



Ministero
dell'Economia
e delle Finanze

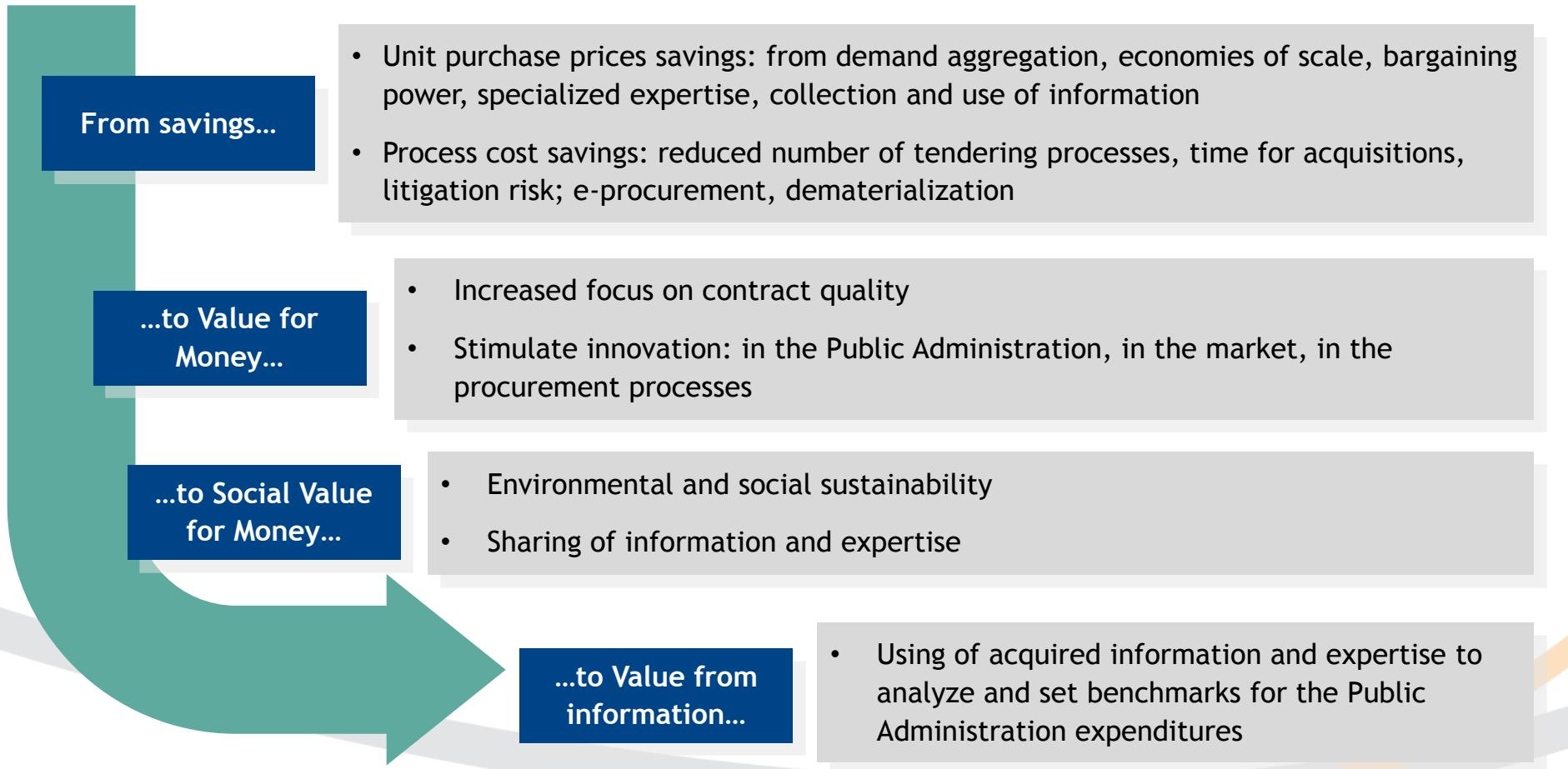
From Cost Saving to Value Creation in Government Procurement

Stefano Tremolanti
Director, Public Procurement Division - Consip Spa

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The evolution of Consip's Role

The Consip role as Central Purchasing Agency has been continuously evolving, in line with the developing international view of the strategic role of public procurement.

