

Purchase with purpose: How to increase value and reduce risk in competitive procurement processes

How often have you looked at your competitive procurement process and analyzed its strengths and weaknesses? Rarely? Never? Trust me, you are not alone. Most organizations only make updates to their procurement processes and policies once something has gone wrong. A wrong supplier was selected, a bidder disputed the process and sued for damages, the competitive process was cancelled due to insufficient bidders or inability to meet requirements, a supplier was selected that did not meet all the requirements...I could go on and on. It is important to ensure that your organization's procurement processes and policies are constructed to avoid those scenarios mentioned above. In this article, I will identify three key success factors that organizations need to implement in order to increase the value for money they achieve through their competitive processes, while at the same time, reducing the risk of a process dispute by one or more of the bidders. This article is essential for any organization that spends public money, and it also contains good advice and best practices for any organization. Get your organization on the right track before you find yourself in the newspaper, or even worse, in a court of law.

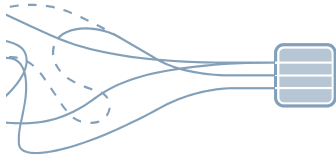
The three success factors are:

- Focus on total value added;
- Do what you said you were going to do;
- Determine what is most important and stick with it.

On the surface, these three success factors sound very simple, which they are, but the key is integrating them into your procurement culture and ensuring that they are repeated for each procurement process.

Success factor #1: Focus on total value added

Many organizations only evaluate competitive bids based on unit price and they look for the cheapest provider. This is a short-term view and a common mistake. This approach may lead to a lower short-term cost for the organization, but generally leads to increased costs and relationship management issues in the long run. This approach is appropriate when purchasing tangible products where there are many similar alternatives. Purchasing services or unique products requires a more value-added approach. Organizations need to focus on the value that the potential bidder may bring to the table. Cost is one aspect of this, but organizations also need to consider product or service support, whether or not the bidder is looking to build a long-term relationship, how well the bidder meets the requirements of the organization and any additional value that the bidder brings. This is commonly known as value-for-money and it refers to the fact that organizations may not always go with the lowest cost bidder. Based on other considerations, the organization may



choose a bidder that is more expensive and provides more value. Understanding the requirements of your organization is paramount in making a successful value-for-money decision (see Success factor #3 below).

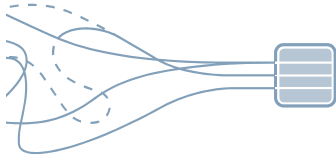
Success factor #2: Do what you said you were going to do

The biggest mistake that companies make in their bidding processes is changing the rules halfway through the game. This is the surefire way to have your process disputed and to find yourself defending the decision in the newspapers or in court. You are able to make up the rules of the game through your competitive documentation, but you need to ensure that those rules do not change and that they are fair, equitable and transparent. If you identified that certain criteria were mandatory and you will reject bids if those criteria are not met, then you must reject bids not meeting those criteria. If your documents identify a two-year contract, then you cannot award a four-year contract to the winning bidder. Again, these seem like simple and basic rules, but the legal annals are filled with precedent cases where these, and other simple rules, were not followed, leading to damaging results for the purchasing organizations. You can use a simple test, which I call the “fishiness test,” to determine if you may be doing something considered to be unfair or unequal to all potential bidders. If it sounds like something fishy has been done, then it probably has. When managing your procurement process, always remember to give each bidder an equal and fair chance to win the business. Not only will you reduce your risk of process dispute, you will also find that bidders will want to put in a competitive bid in order to do business with you.

Success factor #3: Determine what is most important and stick with it

Companies tend to spend little time determining what is important to them in making procurement decisions. This is effort that should be spent up front, before the competitive process is started. Organizations need to identify what requirements they have and the evaluation criteria that are going to be used to make the decision. The evaluation criteria and the evaluation process are the areas where organizations seem to spend the least amount of time and then wonder why their needs are not being met by the winning bidder. Spend time to determine what factors are most important in making this decision. Ensure that the stakeholders most impacted by the decision are involved in the determination, as well as the evaluation, of those criteria. Don't just consider the short-term needs of the organization; you need to factor in the longer-term requirements as well. The more time and effort spent up front, the smoother and easier the evaluation process. Determine the criteria and stick to them. This will help you make better competitive purchasing decisions and help potential bidders gain some insight into your priorities as an organization.

There are many keys to success in the procurement process. The three discussed above are the ones that are most critical and easiest to influence. Focusing on the right success factors can lead to better results in your competitive process as well as



a reduction in the risk of a process dispute. You need to focus on total value of a bid, you need to establish rules and guidelines and follow them fairly and equitably for all potential bidders and you need to understand what is important to your organization and relay that to potential bidders. By implementing these three keys to success you will notice an improvement in the results of your competitive bidding processes as well as the comfort of knowing that you are reducing any risk of a competitive dispute.

About the author

Andrew Miller is the President of ACM Consulting Inc, a company that helps high performance organizations increase profit by aligning processes, people and technology. For more than a decade, he has helped existing and startup businesses improve their results. He has consulted for many public and private sector organizations on improving procurement results and teaches a two-day program in procurement best practices through various Canadian business schools. He has been featured in the *Globe and Mail* Canadian national daily newspaper, magazines such as *Supplier Global Resource*, *Promotion Products Business*, and *Counselor* as well as the *Society for Human Resource Management* consultant's forum. His articles and views have been published in *Canadian Transportation & Logistics* magazine, commercial books *Getting started in Consulting* by Alan Weiss and *Outsourcing Transactions: A Practical Guide* by John Beardwood and C. Ian Kyer and *Project Times* magazine. Andrew can be reached at andrew@acmconsulting.ca.