preferred model is not politically acceptable.
- Consider creating a constitution or set of 'club rules'.
- Be clear who is going to undertake the work and how it will be shared out.
- Only collaborate with those who wish to collaborate and have the necessary support within their own organisation.
- Be aware that there are many people whose initial enthusiasm quickly wanes.
- Don't start unless you are determined to see it through.

PURCHASING NETWORKS

The most informal level of collaboration is the purchasing network. The benefits of a purchasing network can include sharing information on commodity markets, sharing specifications or, when you have a problem with a supplier, others may have experienced something similar and be prepared to share how they resolved it. An excellent example is the Association of University Purchasing Officers' (AUPO) network. My experience of that sector was of daily e-mail requests for information and advice.

Networks such as AUPO's are easy and cheap to maintain. The costs are low and the benefits obvious though difficult to measure. The usage of the network is the main measure of its success.

The Chartered Institute of Purchasing and Supply (CIPS) is a more formal network. It is involved in a multitude of procurement developments as well as being an information exchange, both at national and local levels. One of its great merits is that purchasing professionals from both public and private sectors work together and learn from each other. The more procurement people that become actively involved in the CIPS, the greater will be the growth in purchasing professionalism in the UK.

COLLABORATIVE PROCUREMENT IS VITAL FOR THE PUBLIC SECTOR GIVEN THE HUGE PURCHASING SPEND AND THE NEED TO SECURE VALUE FOR MONEY FOR THE TAXPAYER

BENCHMARKING GROUPS

Benchmarking groups or clubs tend to consist of organisations with similar interests. They normally exist to compare procurements and practices and are likely to attempt to cover a range of topics. However, the benefits can be difficult to measure and the costs can be high. Benchmarking groups require a person or group of people to drive them and this can be time consuming. Because such clubs rely on meetings, they can be expensive in terms of time and travel. Also, members tend to leave the meetings with a list of action points and this requires more time and expense.

The objectives need to be determined clearly at the outset and there needs to be some club rules or 'constitution'. Membership should depend on regular attendance and completion of action points. Probably a rule of thumb for such groups is that if they do not take off after 3 meetings, disband them.

AFFINITY/COMMODITY GROUPS

Affinity groups are normally set up to tackle a single issue or commodity, for example developing a training programme. They tend to have a clear structure with a Chair or Coordinator and Secretary. Properly targeted, they can be a cost-effective mechanism that brings significant benefits.

The higher education sector has some very successful affinity groups. Commodities include research equipment, stationery, photocopiers, laboratory supplies, gases, postage and distribution, IT and e-procurement. Savings of over 80% against standard prices have been achieved.

Suppliers are keen to retain such a volume of business and this is normally reflected in high quality of service.

One example of a group tackling more strategic issues is the Research Equipment Affinity Group. This is a collaboration between academics, administrators and procurement personnel. Its purpose is to obtain more research equipment from the £250 million a year funding available. It recognises the interdependence between procurement, grants procedures and administrative processes and is addressing them all. The cross-fertilisation of expertise and market knowledge has been invaluable. This process has raised the status of procurement personnel, ensuring that they now handle equipment procurements (previously they were by-passed). It has also allowed scope for more radical thinking, such as the possibility of setting up 'Procurement Centres' or 'Centres of Excellence' through which the majority of higher education research equipment would be purchased.

Affinity groups can suffer from the same problems as benchmarking groups. They are expensive to operate, the costs are rarely fully calculated and benefits may be difficult to measure. As most members cannot guarantee levels of business and many do not commit to an agreement until they see how good it is, suppliers may be reluctant to offer prices comparable to those on offer to large institutions with an ability to commit.

A further weakness is that some participants may ask their existing suppliers to match the prices achieved by the affinity group and keep their business with them. This, apart from being of questionable ethics, undermines the efforts of everyone.

However, at their best, affinity groups can be a valuable and rewarding form of collaboration.

CENTRE LED ACTION NETWORKS (CLANS)

Many organisations, both public and private sector, have federal structures with devolved decision making. One way of resolving the conflict between this and the need to maximise purchasing power in key commodity areas is the CLAN, advocated by Dr Richard Russill. A small central team acts as a catalyst for collaboration; it may undertake some contracting/negotiating for major common areas and may also be responsible for procurement policy. Alternatively it may persuade different parts of the federal structure to take the lead role for particular areas. Thus the benefits of collaboration can be achieved without compromising the independent decision making.

CLANs exist in a variety of forms and circumstances. They are relevant to collaborations within federal organisations and to those between independent ones. The Office of Government Commerce (OGC) is an example of this on a grand scale and the IDeA (Improvement and Development Agency) is a developing example for local authorities.

A third example is ProcHE, set up at the end of 2002. This is a group of university heads of purchasing who have been requested by the higher education funding bodies to develop and agree with institutions a strategy for higher education's £4.5 billion annual purchasing spend and to oversee its implementation. Unlike the OGC and IDeA, this initiative relies on volunteers. Membership of this group will vary and it will have to operate through influence. An encouraging start has been made, but its members tend to be those who are already involved in various initiatives and there is a serious risk of their being overloaded. It will need a small team to provide quality support.

SUPPLIERS ARE KEEN TO RETAIN SUCH A VOLUME OF BUSINESS AND THIS IS NORMALLY REFLECTED IN HIGH QUALITY OF SERVICE

A CLAN often needs to earn its authority. In a devolved environment, there are plenty of people keen to seize on any weaknesses. The Benefits Agency hosted a successful example of a CLAN. When it was created in 1992, the environment was one of almost enthusiastic devolved management. It had 13 very independent 'Areas' who did their own procurement; central services were seen as taking resources

away from the frontline. This really was a team effort and the competence of the team members was outstanding.