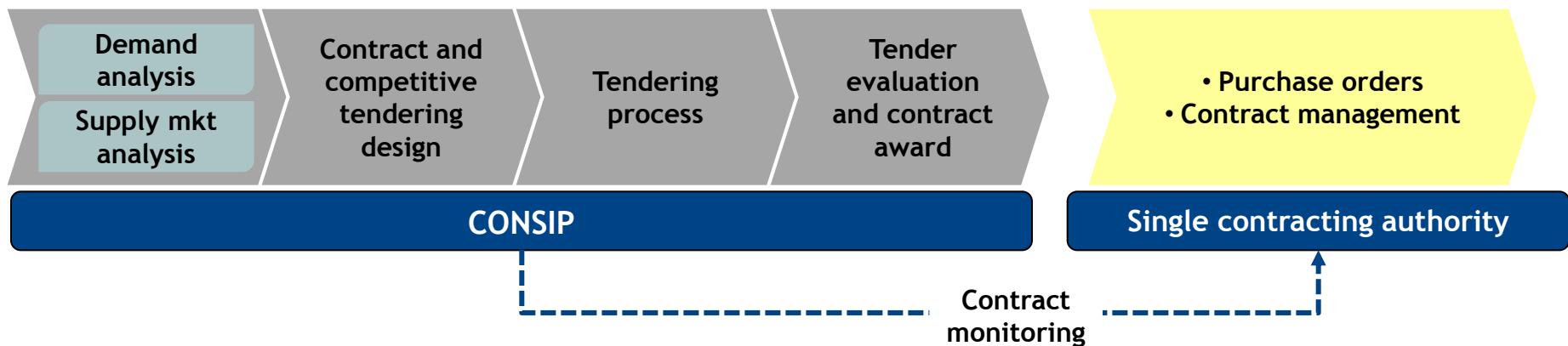


Main procurement channels (1/2)

Framework Contracts (FCs)

Each lot (relative to geographical areas or product sub-category) is awarded to one sole contractor on the basis of an open competitive procedure. The FC sets all the terms and conditions of purchase contracts awarded within the Framework.

- All the Italian contracting authorities are allowed to issue purchase orders under the FC.
- The contractor commits itself to accepting orders up to the maximum volume established in the FC tender documents
- Consip only negotiates the FC terms, but has no role in the supply contracts originated from contracting authorities purchase orders: payments and contract management are up to the PAs



Multiple-award Framework Agreements (FAs)

Recent introduction in the Italian legislation. Consip is just starting to conclude such arrangements in order to deal with demand heterogeneity and non-standardized goods/services

Main procurement channels (2/2)

E-Marketplace

The Public Administration Electronic Marketplace (MEPA) is a selective e-marketplace in which authorized suppliers offer their goods and services directly on-line. Registered buyers (Public Contracting Authorities) consult its catalogues and can make either a direct purchase order or a request for quotation.

- supports purchases below the European thresholds (about €200,000)
- promotes SME participation in the Program.
- **Consip has no role in the negotiation and award procedures. It only acts as a market-maker.**

ASP/Tender processes run on behalf of single contracting authorities

which explicitly invoke Consip strategic/technical/technological support on specific acquisition initiatives

A complex environment

Consip goals have to be reached acting in a very complex environment, with multiple stakeholders and attention for the impacts on both sides of the market

DEMAND SIDE

Different customers:

- Central Government
- Local Authorities
- Health Sector
- Schools and Universities
- Public Companies

Different and sometimes conflicting needs:

- Simple and effort-saving acquisition process (“click and buy”!) on the one hand...
- ...but flexibility and autonomy on the other hand!
- Heterogeneous needs, preferences and characteristics (with respect to customization, spending capabilities, contract mgmt skills, payment time...)

