

Australian Universities Procurement Consortium

A Background Paper

Overseas Experiences

Collaborative Procurement and the adoption of e-procurement technologies have been proven to deliver significant savings in both the cost of goods and services procured as well as the associated process costs.

Numerous universities in the U.K. and the USA have joined forces to leverage their combined purchasing power and collaborate on e-procurement initiatives. The results have been impressive - through a joint approach to procurement, overseas universities have consistently been able to lower prices paid for goods and services, reduce administration costs, shorten acquisition cycles, increase the use of preferred suppliers, improve reporting on expenditure, reduce off-contract (maverick) spending, and improve inventory management

For instance, the London Universities Procurement Consortium (LUPC) has delivered its members a 20% return on investment and in 2001 achieved savings of six million pounds on expenditure of 132 million pounds.

Purchasing has historically been viewed as a backroom function of business with little or no strategic value. However, this view has changed and purchasing has become the enabler of corporate electronic commerce strategies and has evolved to strategic procurement. The benefits of strategic procurement have been well articulated and in many instances these have been enhanced through the establishment of procurement consortia: Benefits include:

- Cost savings through aggregated spend
- Reduction in duplication of effort
- Reduced administration costs
- Supplier base rationalisation
- Access to preferred supplier agreements
- Improving processes and expertise
- Improve focus on core competencies and value-added activities
- Demonstrable return on investment

Creation of AUPC Initiative

The Australian Universities Procurement Consortium initiative was based on a successful university purchasing consortia operating in the UK. Australian universities developed an interest in consortium buying following a presentation from John Ritchie the Director of the London Universities Purchasing Consortium in 2001 at the first HES National Finance and Procurement Conference. In 2002, John Ritchie was invited again to run a practical workshop in establishing consortium buying.

A group of university strategic procurement managers believed that Australian universities could achieve lower point of sale pricing by cooperating through strategic procurement initiatives and sought to develop a national initiative.

In October 2002 university procurement managers attended a meeting hosted by HES. The potential of developing a collaborative procurement strategy through a consortium of

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Australian universities was discussed. The successful consortia cited were London Universities Purchasing Consortium (UK), Collegebuys (USA) and later, Church Resources (Australia) as the basis for proceeding with the concept of the Australian Universities Procurement Consortium.

The model proposed at the October 2002 meeting resulted in 26 universities providing start-up funding of \$242,500 with the expectation that this would be returned in later years when the consortium had generated sufficient business contracts to cover operating costs.

The AUPC initiative has largely relied upon the initial contributions, a \$130,000 contribution from HES in 2005/2006, and volunteer time from various universities on the AUPC Executive Committee plus HES staff support during the last three years. Whilst the resource base has been limited, the AUPC has achieved its initial goals of piloting a national supply contract, arranging discounts & offers and generating savings to the HE sector during 2003 to 2006.

Achievements of the AUPC to date

From a modest financial start up, the AUPC initiative has returned significant positive benefits to the HE sector. This has taken the form of rebates on Mitsubishi vehicles, discounting of universal gases commodities and significant savings in overhead costs of tender as demonstrated by the national gases tender. An opportunity of savings through the stationery price benchmarking pilot and business process improvements through promoting spend analysis projects. There has been raised awareness across the HE sector of procurement and eProcurement initiatives being undertaken by universities around the country. Intangible savings resulting in more competitive pricing in industrial gases, which are difficult to measure reliably without a national benchmarking project, are also evident.

In 2006, the AUPC initiative in line with its desire to develop benefits through aggregated supply contracts, has taken the first step towards that goal in attracting Workplace Productivity Funding of \$6.1m from the Federal Government to benefit the HE sector, supporting a three year programme in benchmarking goods and services and benchmarking of the procurement function. Based on a 2005 pilot benchmarking exercise with 5 universities, the resultant Australian National Higher Education Procurement Benchmarking Programme aims to collaboratively price benchmark a variety of goods and services across 29 universities between 2006 and mid-2009.

This national project is a major success milestone in the continuing development of the AUPC initiative.

Funding Pressures

Financial pressures on Australian universities, creates the need for universities to control costs and maximise performance in increasingly innovative ways. With institutions spending one third of every dollar received on external goods and services (excluding capital), strategic procurement is undeniably a major lever in achieving these goals.

There are also growing expectations of quality in services and service delivery processes with lessening resources. Simultaneously, universities are increasingly cognisant of their need to manage risk, and to demonstrate high levels of probity and excellence in corporate governance and are seeking innovative ways to collaborate to mitigate risk and develop cost effective best practice approaches, one of which importantly is strategic procurement, which goes beyond merely the purchasing role.

Stakeholders and Sector Spend

One of the imperatives for universities is to ensure that as many of their resources as possible are focussed directly on their core business, and that indirect and/or overhead costs are minimised.

In 2004, universities spent approximately \$4.4bn, or 43% of their revenue, buying goods and services. In addition, it is estimated that it costs the same universities about \$250m or 4% of their revenue to process the transactions needed to spend the money.

Saving in direct costs of purchasing goods and services (price), and in indirect (transaction) costs, represents a significant opportunity for the sector as a whole to release funds into higher value adding activity. Further, each time a university spends non-salary money, risk, probity and governance are potential issues to be dealt with.

The benefits of collaborative procurement to the Australian higher education sector will be:

- Reduction in the direct costs of the purchase of goods and services;
- A significant reduction of indirect costs relating to the purchasing of goods and services; and
- Improved standards of probity and corporate governance in procurement processes.

This environment, and the potential for such significant savings, provides a unique window of opportunity for the Australian Universities Procurement Consortium (AUPC).