


UNIVERSITY BUSINESS EXECUTIVE ROUNDTABLE

Disciplining University Spend

Strategies and Best Practices for Achieving Savings from On-Contract Purchasing

UNIVERSITY BUSINESS EXECUTIVE ROUNDTABLE

Executive Director
Christopher Miller

Practice Manager
Noah Rosenberg

Contributing Consultants
Genna Weinstein
Sara Camak

Lead Designer
Joy Turner

Creative Services

Kevin Matovich • Keith Morgan • Yaji Pereira • Bridget Stec • Mysoon Taha • Lauren Walsh

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About the Education Advisory Board

Since 1979, The Advisory Board Company has been providing best practice research to the world's leading hospitals, academic medical centers, and health systems. With a staff of more than 900 in Washington, D.C., we serve health care CEOs, administrators, and clinical leaders at 2,700 institutions, publishing 55 major studies and 10,000 customized research briefs yearly on progressive management practices. The work focuses on the industry's best (and worst) demonstrated practices, helping member institutions benefit from one another's hard-learned lessons.

A New Practice in Higher Education

Encouraged by academic medical centers that our model and experience serving nonprofit institutions might prove valuable to universities, the Advisory Board began a higher education practice in 2007, with memberships serving the provost (the University Leadership Council), student affairs (the Student Affairs Leadership Council), and business and finance executives (the University Business Executive Roundtable). We have been honored to welcome more than 150 of the nation's leading universities on whose advice and goodwill we rely.

A Member-Led Agenda

Chief business officers set the agenda for the University Business Executive Roundtable's research. Each year, we poll the membership to better understand their "up-at-night" issues—topics of genuine aspiration or urgency. The most widely voiced issues become the focus of our best practice work. In our first year, members prioritized transforming university business services and managing university energy costs.

Casting the Net Wide

Our search for innovative practice is not limited to the membership. We scan the entirety of the higher education, not-for-profit, and corporate sectors for effective and replicable models, typically reviewing thousands of pages of literature and interviewing hundreds of institutions to find the top ideas worthy of chief business officers' attention.

Specializing in Best Practice Inquiry, Not Policy Analysis

New to the higher education community, we are acutely aware of how much we have to learn and modest in our ambitions in serving finance and administration executives. Our work is not intended to propose national policy (or to lobby policy makers), nor is it peer-reviewed academic research. Our narrower intention is to distill the empirical experiences of institutions like yours, profiling success stories (and failure paths) to help prioritize investments and improve performance. At our best, we offer original insight into "what's working" in higher education and critique the popular wisdom and fad-like trends that take hold in all fields and industries.

Advisors to Our Work—With Special Thanks

Today's research report is based on Roundtable understanding gained through interviews with experts at more than 75 institutions nationwide. We are grateful to interviewees for allowing us to benchmark practices and garner institutional insights into the challenges of higher education procurement.

Jerry Lighthouse
Co-founder
Advanced Purchasing Technology

Brian Blair
Director of Procurement and Contracts
American University

Andrew Little
Executive Director of Finance
Anne Arundel Community College

John Riley
Executive Director of Purchasing
and Business Services
Arizona State University

Peter Russo
Director of Purchasing and Risk Management
Babson College

Bob Spence
Associate Vice President for Financial Services
and Treasurer
Baylor University

Belinda Lindell
Director of Logistical Services
Bemidji State University

Phillip DiChiara
Managing Director
The Boston Consortium

Greg Melnyk
Procurement Manager
California Polytechnic State University

Matthew Roberts
Director of Contracts, Procurement, and
Risk Management
California Polytechnic State University

Kathy Proch
Associate Controller
Carnegie Mellon University

Joseph Zaborowski
Director of Purchasing
Creighton University

Gail Goodness
Controller
Dartmouth College

Joseph Campbell
Assistant Vice President for Procurement
Drexel University

Anna Griffin
Director of University Procurement Operations
Drexel University

Thomas Fitzgerald
Chief Executive Officer
**Educational & Institutional
Cooperative Purchasing**

Gary Link
Vice President of Contracts
**Educational & Institutional
Cooperative Purchasing**

Jennifer Hulsey
Director of Communications and Marketing,
Procurement and Payment Services
Emory University

Loette King
Senior Director of Procurement
and Payment Services
Emory University

David Thurston
Associate Vice President for
Financial Operations
Emory University

Christine Hartman
Controller
Gettysburg College

Patricia Verderosa
Director of Purchasing
Gettysburg College

Derek Smith
Managing Director, Higher Education Practice
Huron Consulting Group

Nancy Brooks
Director of Purchasing
Iowa State University

Arlo Meyer
Assistant Vice President for Business Services
Iowa State University

Jennifer Alexander
Director of Procurement
Marquette University

Jim Markel
Chief Executive Officer
Massachusetts Higher Education Consortium

James Keogh
Senior Strategic Sourcing Analyst
Massachusetts Institute of Technology

