

PRESS RELEASE

Public sector underestimates own purchasing power

Atos Consulting study: the early involvement of suppliers in procurement routes can save from 10 to 25 percent of costs

Utrecht, 2 February 2010 - The private sector proves that the procurement function in the current economic conditions can lead to savings, stopping companies from sliding into the red. A professional procurement function in the public sector can contribute substantially to major spending cuts which the government will have to implement in 2010. However, the government underestimates its own purchasing power. The public sector hardly ever takes the performance of suppliers into consideration and too often focuses on low prices rather than on long-term savings. This is the conclusion Atos Consulting (the consultancy branch of Atos Origin) draws in its study, which offers an insight into the most important trends in the procurement policy of the public sector.

Procurement is becoming more and more important in the public sector. Ten years ago, the government put public sector purchasing on the agenda with the "Actieplan Professioneel Inkopen en Aanbesteden" (Action Plan for Professional Procurement). Since then, the professionalization of the purchasing function in the public sector has accelerated. In its study, Atos Consulting looks at what has been achieved so far and outlines the developments influencing the procurement function of public organisations.

The study, conducted among 300 procurement professionals in the public sector, shows an increased professionalization of the government's procurement function. Of all public organisations, 70% works according to procurement policy plans. The vast majority of procurement contracts are currently concluded in writing and master service agreements have become common practice. Purely price-motivated selection is now rare and category management is becoming more widely known.

Nevertheless, the public sector underestimates the scope of its own purchasing power. Performance indicators are still absent from 70% of all supplier agreements. Therefore, it remains difficult to hold suppliers to account when they supply insufficient quality or do not fulfil their part of the deal. "Over 60% of companies are too passive when it comes to safeguarding performance in the procurement process. This ultimately leads to higher costs for the government. A solution can lie in performance management where procurement targets are linked to performance, which is measured and, where possible, adjusted," says André de Meulder, Atos Consulting partner. "The government focuses too much on the purchasing price. Only in 16 per cent of cases the total cost of ownership (all costs involved in the purchase of a product or service) is considered as a selection criterion. Purchasing sustainable products can produce substantial cost savings, also because of the lower energy consumption. Even though almost 9 out of 10 organisations have a sustainable procurement policy, the authorities are very often not convinced of its positive effects."

Procurement as mediator

The role of a mediator, which the procurement function can play between its own organisation and suppliers, hardly ever becomes evident. In almost 7 out of 10 public organisations the strategic procurement policy is anchored in a policy plan, but in only 3 out of 10 organisations the procurement policy is derived from the organisational targets, while the procurement function would in the latter case not only support its own organisation, but also strengthen it. A policy is usually defined at a central level, while the execution happens

locally. This is true for 56 per cent of the total number of health care institutions and for over 15 per cent of central government departments. In many cases (42 per cent), a board member is directly responsible for procurement. Responsibility for procurement targets also rests with top management in over 80 per cent of organisations.

The early involvement of suppliers (“early supplier involvement”) in procurement routes can produce cost savings of 10 to 25 per cent and reduce the number of failed procurement routes. However, this hardly ever happens. Health care institutions lead the way in this. Two out of 10 health care institutions use the knowledge of suppliers in procurement routes. With local government, central government and educational organisations this only takes place in 1 out of 20 cases. The so-called competition-oriented dialogue is a good tool for using the knowledge of suppliers in procurement routes. These are known as dialogue rounds with suppliers, a part of the new procurement law.

e-Procurement scores well

e-Procurement hasn’t yet taken root in 3 out of 5 public organisations, while this creates conditions for transparency and efficiency in the procurement process. Online ordering is the most used form of e-procurement. Here, the health care sector also leads the way with 55 per cent of online ordering done using a procurement system or an ERP system. Local government uses this in only 5 per cent of cases. Online auctions are hardly ever held. Although online contract management is seen as the most successful application, its use is still limited. Only 1 in 8 public organisations uses it.

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