Buyers on standing offer/lowest price purchasing – Part 2

In the October issue of *Summit,* members of the supply community expressed their reactions to standing offer procurement by the federal government. To be kind the reviews were mixed.

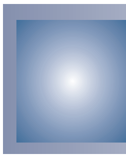
I must now confess (and these are my own views, not necessarily those of *Summit* magazine), when I am not practicing the arcane art of journalism, or playing music (which I love), or observing the extraordinary talents of my family, I attempt to make a living providing consulting and writing services, often for federal government clients. Reliance on a standing offer lowest price policy by the Government of Canada has presented me, as a freelancer, considerable disadvantage.

As a self-interested professional, a policy wonk and a Canadian taxpayer, I am concerned with this recent, well-intentioned approach to contracting. It is this simple kind of thinking that, in part, led us hippity-hopping down the "Gomery" trail through restrictive rules combined with close, ongoing mandatory relationships. This may well result in clients of federal procurement specialists better understanding two old saws: 'penny wise – pound foolish' and 'you get what you pay for.' Even in procurement the customer is sometimes right!

Enough from me – let's hear from people who know what they are talking about. We have experts from Public Works and Government Services Canada, the Province of New Brunswick and the City of Vancouver. So, let's chat!

Sit down, take a deep breath, sip a beverage, open your mind and stay awhile while we chat with:

Larry Berglund
Manager of Materials Management
City of Vancouver



Judy Cole
Department of Supply and Services
Province of New Brunswick

Michel Rancourt
Senior Director, Standing Offers, Acquisitions Branch
Public Works and Government Service Canada

Every picture tells a story

Rancourt: A standing offer is a contract in waiting. We have a master agreement with the supplier – predetermining price specifications and other terms. All that is missing is which department is purchasing, how many, and when. The federal government has been using standing offers for years – we find them effective. They meet the needs of the government – our clients – for a wide range of goods and services, quickly and inexpensively by consolidating what we buy. Our suppliers like them. Once they have been successful in bidding for a standing offer, they can then sell to the government without having to go through bids on individual requirements. Standing offers started out for the convenience of our clients, but we recognized that a more uniform approach to procuring the most common goods and services would also lower the expensive administrative burden and result in better prices for Canadians. This past April, all departments and agencies were mandated to use standing offers, when they exist, for 10 of the most commonly purchased commodities. For other goods and services such as printing services or general communications support services, departments can continue to do business as usual.

Cole: For repeat procurements, the natural tendency is to establish long term standing offer/lowest price contracts. The immediate gain is reduction in the number of individual tender calls. What might not be so evident is the potential for problems. More than ever, procurement staff must keep up with market trends. Each requirement has to be examined carefully to see if the advantages of long-term contracting outweigh the disadvantages. It is critical that comprehensive terms and conditions form part of the contract; roles and responsibilities for each party are clearly laid out; and any reservations and uncertainties are minimized for both client and vendor. Long-term standing offer contracting can be as flexible as needed, although "terms and conditions" that work for one contract may not translate well for another and, for the most part, tend to be commodity specific.

Berglund: Canadian municipalities approach purchasing with common principles but not universal practices or priorities – for good reasons; we are not all the same. The tools available, such as standing offers, have their place. But tools are designed to be used for specific jobs and should be selected appropriately. Making generalizations can be dangerous. Standing offers should be used where a purchasing organization believes it fits with their overall strategy for managing costs and complements their organization's definition of determining value. Standing offers are of lesser importance today than in the past. They are a left-over from previous tactics to determine the lowest price available in the market and for public sector organizations to take advantage of the perceived clout associated with the potential size of the goods related to such an offer. Today, price margins are, by and large, less elastic. Widely distributed, homogenous items have been globally commoditized. The act of cherry picking a list of items has given way to managing this as a product group. Hardware and software decisions are driven by advancements in technology more than the price of the individual components on a standing offer.

It's a good thing

Cole: In general, NB Supply and Services has found standing offer/lowest price contracting to be an effective way to manage many of the demands put on staff – important when you consider the department procures approximately $398 million worth of goods and services each year.

Chat back at us (**info@summitconnects.com**) and we'll track your comments in the next issue, at the same time as we introduce a new theme.