Leo McInerney
Director of Sourcing
Massachusetts Institute of Technology

Doreen Murner
Executive Director
**National Association of Educational
Procurement**

Jim Konrad
Director of Purchasing
Northwestern University

Richard Young
Professor of Supply Chain Management
The Pennsylvania State University

Nancy Matthews
Procurement Buyer
Princeton University

Brian Rounsavill
Associate Director of Purchasing
Princeton University

Don Weston
Director of Purchasing
Princeton University

Maria Bimonte
Director of Shared Services
Quinnipiac University

John Meriano
Associate Vice President for Administration
Quinnipiac University

Ann Crislip
Director of Materials Management
Rensselaer Polytechnic Institute

Craig McIntosh
Manager of Purchasing Systems
Rensselaer Polytechnic Institute

Brian Soika
Director of Purchasing
Rice University

Tina Karol
Director of Purchasing
Rochester Institute of Technology

Suzanne Miglucchi
Vice President for Business Development
SciQuest

Carol Wallace
Director of Administrative Services
Southern Connecticut State University

Mirna Barker
Chief Learning Officer, Department of Administrative Services
State of Georgia

Brad Douglas
Commissioner, Department of Administrative Services
State of Georgia

Timothy Gibney
Assistant Commissioner - Procurement, Department
of Administrative Services
State of Georgia

Ray Moran
Assistant Vice President, Procurement Services
Texas Tech University

Jim Hashbarger
Business Manager
University of Arkansas

David Martinson
Associate Vice President for Business Affairs
University of Arkansas

Kirk Ketcham
Director of Procurement and Contracting Services
University of Arizona

Ted Nasser
Assistant Director of Procurement
University of Arizona

Barbara Aughenbach
Associate Vice President, Administration and Finance
University of Baltimore

Todd Adams
Senior Manager, Procurement and Contracts Operations
University of California, San Diego

Ted Johnson
Director, Procurement and Contracts Operations
University of California, San Diego

Barry Swanson
Director of Strategic Sourcing
University of Kansas

Sharon Quinn
Procurement Director
University of Maryland, Baltimore County

Judy Smith
Director, Procurement Services
University of Michigan

Bill Cooper
Associate Vice President for Management Services and
Chief Procurement Officer
University of Missouri System

Kim Phelps
Associate Vice Chancellor for Business and Finance
University of Nebraska

Richard Mann
Vice Chancellor for Finance and Administration
University of North Carolina, Chapel Hill

Roger Patterson
Associate Vice Chancellor for Finance
University of North Carolina, Chapel Hill

Martha Pendergrass
Director, Material & Disbursement Services
University of North Carolina, Chapel Hill

Rob Kelly
Director of Procurement
University of Notre Dame

John Sedjenaj
Vice President, Finance
University of Notre Dame

Ralph Maier
Chief Procurement Officer
University of Pennsylvania

Maureen Beal
Associate Vice President for Financial Operations
University of Pittsburgh

Kevin Maloney
Manager, Supplier Management
University of Pittsburgh

Phil Profeta
Corporate Director of Purchasing
University of Rochester

Denise Smith
Director of Purchasing
University System of New Hampshire

Eric Denby
Director of Procurement Services
University of Virginia

Michael Hardiman
Director of Purchasing Services
University of Wisconsin, Madison

John Mayes
Chief Procurement Officer
Yale University

Jack Zencheck
Chief Procurement Officer
Yeshiva University

Higher Education Procurement Moving from Backstage to Spotlight

1. The dozens of institutional and state-system efficiency audits making post-downturn headlines in higher education concur that reducing external spend is, for most universities, the largest opportunity for administrative savings. The promise of millions of dollars in recurring, fast-payback (and politically uncontroversial) savings makes it likely that chief business officers and procurement leaders will see renewed interest in strategic sourcing initiatives among trustees, presidents, and deans.
2. While business executives welcome this attention with the hope that it will spur overdue investments in procurement technology and talent, many are concerned that consultant savings projections will be difficult to deliver in the highly decentralized university environment.

Universities Trapped in the Vicious Cycle of Off-Contract Spending

3. For most institutions, the barrier to realizing purchasing savings is the inability to convince customers to utilize negotiated contracts; at most institutions, 60 percent or more of total spend never sees the central procurement office.
4. High rates of maverick spend are understandable as faculty incentives stress speed and convenience over price, and a culture of local autonomy all but prohibits setting even modest purchasing mandates, but the results are undesirable. Spend benchmark data indicate most universities pay higher prices than other industry and government sectors on a broad range of products, due to an inability to commit forward volumes in exchange for discounts or identify predatory vendor pricing.
5. Failure to significantly improve rates of on-contract purchasing will leave the institution in a vicious cycle, where low rates of on-contract purchasing limit volume and prevent data capture, hampering procurement's ability to negotiate better contracts and lower pricing. This in turn makes the value-add of strategic sourcing even less obvious to faculty and the case for buying on contract that much more difficult to advocate.

