National Audit Office

A review of collaborative procurement across the public sector

Public and private sector case studies

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Contents

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Introduction

The following contains two examples from the public and private sector:

- Vodafone – Supply chain transformation programme
- Energy collaborative category

The examples show how a more coordinated approach to procurement has resulted in real improvement in value for money.

Vodafone – supply chain transformation programme

Introduction

Vodafone Group Plc is a multi-national mobile telecommunications company, with a significant interest in 31 markets across Europe, the Middle East, Africa, Asia Pacific and the United States. In 2009, group revenue totalled £41 billion with an operating profit of over £11 billion. At 31 December 2009 the Group had 333 million customers worldwide[1].

Supply chain transformation programme

In 2003, as part of a cost reduction programme, Vodafone initiated a supply chain transformation programme. The target was to reduce the company's external network infrastructure procurement spend through the economies of scale offered by Vodafone's global spend, reducing duplication and driving efficiencies. Previously, Vodafone's 17 operating companies each operated a separate independent procurement function. While each function had an enterprise resource planning system, there was no overall system which showed what was spent with whom at Group level.

There were four key phases of the programme:

- Phase 1: A detailed spend analysis and the identification of 200 categories of spend.
- Phase 2: The establishment of global price books with suppliers, increased use of eAuctions and electronic Request for Quotations, the introduction of a standardised formal supplier performance management process and the introduction of a common definition of savings recognised and understood across the company.
- Phase 3: The implementation of a category management approach, bringing together subject experts from all regions and devising strategies for each type of good and service including consideration of whether markets dictated a global or a local approach to sourcing. For global markets, the general approach was to procure at group level, and handle operations at a local level. Where supply markets require local purchasing, the group procurement team devised best practices for sourcing, management and negotiation.

1 Vodafone calculates number of customers on a proportionate basis. For example, if it owns a 50 per cent equity stake in an organisation, it would count 50 per cent of the customer base.

- Phase 4: The establishment of a central procurement ‘company’ which acts as the centre for strategic procurement across all categories (network, IT, services and handsets). The company buys from suppliers on behalf of the group and supplies the local operating companies. Where this is not possible, or it is not appropriate to buy at a group level, the procurement company acts as an in-house consultancy, carrying out the sourcing and contracting on behalf of the local operating company.

A key element of the programme was to pull together the operating companies into a single global procurement ‘community’ with common reporting lines into a single supply chain director, setting up an agreed governance structure and shared performance targets.

Key benefits

In 2006 Vodafone exceeded its cost reduction targets and the approach was extended from network equipment to include IT and services. In addition, the reduction in duplication of activities resulting from the establishment of a central procurement company led to greater cost efficiency savings. Having a tightly linked procurement organisation has allowed Vodafone to realise further savings by driving business change such as influencing the travel policy to drive further cost reductions.

Suppliers have highlighted the improved working relationship with Vodafone following the introduction of the performance management process. Vodafone has also introduced a supplier relationship management programme where it works closely with a small number of strategic suppliers to deliver further joint value from the relationship.

In 2009 a survey by the International Association for Contract and Commercial Management (IACCM) placed Vodafone in the top 20 most admired companies for ‘buy-side’ negotiations. It has also won a number of supply chain excellence awards since instigating its transformation programme.

Source: Vodafone

Energy collaborative category

Introduction

The public sector spends approximately £4 billion a year on energy (gas, electricity, liquid fuels). This equates to almost 20 per cent of total UK industrial demand for energy. Until recently the public sector energy procurement landscape was fragmented and uncoordinated with public bodies largely purchasing energy on an individual basis. For example, analysis by the Office of Government Commerce (OGC) identified over 250 individual OJEU energy tendering exercises undertaken by public sector bodies in 2006-07.

The energy collaborative category

In 2007 the OGC established the energy collaborative category to coordinate energy buying across the public sector. The governance structure consists of a category board and strategy team with members drawn from a range of public bodies who combined represent more than 70 per cent of the spend, typically with particular expertise of the category. The Collaborative Category Board oversees the analysis and work to develop the overall strategy. The Category Strategy Team leads on specific procurement exercises.

The primary focus to date has been on establishing and agreeing clear best practice for buying energy and increasing the use of best practice contracts. The Collaborative Category Board has established that best practice is to buy energy via aggregated frameworks, which allow risk to be managed and spread via multiple purchases on the wholesale market and not through fixed term fixed price contracts. Collaboration is essential as most public bodies would not have the required volumes for this approach individually. As at January 2010 there were 11 organisations[2] which the Collaborative Category Board has judged to have reached the standard required to provide 'compliant' contracts[3]. Performance of these compliant contracts is monitored by the OGC.

2 Laser, Eastern Shires Purchasing Organisation (ESPO), North Eastern Purchasing Organisation (NEPO), Yorkshire Purchasing Organisation (YPO), Buying Solutions, NHS Purchasing and Supply Agency, Ministry of Defence, London Underground, Department for Work and Pensions, Procurement Scotland, West Mercia Supplies.

3 The OGC has developed the concept of 'compliant' contracts. To qualify a contract has to meet a standard determined by each collaborative category board within the Collaborative Procurement Programme. Specific criteria include: the framework agreement has a transparent pricing mechanism, uses agreed terms and conditions, is OJEU compliant and is enabled for other public sector users, provides monthly management information, has enhanced service levels and is part of an overall category strategy.

Key benefits

By the end of 2009, 95 per cent of central government and more than 55 per cent of wider public sector spend on energy was being channelled through approved compliant contracts. The OGC estimates that in 2008-09 £140 million of savings had been achieved through, for example, improved price performance compared to the wholesale market and reduced supplier margins.

Recent levels of aggregation have allowed the public sector to pursue purchasing energy directly from generation companies (power purchasing agreements), thus bypassing the wholesale market giving the potential for further savings. This approach is not only new to the public sector, but also to the private sector where only a few organisations have enough volume to be in a position to do this. The first of these power purchasing agreements is due to be agreed in 2010-11.

Source: Office of Government Commerce