

The Art of Collaborative Procurement!



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The art of collaboration can have many benefits, and when the art is applied to procurement, great progress can happen and all involved benefit.

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What is Collaboration?

The fact is neither internal nor external aggregate collaboration is happening on a large scale in many companies and collective organizations. This is especially true in mid-tier or loosely organized larger national and multinational organizations.

The terms collaboration, collaborative partners, collaborative supply chains, collaborative commerce, and collaborative networks are often used when discussing procurement. It rolls off the tongue like everyone knows what they are talking about. According to Wikipedia, “Collaboration is a recursive process where two or more people or organizations work together toward an intersection of common goals,” and, “an aggregate is a collection of items that are gathered together to form a total quantity.”

Since collaboration can happen with groups or organizations of any size working together toward the same goal, it can also apply to virtually any business function. When we combine it with the word “aggregate” to form the collective eProcurement term “Collaborative Aggregation”, however, we arrive at something potentially meaningful.

Collective buying organizations and share groups often combine purchasing volumes of similar products and services in order to drive better discounts. Large companies often aggregate their purchases among departments and are doing the same thing across different operating groups or companies within a larger organization in order to drive economy of scale in purchasing.

The unfortunate truth is that not much out-of-the-box thinking or art is going on in this process. They are so involved in the process (weeds) that they cannot see the forest for the trees.

In the Retail Sector

Retail collective buyer organizations and consortiums have evolved primarily in order to compete with the mega retailers and category killers in support of independent retailers.

These business structures have been around for a long time. Many have evolved to use cutting edge negotiation and procurement tools. Their retailer members are also benefiting from the use of these tools in order to reduce their net landed costs in many different ways.

These types of organizations can go by many different names, such as wholesaler, collective buyer, consortium, cooperative, share groups, and more. Even large Private Equity Companies that control very large portfolios of vastly disparate companies have adopted these methods and they all have one thing in common; they endeavor to consolidate purchasing volumes for a wide array of business structures to try and compress or contain cost in order to improve financial performance.



In the retail vertical, companies may actually belong to several different buying groups because their primary group does not offer expertise in a certain area or category. Examples can come from direct or indirect spend and can be as specialized as safety equipment and technology or a wide variety of specialized sectors like legal services.

Buying groups and consortiums are also evolving and beginning to focus on mixed markets where it makes sense. Historically, these groups tended to be vertically focused, such as a drug industry consortium with the members generally representing the drug industry only. Some consortiums are beginning to market themselves outside of their vertical to retailers or other companies who want to take advantage of learned expertise in the categories that are common across more than their own vertical and offer increased volumes. An example of this might be drug stores sourcing very similar products that health care organizations such as hospitals source. Although this may seem like a stretch for most, it is now very common within retail for non-vertical specific players to work together.

Today's advanced e-negotiation or e-procurement tools, such as the SafeSourceIt™ eProcurement family of products, make it much easier to accomplish collective buying and aggregating outside of a consortium's initial area of expertise. Large and small retailers alike now have the capability of viewing a much broader universe of suppliers through the use of supplier databases, like the SafeSourceIt™ Global Supplier Database, while also coordinating and participating in collaborative events from hundreds, if not thousands, of miles away. Suppliers now have an opportunity to earn business they did not know about and could not have competed for in the past.

All companies should ask their respective collective buyer organizations how they plan to make use of today's advanced procurement tools, many of which are cloud based and offered in the form of Software as a Service (SaaS), which means they can be deployed almost immediately with no IT involvement and with extremely attractive ROI's. They should also ask what the GPO has to offer in terms of introductions to other companies beyond their current group for increased collaborative aggregation volume. This is also a significant benefit that eProcurement solution providers like SafeSourcing Inc. can assist with.



Company buyers need to think individually first, but then act collaboratively in their negotiations.

The art of negotiation is just that, an art, but so is the art of collaboration. This can be as simple as aggregating the spend for copy paper across multiple companies or as complex as sourcing an entire catalog of office supplies and any mix between the two. In order to be successful at this collaborative process, being able to convince all parties in the negotiation that each has something to gain is an important skill. Most companies do not possess these skills. Some procurement solution providers, like SafeSourcing Inc., have both people and tools that do.

This is as true for e-negotiation events as it is for personal negotiations. The question is how the tools and other resources allow the flexibility to accomplish collaborative goals.