6. Universities installing e-procurement systems or ERP purchasing modules without addressing incentive and training issues underlying off-contract purchasing have been disappointed with ROI; the hard work of educating customers that contract utilization is in their self-interest (rather than for finance's convenience) must occur no matter the institution's level of technology investment.

Five CBO Strategies to Build Culture of Managed Spend

7. Roundtable interviews with more than 75 higher education procurement functions and consultancies identified a five-pronged approach to work within the decentralized university to drive spending on contract and use the ensuing volumes and data to secure better prices.
8. ***Making the Case with Faculty (page 19)***: The first step is “winning back faculty,” rebranding central procurement as a value-added service that will save buyers money without costing them time; the critical element here is the ability to size department-level (and eventually individual) savings opportunity from using negotiated contracts, appealing to a customer's self-interest rather than general appeals to institutional greater good, focusing scarce education resources on high-volume units that consistently and unjustifiably fail to use best existing contracts.
9. ***Inflecting Decisions at Point of Purchase (page 43)***: Recognizing that demands on faculty time leave procurement “in competition with the telephone” and that it is unrealistic to expect all customers to master strategic sourcing policies, sophisticated procurement departments are creating purchasing contact centers and department-level expert liaisons for just-in-time consultation and contract navigation. The premise is to bring expertise immediately to the customer at critical moments, allowing procurement to “manage” spend without delaying customer timetables and risking off-contract purchases driven purely by timing or unfamiliarity with processes.

-
10. ***Discouraging Off-Contract Purchasing (page 55)***: After establishing the legitimacy and ease of managed spend, institutions introduce active disincentives for maverick purchasing. In the early stages, finance introduces low-key “name-and-shame” reporting lists and exception request policies, never limiting faculty choice but raising the visibility and administrative effort involved in buying off-contract. Later efforts include phasing in mandates for non-faculty employees and for expensive commoditized products such as low-end IT and copying equipment.
 11. ***Surfacing Overpriced Contracts (page 73)***: As a greater percentage of university spend comes under management, procurement is able to perform higher value-added analysis of purchase data, helping units roll back unprincipled midyear price increases or wide variations in prices paid for the same item across campus that are undetectable under traditional, local purchasing. The most sophisticated procurement groups are also piloting contract structures designed to protect units from overpaying for add-on services vendors often use to boost margins wrapped around a low-priced core item.
 12. ***Partnering with Vendors to Channel Volume (page 97)***: Recognizing that the ability to concentrate purchase volume and utilize low-cost purchase channels is of mutual interest to buyer and seller, more universities are explicitly structuring arrangements with strategic partners requiring vendors to actively assist in efforts to educate buyers about preferred contracts and promote use of e-procurement channels, with the university and vendor sharing the benefits of increases in volume and reduced cost to serve.
 13. Taken in combination, Roundtable research suggests these measures can increase the percentage of university spend under management from typical levels of 30 to 40 percent to an aspirational target of 70 percent. The majority of this volume profiles individual practices for advancing these goals, spotlighting the approaches taken by leading college and university procurement functions.

Disciplining University Spend

Strategies and Best Practices for Achieving Savings from On-Contract Purchasing

Driving Utilization of Best Existing Contracts

Securing Better Prices on New Contracts

I

Making the Case with Faculty

1. Procurement Rebranding Campaign
(page 24)
2. Department Opportunity Gap Analysis
(page 28)
3. Outlier Education Sessions
(page 31)
4. Instant Post-purchase Feedback
(page 35)
5. Vendor-Submitted Rogue Purchase Reports
(page 37)

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Inflecting Decisions at Point of Purchase

6. Procure-to-Pay Customer Care Line
(page 47)
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Discouraging Off-Contract Purchasing

8. Preferred Vendor Access Privileges
(page 59)
9. Rogue Purchasing Internal Audits
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10. Off-Contract Exemption Letters
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11. Staff-Only Purchasing Mandates
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IV

Surfacing Overpriced Contracts

12. Data-Driven Price Negotiation
(page 77)
13. Reverse Auctions
(page 81)
14. Shelf Pricing
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15. Objective-Based RFPs
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V

