Launching a Startup: a Family Affair

Unpacking the Role of Procurement in Corporate Innovation and the World of Startups

Cooperative Procurement: Method to Drive Savings and Efficiencies Is Catching On!

Digital Transformation Powered by People-Driven Change

Procurement as a Business Partner
Cooperative Procurement:
Method to Drive Savings and Efficiencies Is Catching On!
by Tammy Rimes, MPA

Mary Kay Ash, founder of Mary Kay Cosmetics, acknowledged the importance of people with her oft quoted statement, “People are a company’s greatest asset.” While the adage is true, those employees still require equipment, technology, and tools to ultimately perform their duties. Thus, procurement becomes a crucial player for any organization – private, public, or non-profit. When juggling the many needs of the organization, procurement’s role is to research and procure the best products and services for a reasonable price.

Over the past decade, consumers have placed more emphasis on shopping at big warehouses to leverage more “bang for the buck” by buying in bulk. For companies and organizations, the concept known as group purchasing, or cooperative procurement, takes that same concept to a grander scale. It combines the spend of multiple organizations in a formally awarded contract, thereby creating greater savings for each of the participating entities. Endorsed by the American Bar Association, and widely adopted by private sector organizations, states, municipalities, school and hospital districts, universities, and non-profits, cooperative procurement has become a growing contracting phenomena.

In the public sector, U.S. local and state government agencies and educational institutions spend approximately $1.5T annually on goods and services, and the cooperative contracting industry has grown exponentially over the past decade to help meet that need. By watching the bottom line, savings generated by purchasing supplies and services at lower costs translates to more dollars towards programs that serve constituents. At the same time, public sector procurement resources have diminished due to budget concerns, retirements, or outsourcing. With less people to handle quotes, bids, and evaluation of options, procurement needs an additional tool to meet the ever-demanding and changing workloads.

Combining Consulting Expertise with Commodity Purchases
For non-profits or private universities, there is the additional fiduciary responsibility when budgeting contributions by donors or membership funds. As Pennsylvania’s only land-grant university, Penn State University (PSU) has a broad mission of teaching, research, and public service, and consistently ranks among the top one percent of the world’s universities. Across 24 campuses throughout Pennsylvania, the 100,000 students and 17,000 faculty and staff understand the real measure of success goes beyond the classroom—it’s the positive impact made on communities across the world.

A challenge was presented to the Penn State team to revitalize and build out the modular and furniture needs of a student residence hall. Rather than pursue the traditional bid and award method, PSU decided to take a different approach in taking on the multi-faceted needs of this project. First, specific goals were established: 1) create an area on the first floor that would be attractive to students; 2) design a fun and interactive space for gathering, socializing, studying and group work, and 3) tie everything together with uniform flow and bring unity to the rooms. In addition, the need to utilize the latest technology, with adequate charging stations, was important for students to stay digitally connected.

The PSU team approached Kimball, a leading manufacturer and distributor of workplace furniture, for guidance on how to turn around the underutilized space that was filled with non-cohesive furniture types. The idea was to create a fun and interactive space, providing an area for students to gather, socialize, and study. While attractive aesthetics were desired, it was also important that the furniture products be durable and sustainable to withstand the use by large numbers of students, while allowing flexibility to allow them to move pieces around if they chose.

Rejecting the prescriptive bid process, the university made the decision to use an already competitively bid and publicly awarded cooperative contract to access Kimball’s full range of product lines and consultative services. The results? Kimball was able to provide several design solutions to help PSU selectively choose and create the ideal setting for their space. PSU realized cost savings from the aggregation under a national cooperative contract, as well as soft cost savings in the form of time and resources that would have been allocated to the laborious solicitation process. Most significantly, the remodeled student hall has been transformed into an attractive and inviting, yet highly functional student space.

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Keeping Up with Advancing Technology

With technology progressing at increasingly faster rates, procurement teams must continuously adapt to the latest technological advances. One prime example is drone technology, whose rapid growth and use has disrupted many other industries – agriculture, education, filmmaking, real estate, and public safety. According to the Association of Unmanned Vehicle Systems International, between 2015 - 2025, the drone industry within the U.S. will grow to $81.2 billion with over 100,000 new jobs. And technology is not only related to those obvious devices such as phones and computers. Many commodities are now impacted by technology, such as automated meters for a water or electric utility; cameras for law enforcement; specialized bar code readers for maintaining warehouse inventory; or in-the-field construction personnel or specialized street lighting. Keeping up with all those specific technologies may place procurement at a slight knowledge disadvantage.

With new developments across the technology spectrum, when a cooperative contract is solicited, it often provides opportunities for the responding suppliers to offer product lines that may be broader in range, or new products as technology advances are made, with locked in pricing advantages. As an example of such a cooperative contract, Office Depot offers a wide range of product SKUs for office supplies, technology, janitorial products and furniture that can be pre-selected into a desired “market basket” for an organization. As a new technology or “greener” product becomes available, at the request of the organization, those newer lines can be added to the shopping cart under the already solicited, broader catalog contract. This prevents procurement having to constantly re-bid for new technology items as they become available.

Suppliers as Partners

Another evolution that cooperative procurement supports is the changing role of the supplier vs. procurement relationship. In the past, with strict guidelines, deadlines, and commitment to open competition, this system often creates a distant, if not adversarial positioning. When a cooperative contract is used, the solicitation process has already been conducted and contract has been awarded. Thus, the relationship can begin as a partnership, where the organization can further utilize the suppliers’ expertise, knowledge, and advice on more complicated projects.

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Within six months of the program implementation, patient satisfaction scores increased 11% and operating janitorial costs began to decline, eventually leveling at a double-digit savings. Nine months into the program, the team had implemented 75% of their action items and requested a second assessment, which reflected a 16% improvement in the facility’s Healthy Measures score. The positive results received enthusiastic endorsement by the executive team, in which they noted that this level of success can only be gained by a trusting partnership between the organization and service-provider.

The cooperative procurement route is one being pursued much more frequently by procurement teams. It makes good business sense to leverage and utilize already solicited contracts that drive greater volume discounts. Ultimately, the evolution and expansion of group/cooperative purchasing as part of an overall program can provide high impact solutions, thus increasing efficiencies, delivering cost savings, and adding value.

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About the Author: Tammy Rimes, MPA

Tammy Rimes served as the former Purchasing Agent for the City of San Diego, CA, and now serves as the Executive Director of the National Cooperative Procurement Partners (NCPP). NCPP represents the public sector cooperative industry across North America, focused on providing education, training, and legislative support for state, local, and educational institution procurement teams.

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