

# Big procurement footprint? Better bidding yields bigger savings

**Consolidating bids helps maximize saving opportunities—  
even when the procurement function is highly decentralized.**

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## ***A series on operations transformation in a public-sector organization***

*With demand for services rising faster than tax revenues, public entities around the world face unprecedented pressure to do more with less. Many think they must make a stark choice: cut service quality, cut availability—or cut both. This series of articles follows a large US public agency that chose another option: find radically better ways to deliver services by completely transforming its operations. Within 36 months, the agency booked nearly \$2 billion in cost efficiencies, while also building the capabilities of more than 10,000 people to make those changes sustainable.*

Procurement functions have two central tasks: to structure—and then apply— procurement strategies that maximize the value the organization gets from everything it purchases. That's hard. Even harder, though, is to stick to the strategy over time. And that task becomes harder still when procurement is decentralized.

That was the situation for the government agency. With 20 regional operating units, more than 80 product types, 130 vendors, and three distinct delivery methods, it simply wasn't possible to analyze every one of the more than 100,000 unique bids generated every year under a consistent strategy. The agency needed a new approach.

### **Consolidating the bidding process**

The agency's comprehensive procurement transformation effort comprised three main objectives. First, simplify and consolidate vendor bids so that each vendor provided one standard price per region. Second, provide consistent target pricing for all RFPs. Finally, make its own demand more predictable so that vendors could increase their competitiveness.

#### **Consolidating vendor bids to one price per region**

Under the existing process, vendors provided separate quotations to the agency's operating units at separate times through the year. That led to significant pricing variation in both raw materials and transportation costs—variations that the decentralized procurement functions could not see unless they specifically asked for the data from other units.

In the transformation, the agency implemented single-price bidding: vendors now submit a single annual price per region. The change increased price transparency and bid volumes, allowing the agency to negotiate more effectively. And each procurement unit gained access to

a larger pool of potential vendors, increasing competitiveness. The changes created value for vendors as well, because the simplified bidding process reduced their sales costs.

### **Providing pricing guidance to vendors**

Under the existing system, unless different units made explicit efforts to coordinate with one another, they were likely to provide vendors with different target prices. Using the new approach, the agency can anchor vendors on consistent target prices for both raw materials and transportation unit rates. Those target prices create a clear baseline and increase overall competitiveness.

### **Increasing predictability of demand**

A new, consolidated request-for-proposal (RFP) process pools demand across regions and communicates total predicted demand to vendors. As a result, vendors can better optimize their own supply levels and cost bases.

## **Capturing the value**

The changes created value not only over the short term, by reducing the landed cost of delivered materials, but also over time by enabling better tracking of the organization's cost performance.

### **Landed cost optimization**

Given that some projects take place in remote locations, it is not unusual for freight costs to account for more than half of the total value of a network-infrastructure contract. Landed cost is therefore highly important for materials procurement. And because the consolidated bidding process has centralized pricing data for raw materials and transportation, the agency can optimize landed cost for all purchases.

The agency found that selecting the vendor able to provide the lowest landed cost for each transaction could deliver savings of 20 percent or more. But to capture this value, the agency's procurement staff needed a mechanism to identify the right vendor for every project. Under the previous system, purchasers had to manually calculate the landed cost bids for each vendor, and usually they only had time to complete this process for two or three potential vendors from a total pool of 30 or 40.

To solve this challenge, the agency developed a landed-cost-analysis template, which automatically runs the calculation for every vendor serving the region and identifies the best cost option every time. The template is simple to use, requiring the purchaser to enter only five pieces of information, a process that typically takes less than two minutes.

### **Driving adherence through the savings dashboard**

Finally, consolidated pricing data also improved performance tracking. A new savings dashboard, based on the data, lets leaders compare each procurement decision to the optimum landed cost calculation. The central procurement function can then conduct performance discussions with individual operating units, thereby improving decision making and adherence to the new bidding and vendor selection process.

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By transforming its bidding process and optimizing landed cost, the agency has quickly delivered 20 percent savings in a cost category that traditionally had proved very difficult to manage. Yet the agency's tactics were so straightforward that they can easily apply to any decentralized procurement function with a large vendor network■

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