Partnering with Vendors to Channel Volume

16. Preferred Vendor “Premium Position” Packages
(page 101)
17. Vendor-Led e-Procurement Campaigns
(page 105)

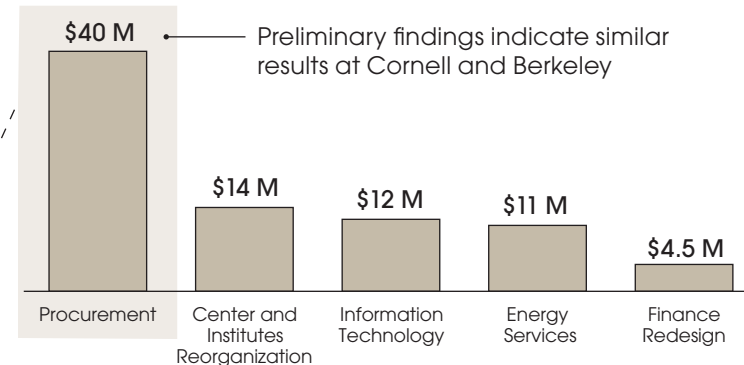



Why Purchasing Matters in Higher Education

University Engagements Identify Spend as a Top Savings Opportunity

Prior to the 2008 recession, the University of North Carolina at Chapel Hill received funds to engage Bain & Co. for an efficiency and effectiveness audit of their non-academic operations. Procurement was deemed to be the single largest source of potential savings, although Bain cautioned that not all savings could be realistically recouped by the university. Bain has since been engaged by Cornell and the University of California at Berkeley, and preliminary findings indicate that purchasing will be a significant source of savings at these universities as well.

Top Five Largest Areas of Cost Savings at UNC Chapel Hill¹

THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

University of North Carolina
at Chapel Hill
Cost Diagnostic: Final Report
July 2009

The Fine Print

“In general, organizations rarely achieve 100 percent of identified savings options. Sixty to 80 percent is more common based on a variety of factors. Forty to 60 percent is more likely at UNC given regulatory constraints. Many options are difficult to implement and will require significant time and investment.”

Bain & Company
University of North Carolina at Chapel Hill
Cost Diagnostic: Final Report, July 2009

¹ Conservative range used.

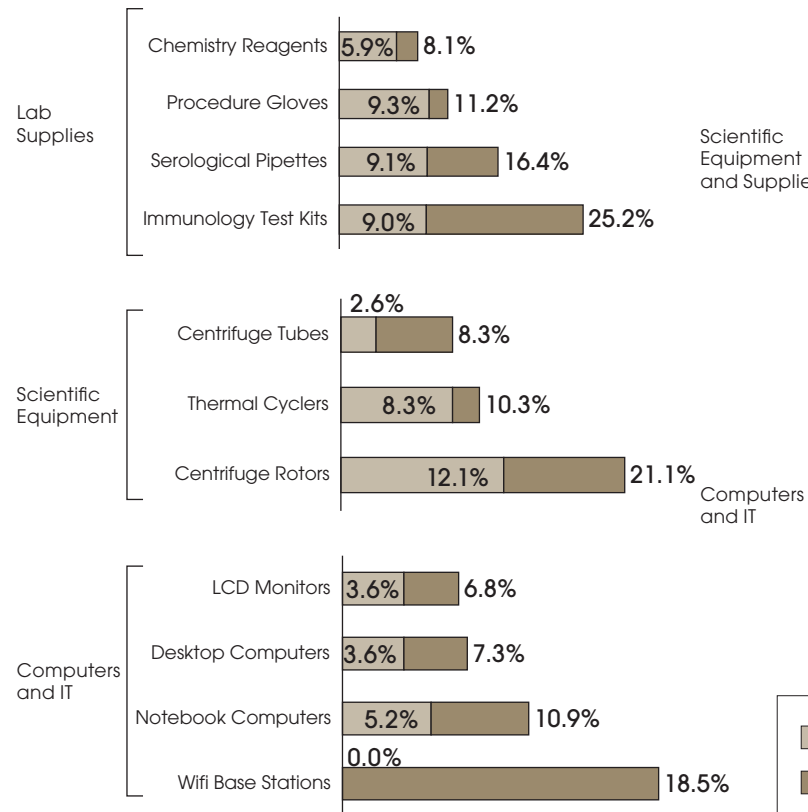
Source: Bain & Company, “University of North Carolina at Chapel Hill Cost Diagnostic: Final Report, July 2009,” available at: http://universityrelations.unc.edu/budget/documents/2009/UNC%20Efficiency%20and%20Effectiveness%20Options_FINAL.pdf, accessed November 23, 2009; University Business Executive Roundtable interviews and analysis.

Universities Not Always Getting Best Prices Relative to Other Industries

Procurement has been identified as an area of savings based on the prices universities pay relative to other industries. The Advisory Board compared pricing for a major research university (with relatively sophisticated procurement operations) and discovered that, across a variety of items and vendors, the university was paying more than the average hospital with similar purchase volumes and far more than best-in-class hospitals.