The Art of Collaborative Procurement

There was an older article from USA **TODAY** by Jillian Berman titled, “Negotiate your way to savings”. The lead-in was that Cable TV and cell phone bills are ripe for cutting. A case could be made: so is everything else.

So what is the art of collaborative negotiation? According to Wikipedia, “negotiation is a dialogue intended to resolve disputes, to produce an agreement upon courses of action, to bargain for individual or collective advantage, or to craft outcomes to satisfy various interests. It is the primary method of alternative dispute resolution.”

What this means in terms of this discussion and the previously cited article, is that these are tools that assist companies in thinking outside of the box by encouraging suppliers to act on behalf of the collective relative to pricing, services, and other decision making points of interest.

Category Managers, Buyers, and all other people with spend authority need to do the same and the ability to think individually and act collectively when they are developing their specifications and rules that govern their negotiations. Think like this! What if buyers asked themselves how their process would differ if they you were buying this product or service for themselves or their family? What if they were just as aggressive and detail-oriented when it came to their department and company? The simple fact is that no single buyer or group of buyers can assemble, collect, collate, evaluate, and persuade suppliers to act in this manor for this process to be successful on a massive or collective scale. Specific tools and skills are required. Procurement professionals need to be able to make decisions on data, not collect data. Procurement professionals need to be able to apply tactics to drive the required outcome. To do this collaboratively requires today’s modern tools, such as the SafeSourceIt™ family of eProcurement tools.



So when in doubt why not collaborate?

The concept of the whole being greater than the sum of its parts is important, but the art of the process is in defining the “why”. At least that was my intent when I began this paper. A company’s survival may depend upon mastering that art.

Some companies have shied away from new eProcurement tools and collaboration with other companies because either they don’t think their individual spend was large enough to make a difference or they don’t know how to find other companies to partner with. The old saying about the whole being greater than the sum of its parts has a role even in eProcurement, and solution providers can provide the direction required to accomplish this. That is, if it’s the right solution provider. Think about how this concept could help find savings in procurement.

1. Coordinated effort leads to the benefits of scale. SafeSourcing regularly runs events where multiple customers reap the benefits of going to market with a combined larger spend.
2. Working together offers different things to different companies in different proportions. All companies may not be buying the exact items as each other, but combined, the similar items give a vendor the opportunity to offer greater savings than would otherwise be viable.
3. Collaborating can prevent companies from seeking different procurement solutions in the first place. The benefits of working with others may go beyond the simple numbers initially calculated.
4. Collaborating in and of itself might be a new procurement strategy, but a tool and expertise are still needed to facilitate the process.
5. For companies concerned that these tools are an impersonal solution, time is revealing that the internet and electronic solutions are anything but impersonal. They are different and they allow interaction in ways that were not possible before due to communication and time barriers.

Summary

Middle of the road traditional procurement practices will not work in the art of collaborative procurement. The same old same old does not work. The pace with which change occurs today requires companies to be able to turn on a dime and think outside of the box. For that, procurement leadership is required, leadership that looks at the art of the process. Leadership that creates and innovates is required for the benefit of all involved in the collaborative process based on their individual needs.





Collaborative Success Story:

Office Supplies:

The Client: A collaborative group of different types of companies all interested in sourcing their internal office supply spend across hundreds of locations.

The Issues: The primary issue was that each company had different levels of spend, needed insight into their own levels of purchase and reporting, and all wanted to leverage the collective group's purchasing power.

The Process: Each company was set up as their own group within the event. The items were standardized into one collective group of specifications that the group agreed upon which was then sent to the vendor community. During the event each company had a view into their own details. The savings reflected were based on the bids from the vendors against their current prices which in some cases showed savings before the event began. Vendors had insight only into the collective quantities and lowest current price of the group and bid accordingly.

The Result: For three separate categories each run as their own event reflecting \$3.5M in spend, the results combined for a group savings of 15% and \$500K.

Other Collaborative Successes – (Potential Project Savings)

- Copy Paper – (27%)
- Display Fixtures – (37%)
- Landscaping – (17.8%)
- Material Handling Equipment – (14%)
- Plastic Bags – (17%)
- Printing Services – (57%)
- Repair and Maintenance – (27%)
- Seasonal Products – (19%)
- Stretch Wrap – (25%)
- Temporary Labor – Drivers – (17%)
- Truck Rentals – (23%)
- Wood Pallets – (15%)



1. <http://en.wikipedia.org/wiki/Collaboration>

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