

Saving Money through Smarter Spending

Procurement Consortia Explained

by NACRO



Introduction

The Government's spending cuts and severely reduced funding makes good procurement and purchasing even more crucial to the continued viability of charities and voluntary organisations.

Every pound saved helps to stretch funds to continue to meet service delivery demands. Efficient and effective purchasing makes a major contribution: minimising risks, managing relations with suppliers and internal customers, reducing transaction costs and resulting in the right product, at the right quality, delivered at the right time to the right place at the right cost.

Why is good purchasing important?

Audit Trail and Accountability

To provide evidence and assurance to stakeholders and Trustees that expenditure has been fair, equitable and in accordance with legislation and good practice.

Financial Stability

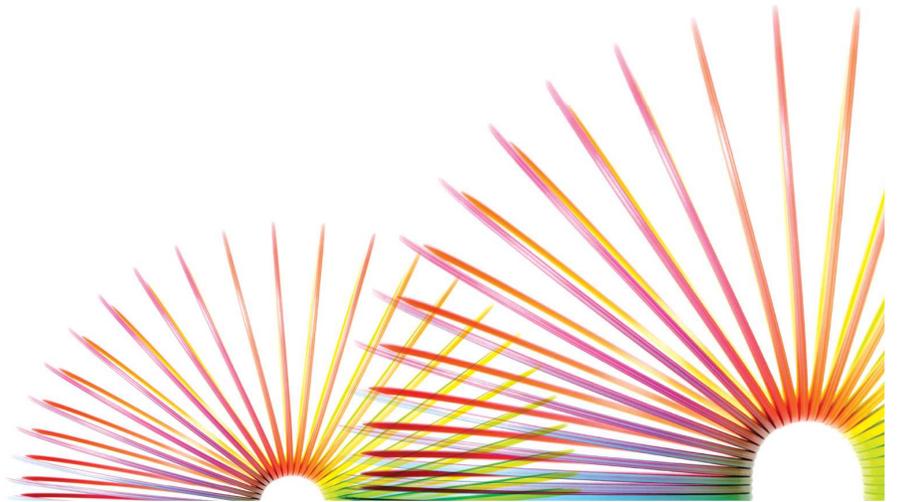
To ensure those responsible for placing orders are achieving value for money.

Legislation

Under EU legislation any publicly funded body must offer suppliers in all EU countries the opportunity to quote for high value contracts. This means advertising or utilising purchasing consortia or framework contracts that have already undertaken this process. The penalties for not going so included contracts being nullified and legal action.

Stretching Budgets

To achieve greater value for money and therefore maximise budgets.



Value for Money

Charities must ensure that funding is not wasted and is used for the reason it has been given. Achieving value for money is therefore of paramount importance.

Procurement Consortia explained

A purchasing consortium can be defined as two or more independent organizations that join together, either formally or informally, or through an independent third party, for the purpose of combining their individual requirements for purchased materials, services, and capital goods to leverage more value-added pricing, service, and technology from their external suppliers than could be obtained if each firm purchased goods and services alone.

Benefits

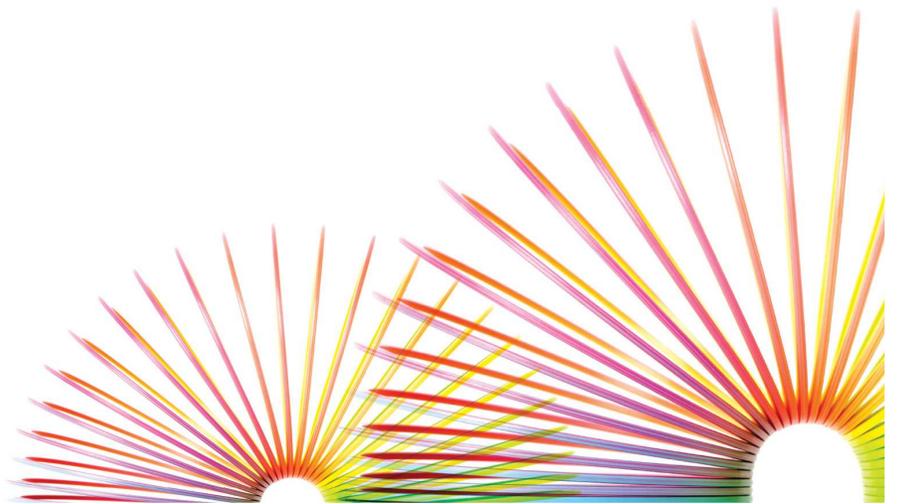
Purchasing consortia are set up to pool demand from many different Organisations to increase the purchasing power of each of the individual member companies. This gives them economies of scale, of process, and of information. Each member drives up the collective supply chain power in the markets in which the consortia operates, especially in the non-core commodity categories that are equivalent for each of the member companies. **By increasing the volume of the intended award, the consortium is generally able to negotiate (much) lower prices for the good or service being awarded than any single member company in the collective.**

Lower Transaction Costs

By joining together in a consortia, organizations can (effectively) streamline procurement processes. This not only reduces unit cost, but also reduces the overall transaction costs since only one contract needs to be negotiated and implemented.