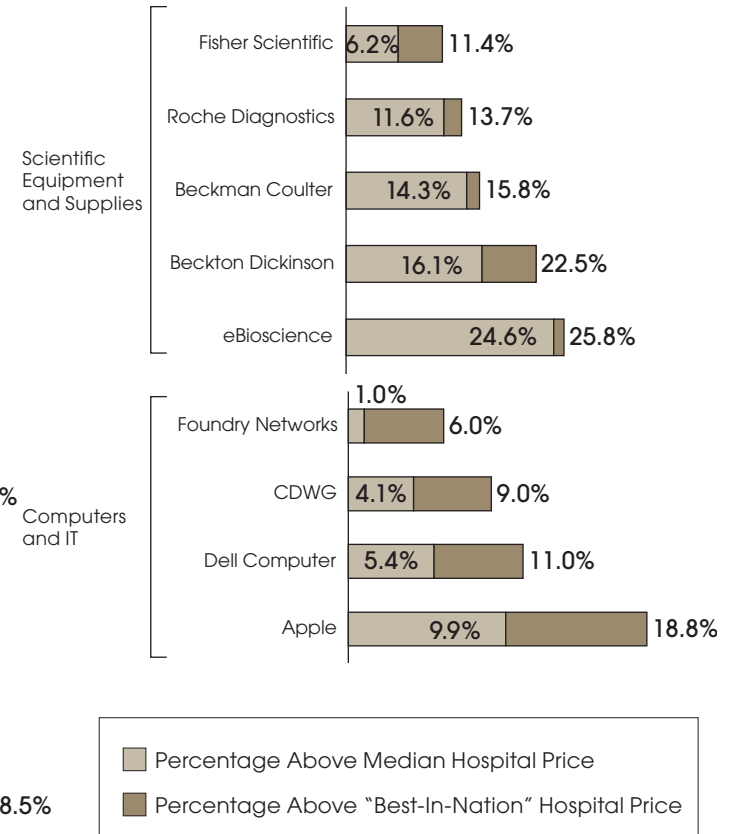
Universities often paying more for the same items¹...

Large Research University Category Pricing Comparison



...and vendors often charging universities more¹

Large Research University Vendor Pricing Comparison



¹ Comparison to pricing for identical items from supply benchmark database of 120 academic health centers and hospitals.

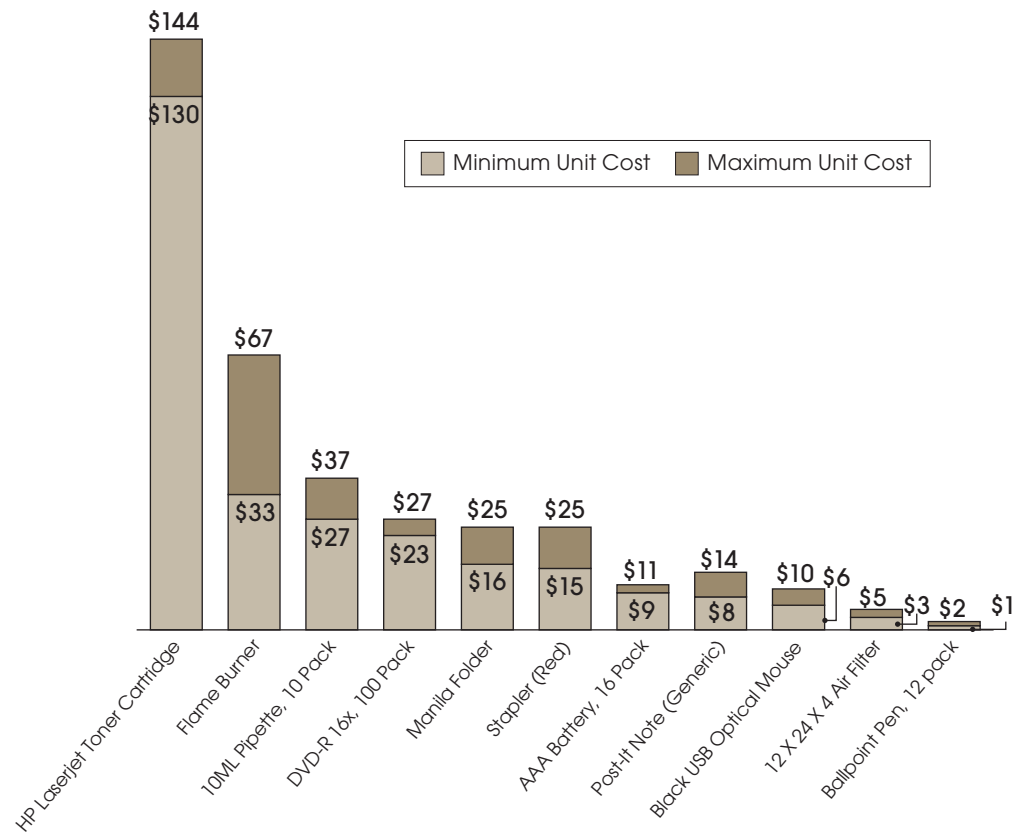
Source: University Business Executive Roundtable interviews and analysis.

Universities Paying Different Prices for Same Items

Additional research on pricing for identical items over time indicates that universities often pay different prices for identical items. Across thousands of purchases, these individual overpayments sum to significant dollars for the university. Price discrepancies are indicative of either lax purchasing policies or faculty and staff not following procedures.

Sample High and Low Prices for Identical Items Over 12-Month Period

Major Research University



Source: University Business Executive Roundtable interviews and analysis.

Universities Face Unique Procurement Challenges

There are many root causes of higher education's purchasing challenges. The most impactful are the decentralized nature of the university and restrictive state purchasing laws, but community and student relations, as well as the complicated nature of research equipment purchases, present obstacles for the procurement function to overcome as well.