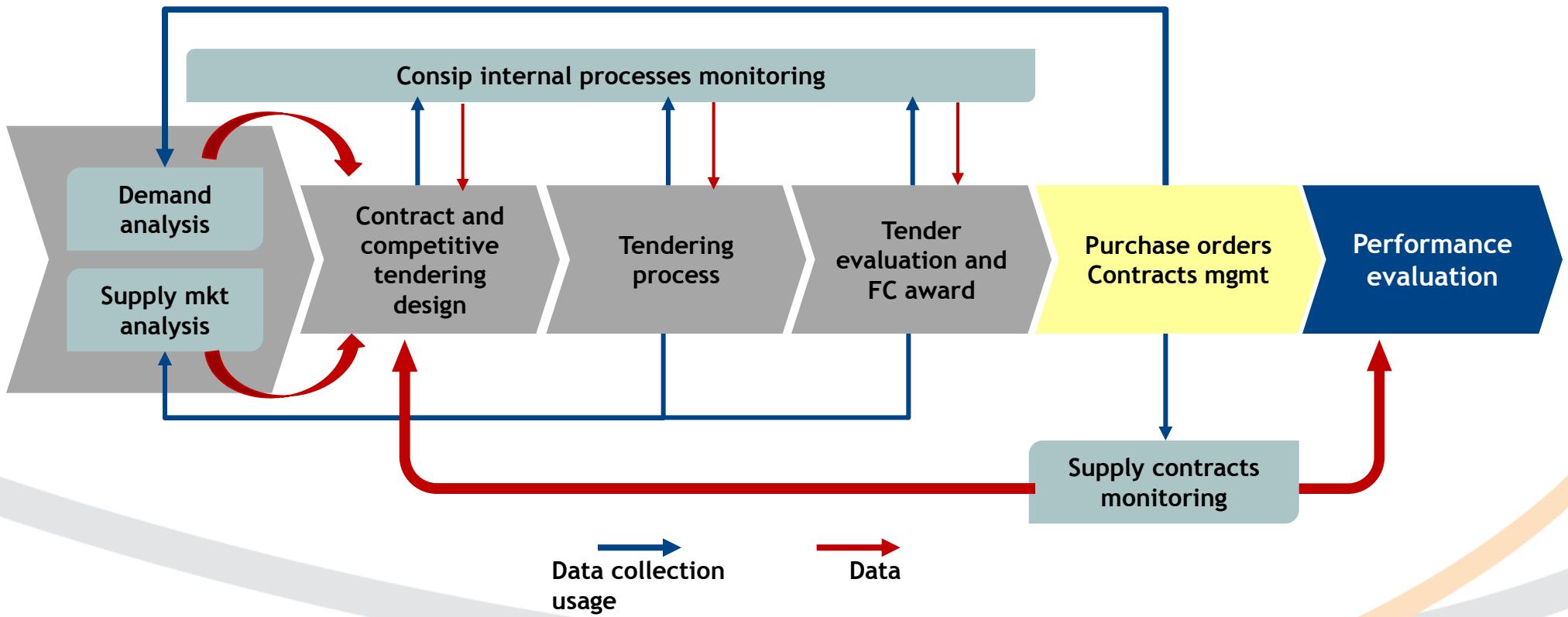
SUPPLY SIDE

Lot of care needed about the impact on the supply market structure:

- Dominant positions and lock-in (actual risks in markets where the public demand account for a sizeable share of the market, e.g. health and medical machinery)
- Role of SMEs (particularly crucial for the Italian economy)
- Innovation

Managing complexity through information mgmt

Data collection, maintenance and analysis is crucial in all the stages of the procurement process.



The role of information - Demand analysis

- **Main goals:**
 - Estimate the size of Public Administration demand → size of the framework contract
 - Identify the most relevant qualitative elements of the demand (needs, preferences, demand heterogeneity)
- **Main tools/indicators employed:**
 - On-line surveys on contracting authorities sample
 - Analysis on purchase orders on Consip FCs in force: automated collection of analytic data from FC suppliers to Consip Datawarehouse
 - Survey on all the tender notices published on the Tender Electronic Daily by Italian contracting authorities outside Consip FCs
 - Data from purchase orders on the e-Marketplace

The role of information - Supply market analysis

- **Main goal:** monitor the evolution of the supply market and figure out the impact of the framework contract:
 - price evolution trend
 - technological evolution, innovation, offered products/services, technical features
 - market structure: number, market share and market power of potential bidders
 - risk of collusion
- **Main tools/indicators employed:**
 - continuous contacts and consultation with suppliers in the market and professional associations
 - analysis of bids submitted in previous competitive tendering for FCs
 - analysis and generalization of best practices at national and international level