Securing customer involvement through agreement to a contracting programme, the creation of commodity/user groups and some early successes helped cement support. Continued success created trust in the team and it eventually captured about 80% of Benefits Agency non-IT purchasing spend (over £1 billion a year including outsourcing).

Procurement matured from that of a variation of the CLAN towards centralised procurement. However, it remained a collaboration with customers and the authority of the group continued to depend on its performance and customer perception.

PURCHASING CONSORTIA

There are many purchasing consortia in government, eg higher education and local authorities. These provide significant benefits for members through aggregation, but typically cover only 5% of purchasing spend. Even within the consortium category, some approaches are more effective than others.

Consortia are well developed in higher education, but there are some strong ones in local authorities. They are voluntary associations and normally have constitutions/club rules and a supervisory board consisting of representatives from member institutions. There is a central team coordinating and facilitating. Most rely on subscription income, but others, such as the North Western Universities Purchasing Consortium (NWUPC), generate income through supplier rebates. They are breeding grounds for innovation. For instance, NWUPC members commit at the pre-tendering stage so that suppliers are

aware of the amount of business. Its activities encompass a large NVQ training programme and it initiated the development of an e-procurement system. Some local authority consortia are businesses.

Although consortia have many of the weaknesses of affinity groups, they are an enduring and popular means of collaboration and must overall be seen as a success.

MERGERS

The final model is the merger model. With a larger team, it is possible to achieve more in a shorter time. Six research councils decided on this approach for their corporate and headquarters units, thus forming the Research Councils' Procurement Organisation (RCPO).

The benefits compared to the previous operations include:

- Fully costed procurement. Previously full costs were not known precisely.
- Reduced costs of around 15%.
- Performance measurement. This together with full costing results in full accountability.
- An increase in the number of contracting staff (despite the overall reduction in staff numbers).
- The development of greater expertise, partly due to cross fertilisation.
- The further development of specialist skills such as contracting for projects.
- Reduction of single point failures.
- A better career path for procurement staff.
- Greater leverage for collaborative procurements.
- More proactive approach with the research institutes. They are relatively independent so a collaborative 'consortium' type approach is being developed.

The new organisation required a good quality and well used website with links to suppliers' websites. Combined with procurement cards, this has created a crude but effective form of e-procurement.

A further initiative has been the development of a system to enable purchase orders and contracts to be entered in to just one procurement system, which then updates the finance systems of all the organisations concerned. This has been piloted using GEAC's Smartstream to transfer the data to two Sun systems.

Relationships with each council are defined through service level agreements and each council is represented on the Supervisory Board. Councils' contributions to the cost of the RCPO are assessed with reference to a simple web-based time recording system. Member councils agreed to give the director unlimited delegated authority to sign contracts on their behalf. It would be interesting to know if there are any other instances where such authority has been given to an 'outsourced' procurement service.

MOST PEOPLE'S IDEA OF COLLABORATIVE PROCUREMENT IS ONE OF AGGREGATION OF PURCHASING SPEND TO INCREASE LEVERAGE.

The final collaborative model is the purchasing agency. The outstanding example in government is OGCbuying.solutions, letting call off agreements/framework agreements for a wide range of goods and services. Its turnover already exceeds £1 billion, though this represents less than 10% of central government purchasing spend. Several local authority consortia operate in a similar way, some of them going further and holding stock.

SELECTING THE RIGHT MODEL

How can you choose the most appropriate procurement model for an organisation or group of organisations? The simplest approach is to agree in advance the procurement objectives and evaluate how far the various organisational models achieve each one. This approach provides an intellectual framework for selling a collaborative approach. It can be made more sophisticated through weighting of objectives. However, one model normally stands out and weighting proves to be an unnecessary elaboration. You then

need to temper the ideal with the political realities. A standard template has been developed for this. For further information, please contact the author:

CONCLUSION

Most people's idea of collaborative procurement is one of aggregation of purchasing spend to increase leverage. However, the repetitive, high-volume purchasing spend which lends itself to this approach is dominant, with some exceptions, only in manufacturing and retail. In central and local government such purchases represent no more than 10% of the total spend. A similar percentage would apply to many service industries. In reality, the only limits to collaborative procurement are people's insecurity and imagination.

Collaborative procurement is evolving rapidly and becoming increasingly important within government. My prediction is that the merger model and Centres of Excellence, some specialist and some general, will become the norm for contracting in central and local government. Information exchange will grow, benchmarking groups will remain and purchasing consortia will increase their influence.

Collaboration between government procurement organisations is much more advanced than is generally found in the private sector. However, changes to the global economy and business processes (eg e-procurement) make it inevitable that purchasing collaboration between private sector organisations will grow. For many it will be a choice of collaborate or die. In moving in this direction, the private sector could do worse than learn from the experiences of government organisations.

IN SUMMARY...

- COLLABORATIVE PROCUREMENT IS WHEN TWO OR MORE GROUPS OF PEOPLE OR ORGANISATIONS WORK TOGETHER FOR MUTUAL BENEFIT
- DTI RECOGNISED THE ROLE OF COLLABORATION IN REMAINING COMPETITIVE IN A GLOBAL ECONOMY AS EARLY AS 1995
- SINCE PUBLIC SECTOR ORGANISATIONS ARE NOT IN COMPETITION, A COLLABORATIVE APPROACH CAN WORK WELL
- COLLABORATIVE PROCUREMENT HAS NUMEROUS BENEFITS, BUT REQUIRES COMPROMISE
- APPROACH CAN VARY FROM AN INFORMAL ARRANGEMENT TO A FORMAL MERGER
- COLLABORATION IS EVOLVING RAPIDLY AND IS SET TO BE THE NORM FOR THE PUBLIC SECTOR

FURTHER INFORMATION...

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