Impediments to World Class Procurement in Higher Education



Restrictive State Laws

Many states require the use of state contracts or require outdated bidding processes for low-cost items



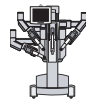
Decentralized Purchasing Authority

Universities have 10 to 100 times as many authorized purchasers as their corporate counterparts



Consensus Based Decision Making

Management by committee makes standardization of products or processes difficult



Infrequent and Rare Goods

Research, plant operations, and information technology often require very specific items that lack common standards or known pricing



Principal Investigators Own Research Funds

Researchers who have been awarded research funding view those funds as distinct from the university



Community and Alumni Relations

Universities must support local businesses and purchase from alumni to maintain community and fundraising relationships



Activist Student and Faculty

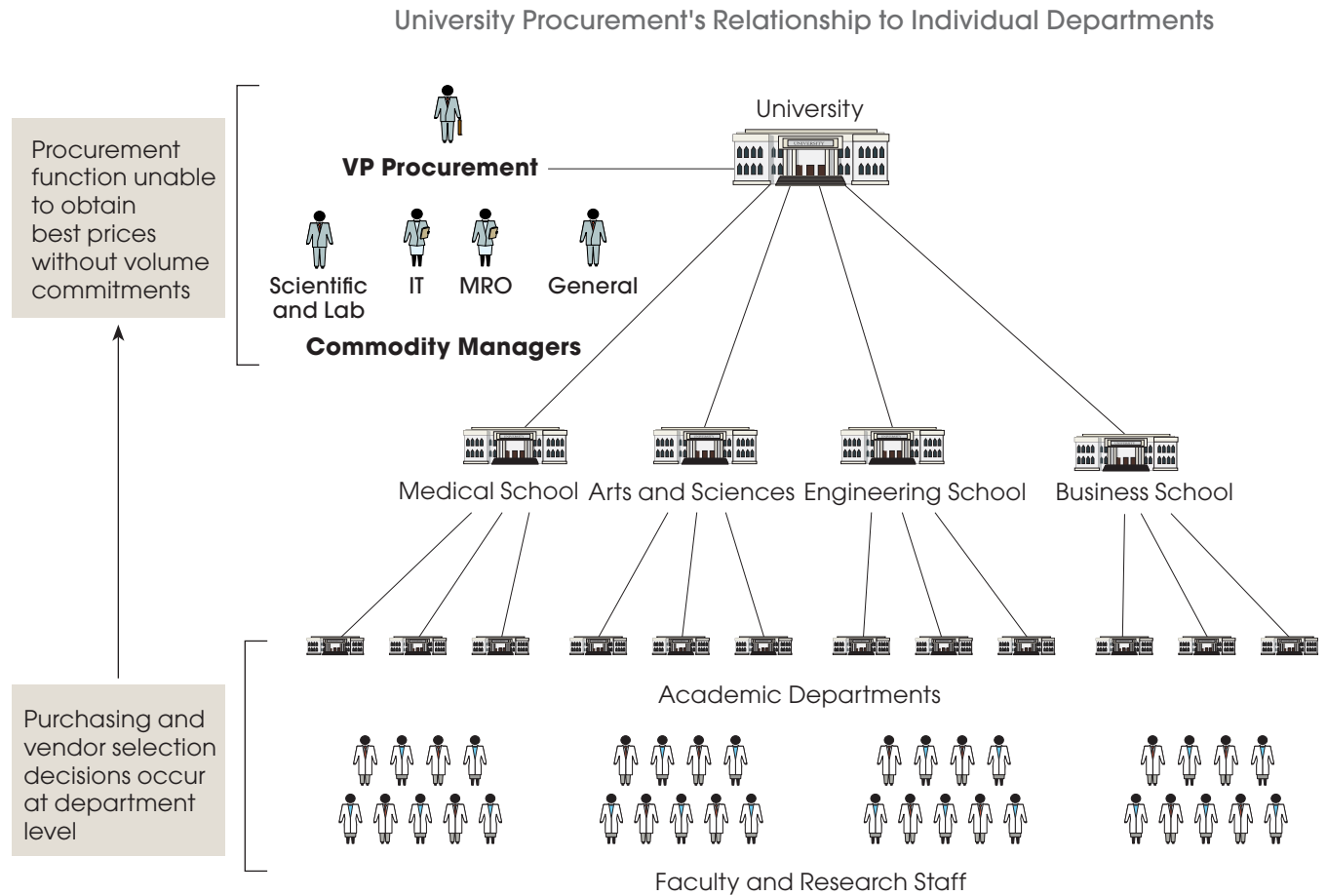
Stakeholders have strongly held views regarding vendor selection criteria other than price

Source: University Business Executive Roundtable interviews and analysis.

Every University a Procurement Archipelago

The decentralized nature of universities places purchasing control within the schools, departments, and research grant budgets. As a result, it is difficult for most universities to provide vendors with volume commitments in exchange for lower prices.