The role of information - Supply contracts monitoring

Main goal: identify criticisms in the supply contract structure:

Main tools/indicators employed:

- Number/features of complaints by the contracting authorities
- Number/size of contract penalties applied by the contracting authorities
- Number/relevance of supply contract infractions detected through sample inspections conducted by Consip
- Direct communication with both the contractor and the contracting authorities

The role of information - Internal process monitoring

- **Main goals:**
 - identify possible bottlenecks slowing down the time-to-market
 - identify possible misusage of resources
 - risk management
 - improve internal organization
- **Main tools/indicators employed:**
 - Performance indexes (discussed in the next slide)
 - Time required for the FC to come in force
 - Number and cost human resources
 - Continuous quality improvement approach

Measuring performance and created value

Main goal: measure the “created value”.

The main idea is to quantify most of the created value in terms of savings yielded for the Public Administration

Main tools/indicators employed:

- **Unit purchase price savings:** achieved reduction on unit prices for each specific category (estimated yearly by a third party, namely the National Institute of Statistics, ISTAT):
 - ~ €2.5 bns savings in 2009:
 - ~ €0.7 bns from direct savings (orders issued from Consip procurement channels)
 - ~ €1.8 bns from indirect savings (by law, purchases without Consip FCs have to achieve the price-quality benchmark defined by terms/conditions of Consip FCs)
 - ~€ 3.5 bns savings forecast for 2010 (+51% vs 2009)
- **Process cost savings:** time and FTEs required for the procurement process
- **Other relevant tools/indicators:**
 - Volume of transactions (~ €2 bns in 2009)
 - Number of purchase orders (86K from FCs whose 24K online; 72K from MEPA)
 - Number of contracting authorities registered to the Program of Rationalization of Public Expenditure (68K, whose 11K active in 2009)
 - Number of registered suppliers (3K in 2009)
 - Number of active Framework Contracts (56 in 2009)
 - Customer satisfaction surveys

“Intangible” value

But many elements of the created value are hard to measure: they have to do with improving knowledge, culture, innovation, expertise

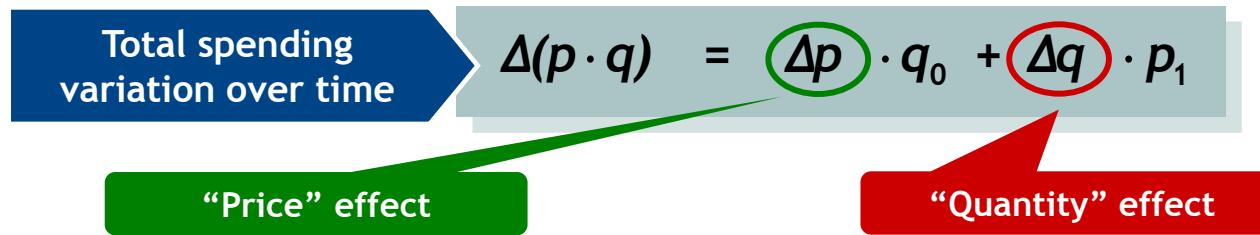
- Procurement processes innovation
- Boost to new solutions development and diffusion → innovation of the business model of the Public Authorities
- Widespread common procurement language and culture
- Development of expertise
- Training to both suppliers and public officials
- Consultancy to Public Agencies
- Research activity
- International relationships

The result? A new challenge!

Consip has been charged with a new challenging task: contribute to the definition of criteria and prescriptions/guidelines for the rationalization of intermediate consumptions expenditure.

The problem

Due to inflexible accounting rules, quite often reduction in unit prices does not translate into cash savings, because of increase in purchased quantities



Total spending variation over time

$$\Delta(p \cdot q) = \Delta p \cdot q_0 + \Delta q \cdot p_1$$

“Price” effect “Quantity” effect

Main idea

Supplement unit price reduction with a careful assessment of the appropriate quantities”, to be defined for specific categories on the basis of the characteristics of the Public Authorities