There are notable advantages. Satisfied clients mean fewer complaints. [Suppliers] can produce standardized, pre-approved products with consistent quality and volume discounts that offer best available pricing and long-term arrangements. Encouraging relationship building between vendor and client facilitates conflict resolution. Turn around time is less for individual purchases, and less inventory. There can be savings in time and money for procurement staff. Large dollar value opportunities can maximize competition and vendors recognize this as an important business initiative. Such an approach also facilitates expenditure monitoring, maximizes value and offers best value pricing throughout a network of government departments. Such savings can be passed on to other government funded bodies such as municipalities, hospital corporations and others.

Berglund: Suppliers that did not win the standing offer use this effectively and can influence buyers in their sourcing decisions. Not all decisions are made directly by the purchasing groups; they can be made by other operational areas within a large municipality. Standing offers also draw out the maverick buyers who can show their skill in getting a better price – but not necessarily a better value overall. The maverick simply compares the standing offer against his or her price and ends the argument. This does a disservice to the supplier that went through a public tendering process and expects to get their share of the market based on the competitive pricing they offered. Public organizations are being more strategic in their supplier relationships, yet they must operate within a sphere of fairness and transparency. They need to demonstrate value that reflects their stakeholders' interests, which is inclusive of price, but they also need to make improvements on the business case for making decisions, which should have a long-term legacy of value and cost benefits.

Rancourt: Procurement changes under *The Way Forward* are designed to save the federal government $2.59 billion over the next five years and to improve service to government clients. The first major initiative was to make the use of some standing offers mandatory across the federal government. We will be adding more standing offers to the mandatory list. Beginning in April, many standing offer holders have reported back on business volumes and we also track this through some internal online ordering systems. We are seeing an average 17 percent increase in usage. Applying this increase against the lower prices we have through these standing offers shows estimated savings of over $20 million for the first year alone. Standing offers provide important advantages for the acquisition of commercially available goods and services: direct access to a supplier through pre-arranged procurement mechanisms; better prices through consolidation of requirements and increased competition among suppliers; reduction of administrative costs; reduction in lead time; reduction in inventory investment; and standardization and simplification of the process for suppliers and users.

Behind every silver lining…

Berglund: The Internet, eBay®, and other electronic sources of real-time pricing information have driven margins down. There is a consolidation of sellers within market sectors who can no longer win by playing the price game. Buyers are factoring in more than purchase cost of an item, considering life cycle costing to quality compatibility, marketability, the product life cycle, transactional costs, and sustainability or corporate social responsibility associated with the products or services. However, the prices available through standing offers are widely circulated and can lead to price-shopping – the "meet it or beat it" unethical practice. Focusing on standing offers reiterates the old focus on pricing that diverted attention from adopting more innovative best practices, including prequalification agreements, developing in-house price indices to target costs, supplier performance evaluations, activity based costing models, or negotiating with suppliers.

Cole: Standing offer/lowest price contracting also presents disadvantages. It impacts vendors' ability to react to market changes unless terms and conditions specifically permit adjustments. Additional effort and rationales are required by client departments to buy outside the contract. The opportunity to take advantage of one-time "sales" offers is diminished and the contract may require the client to pay more, if the market takes a downturn. There is also a tendency to entice vendors to "low ball" a price they can't hold to which results in contract cancellation or re-tender – more work for the procurement agency. Such contracts lock out all unsuccessful vendors for a longer term and may adversely impact smaller or local vendors, thus having an adverse effect on local economic development. Locked-in prices on long-term contracts can also have an impact on vendors when inflationary or unanticipated issues arise such as rising fuel prices.

Rancourt: Making standing offers mandatory is but one element of *The Way Forward*. Along with commodity management, we will look at everything the government buys and find the best way to buy it. You don't buy military equipment the same way you buy pencils. It is too early to say what the results will be. But, it would not surprise me to find, say a year from now, that we would buy some commodities using only standing offers; others only supply arrangements; others, the new government e-purchasing system called the Government of Canada Marketplace (GoCM), and yet others using custom contracting. I cannot see us dropping either standing offers or supply arrangements – they work too well. What I can see is more improvements. We may find that we get even better prices if we offer our standing offer holders some guaranteed level of business…or, we could find that supply arrangements work better if we have fewer, but perhaps better, suppliers on the qualified list. We have to do a better job of tailoring the procurement process – and we will.