Decentralization and Local Control Undermine Procurement's Effectiveness



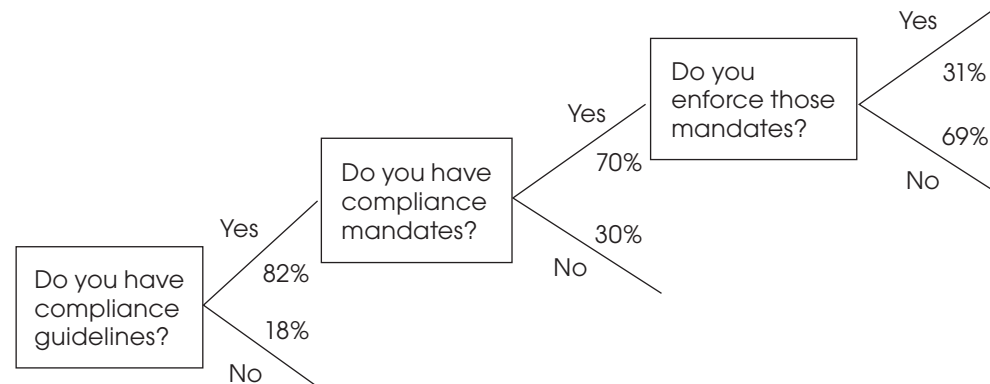
Source: University Business Executive Roundtable interviews and analysis.

No Ability to Set or Enforce Spend Mandates

Many universities have attempted to ameliorate the problems caused by decentralized purchasing by implementing policies and guidelines for faculty and staff. Unfortunately, these policies often lack any enforcement mechanism and are frequently subverted by faculty and staff, leading to a vast array of vendors and a lack of focused spending on preferred contracts.

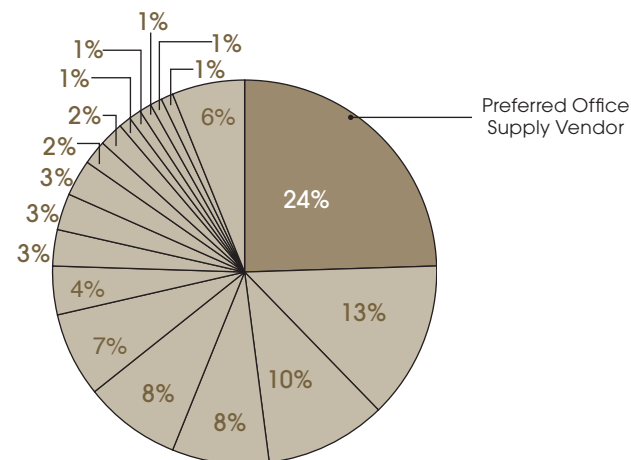
Most universities do not effectively mandate compliance...

Prevalence of University Purchasing Compliance Mandates, NAEP and Education Advisory Board Survey



...often leading to vast proliferation of vendors

Distribution of Spend by Vendor on Office Supplies, Major Research University¹



¹ Numbers do not add up to 100% due to rounding.

Source: Education Advisory Board and NAEP Survey, 2009; University Business Executive Roundtable interviews and analysis.

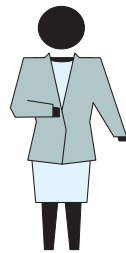
Lack of Ownership Compounds the Problem

Improving procurement requires a concerted effort from both the university administration and academic leadership. Unfortunately, this broad assignment essentially orphans the issue as the administration can do very little without meaningful behavioral changes from academic staff, and academic staff are largely unaware the problem exists.

Procurement an Orphaned Issue at Typical University

Chief Business Officer

Academic Leadership



"We can't change procurement without faculty buy-in"

"Procurement is an administrative issue"

Source: University Business Executive Roundtable interviews and analysis.

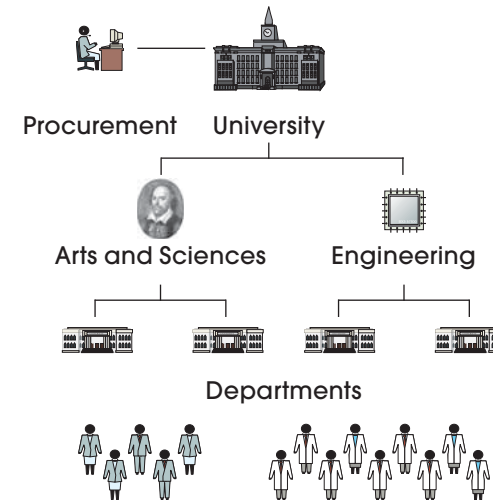
Absence of Compelling Incentives Frustrates Needed Procurement Investments

More concerning than the lack of will to solve universities' procurement issues is that the university budget model incents underfunding. Any advancement in purchasing technology or talent is funded by the central administration, but the benefit of lower prices accrues to individual schools, departments, or faculty.