Economies of Process

The sharing of purchasing information on suppliers, new technologies, market developments, internal users, and historical spending behaviour not only avoids redundancy and reduces transaction costs but creates an economy of process above and beyond what each organization could achieve on its own.

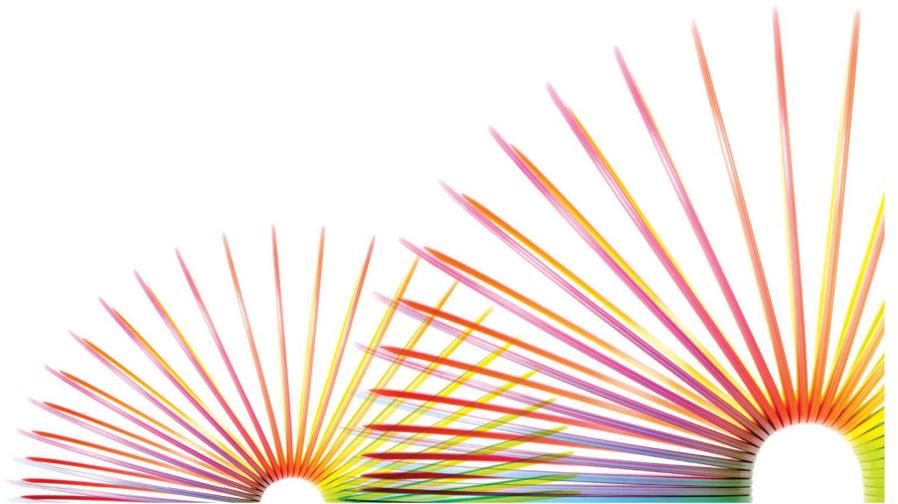


Evaluation Questions

- What does it mean to collaborate?
- What are the rules of engagement?
- What is the level of commitment? How much information can/should I share?
- How do I know that I can trust my colleagues?
- Do I have support from the administration to make decisions that impact my group/department?
- How do we measure member loyalty?
- How much additional time and resources need to be allocated to the group?
- Who is going to organize meetings and execute action items?
- How are decisions going to be made?
- What/who is the governing body?
- My institution is small in comparison to others. Does this mean we have less influence on decisions?
- How much is this going to cost?
- Can we do better as a standalone institution?
- We compete for the same resources. How can we possibly collaborate with our competitors?
- What can be done to promote collaboration among competitors?
- We belong to other associations. Why would we want to join/start another one?
- How will the group ensure participation in collaborative projects?
- Does my entity need to participate in all projects undertaken?
- How will the group deal with noncompliance issues?
- Is the mission of the group in alignment with my entity's mission and value system?

Getting the Most Out of a Consortium

Start by knowing what the organisation's goals are and qualify the objectives and deliverables. This will ensure that consortium is evaluated properly using the criteria above. Then define how success will be measured. Make sure there are systems in place to track the measurements and that the consortium is willing and able to provide a prospective member with all of the data needed to evaluate the consortium's success.



Look for consortiums that are willing to negotiate incentives for suppliers to deliver. The contracts should contain excellent performance bonuses or poor performance penalties, especially if they are for materials needed to keep the organization's production lines going or for services. Finally, before the organisation signs on the dotted line, it should fully understand what its costs will be up front and in the future and insure that the expected cost of doing business with the consortium is, at the very least, less than the expected savings.

Once the consortium is selected, it's important that the organization understands where the consortium should fall in its mix of cost reduction strategies. For example, if the organization is decentralized and does not want to add head-count at the corporate level, the consortium could provide an opportunity to leverage spend with minimal additional resource allocation. A centralized organization could focus on leveraging the areas of it's spend that provide the greatest return and let the consortium take responsibility for less strategic areas of spend.

Once an organization has identified the categories where the consortium can be of value, it should follow the age-old adage and "start with the low hanging fruit". This will help it to realize an early return on investment, gain support within the organization for the effort (to combat any remaining internal resistance), and get familiar with the consortium and its processes. This will help it to play a larger role in future projects and provide input on the more challenging categories once the "low hanging fruit" has been picked.

Purchasing consortiums are part of a comprehensive approach to managing an organization's indirect spend. Depending on the size, industry, and strategic focus certain categories just make sense to let someone else manage. The fact of the matter is that a purchasing consortium can be leveraged to tackle less strategic categories, like office suppliers, office equipment, or telecommunications, freeing up organizational buyers to tackle more of the strategic, larger spends. Even for companies with world-class procurement capabilities, consortiums can play an important role for non-strategic or non-core categories where it does not make sense to develop the expertise in house.

If you are interested in discussing these cost saving opportunities, please contact:

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