# Keys to Success: The Four Levers of Procurement Value

By Ash Bedi

Too often, the entire public sector market, buyers and suppliers alike, is subjected to arbitrary policies drafted by policymakers and outside groups that have little understanding of how to generate value or achieve lowest cost. For example, transparency groups have often proposed that government publish all supplier proposals online. While that may make sense from a transparency standpoint, the impact would be disastrous as the best suppliers who want to protect their intellectual capital would opt out.

Not only would we decrease competition but we would also lose the best capabilities government most needs. Unfortunately, policies like these are not uncommon. Without an understanding of what truly drives cost or creates value in the context of supplier relationships and procurement, it's no surprise we end up with a set of rules and policies that mostly destroys value instead of creating it.

**THE LEVERS OF PROCUREMENT VALUE**

To get the best value for taxpayer dollars, we need to be well-versed in the levers of procurement value. Put simply, value levers are a set of actions that enable procurement to achieve its many goals (e.g. managing cost and risk, meeting socioeconomic targets) while fulfilling the needs of the mission.

To start, we present four broad procurement value levers. Each of these is based on decades of proven practices by the world's leading organizations. And as we go down the list, each increases in complexity and difficulty in implementation. After briefly introducing each, we'll dive deeply into them, teasing out their contributions toward procurement goals.


The four areas we explore include:

1. Price-based levers
2. Total cost levers
3. Demand management levers
4. Supply base levers

**PRICE-BASED LEVERS**

This is the simplest and most used of the procurement value levers. Focused on getting best pricing for product/service through rigorous competition, this is the easiest to understand and implement. Pricing levers go beyond negotiating the best price and also include increasing spend covered by negotiated contracts. If no one uses a negotiated contract, of course no value is created. In our next article, we'll cover sophisticated techniques such optimizing the timing of the acquisition to achieve best pricing and "lotting." While the simplest of all the areas, this lever is still rich in terms of specific actions that often go overlooked, especially in the public sector.

**TOTAL COST LEVERS**

Moving beyond price and the focus on getting a better "deal," total cost is about looking more broadly at all costs related to procuring and managing a product or service. Ultimately, this is a better measure than best price given most purchases have many other costs beyond price built in. For example, photocopiers have a purchase price as well as a cost associated with maintenance and consumables such as toner and paper over a number of years. Other costs relative to price are much larger, and therefore merit a deeper understanding. Other total cost levers could include reducing the number of suppliers, reducing the number of transactions or right-sizing capacity.

DEMAND MANAGEMENT LEVERS

Demand management levers are really just about making sure we don't buy something we don't need. The various approaches include influencing and potentially standardizing specifications, reducing the amount we buy through collaboration with internal stakeholders and suppliers, and driving make-versus-buy decisions. As many agencies have seen in government, enormous opportunity exists in reducing the amount of an item purchased. For example, many agencies have realized enormous savings from just shutting down unused wireless phone lines. Procurement can play a key role by better understanding usage and identifying areas where specifications can be standardized or reduced. This is a collaborative exercise and often can result in significant savings, as many agencies have seen in government.

SUPPLY BASE LEVERS

While the previous three procurement value lever areas can yield significant benefits in achieving desired procurement outcomes if implemented rigorously, supply base levers provide additional opportunities when applicable. Examples include supplier development, leveraging supplier innovation through collaboration, and restructuring the supply base to better achieve delivered value (e.g. break up the buy among a greater number of suppliers if the premium for using fewer suppliers is too high). All of these levers are predicated on also defining and managing toward socioeconomic goals. Collaboration is important in all four procurement value lever areas—it is even more critical here.

DIGGING INTO PRICING LEVERS

I noted above that pricing is the simplest and most-used of the four, and while that may be true, it is by no means a simple matter to achieve good, competitive pricing and fully realize its benefits. Competitive pricing is predicated on a keen understanding of a number of factors, including a market and its suppliers, internal user requirements and their demand patterns, and alignment with the user community. Several sophisticated techniques can and should be explored to determine their applicability to the acquisition at hand to maximize value from pricing. In this article, I'll highlight key techniques and their required understanding in order to achieve good pricing outcomes and value – these techniques include:ter "deal," total cost is about looking more broadly at all costs related to procuring and managing a product or service. Ultimately, this is a better measure than best price given most purchases have many other costs beyond price built in. For example, photocopiers have a purchase price as well as a cost associated with maintenance and consumables such as toner and paper over a number of years. Other costs relative to price are much larger, and therefore merit a deeper understanding. Other total cost levers could include reducing the number of suppliers, reducing the number of transactions or right-sizing capacity.

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1. Maximize spend covered by negotiated contracts
2. Collaborate across the enterprise for com mon requirements
3. Ensure rigorous competition
4. Leverage reverse auctions
5. Set multi-year target commitments
6. Optimize timing of the acquisition

**MAXIMIZE SPEND COVERED BY NEGOTIATED CONTRACTS**

Every agency has negotiated contracts, and every agency has leakage. When the contracting staff goes out and gets a negotiated contract for a particular good or service, there will still be others in the user community who continue to buy those items on their own, likely at a less-optimal price. Engage with users to help them understand the contracts that exist and how bringing their spend under those contracts may enable more competitive pricing through better volume discounts. The federal government has found this to be true, adding "spend under management" as a key benchmark metric for procurement success.

**COLLABORATE ACROSS THE ENTERPRISE FOR COMMON REQUIREMENTS**

Collaboration is key when working with the user community, and it's vital that you include all relevant members of your user community to make sure that the "common" requirements you're outlining are truly common. Shared requirements exist for a number of spend areas, including IT hardware and software, office products and furniture, and even professional services, to name a few of the larger examples. The bonus is that not only will you be creating efficiencies by collaborating across the enterprise, you'll often get better pricing thanks to the larger volume you're creating.

**ENSURE RIGOROUS COMPETITION**

Competition is the name of the game in federal procurement, but employing a competitive process is just the beginning in ensuring competitive outcomes. It's important to structure the acquisition to promote participation among the "right, most capable suppliers," including small businesses. This can often be done by using the appropriate "lotting"—grouping similar items together to entice suppliers and motivate them to bid more aggressively. If you're able to lot together items where suppliers have expanded their footprint—say office supplies and lab supplies—you may be able to encourage stronger competition by providing a better proposition to suppliers.

Of course this won't always work: bundling requirements together can limit competition by excluding small businesses (and, in fact, doing so in some cases may run counter to small business contracting policies). In instances where small businesses have strong capabilities (e.g. in office supplies), it's a good idea to structure the acquisition by combining the lots (as in the example above) as well as solicit bids on individual components of the lot separately. It's crucial to keep capable small businesses engaged.

**LEVERAGE REVERSE AUCTIONS**

The very engine that runs reverse auctions—when done correctly—is an intense form of competitive bidding, which potentially leads to even more competitive pricing in a short period of time. The Office of Federal Procurement Policy (OFPP) has just released a new memo offering guidance to agencies on how to get the most out of reverse auctions. There are times when reverse auctions can lead to tremendous savings, and other times when they may actually be a roadblock for suppliers.

**SET MULTI-YEAR TARGET COMMITMENTS**

The budget uncertainties of public organizations over the past few years has made it difficult for many agencies and program offices to plan for the future. That's why it's more important than ever to work collaboratively with users across the organization to get a sense of their multi-year demand needs, especially for known recurring buys. You can then provide that visibility to the supply base, and can even offer volume commitments where suitable. This can further improve pricing, though you'll want to ensure that price change mechanisms are included for acquisitions where price changes are common.

**OPTIMIZE THE TIMING**

Often overlooked, the timing of an acquisition can be a simple way to get better pricing for the organization. For instance, timing the procurement of a new IT hardware system for when a new model is being introduced but the current model suits user needs, you may be able to get a better price. Staying with IT, you could also look for when there's a glut of supply—say when IT spending has weakened—and use that abundance to find deeper discounts off list pricing.

As you can see, there are many ways to leverage a better price, and there is certainly no shortage of factors to consider. From here we'll move on to more complex matters, and focus on total cost.