Mechanisms other than central administration funding are also difficult to implement. The benefits from advanced purchasing operations accrue unevenly according to the unit's amount of spend and type of purchase, making budget allocations difficult. At the same time, no one department has the scale to launch its own procurement solution.

Decentralized university funding...

University Organizational Chart



...means no one group will invest in procurement

Funding Challenges

Central Administration—No Gainsharing

- Large, up-front investment in staff and e-procurement systems needed
- Can't keep portion of unit-level savings

Departments—Allocations, Not Chargebacks

- Can't afford e-procurement unilaterally
- Benefits from e-procurement accrue unevenly; pushback against "blanket" allocations

Faculty—No Incentive to Seek Better Price

- Value convenience over cost
- Free to "buy maverick" if on-contract purchasing too cumbersome

Procurement Remains Underfunded

Source: University Business Executive Roundtable interviews and analysis.

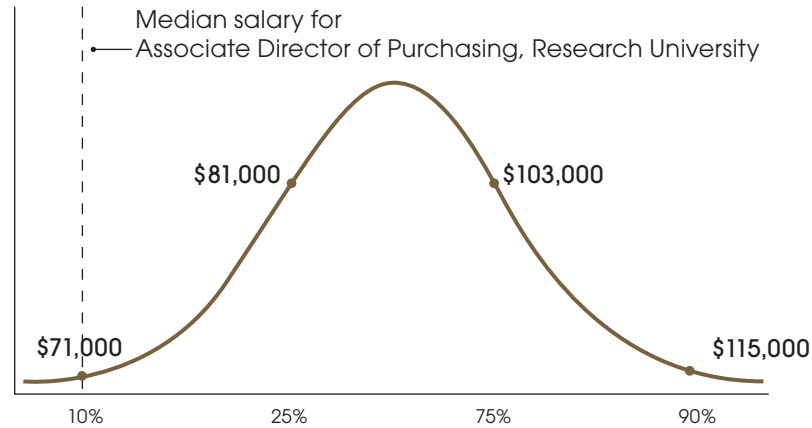
Higher Education Slow to Invest in Purchasing Talent

Overall underfunding of procurement results in dramatically less pay for procurement staff—even relative to other administrative staff in the university—despite the more difficult nature of their work.

This staffing model can trap the procurement function into a transaction processing focus rather than allowing it to take on higher value, strategic sourcing initiatives.

Lower salaries in higher education for purchasing staff...

Salary Distribution of Corporate Commodity Managers (Company of 1,000–3,000 Staff)

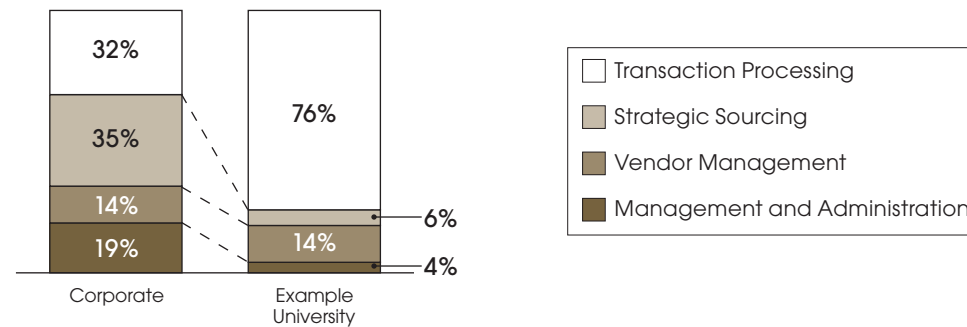


By Comparison

- Median salary for Controller is in the 25th percentile
- Median salary for Associate Director, Human Resources is in the 40th percentile
- Median salary for Associate Director, Physical Plant is in the 50th percentile

...force a less strategic staff plan

Allocation of Purchasing Staff by Function



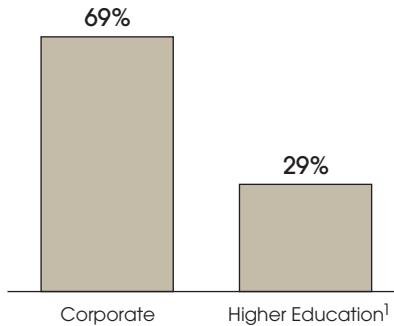
Source: "Median Salaries of College Administrators By Job Category And Type of Institution, 2008-9," *Chronicle of Higher Education*, available at <http://chronicle.com/article/Median-Salaries-of-College/47062/>, accessed November 19, 2009; Salary Wizard, Salary.com, available at: http://swz.salary.com/salarywizard/layoutscripts/swz_newsearch.asp, accessed November 19, 2009; Procurement Strategy Council research, 2009; University Business Executive Roundtable interviews and analysis.

Universities Underinvested in Technology

Corporations also have invested more heavily in technology enablement for procurement, as evidenced by their faster adoption of e-procurement platforms. Perhaps even more important, the private sector has been able to drive strong utilization of these investments.

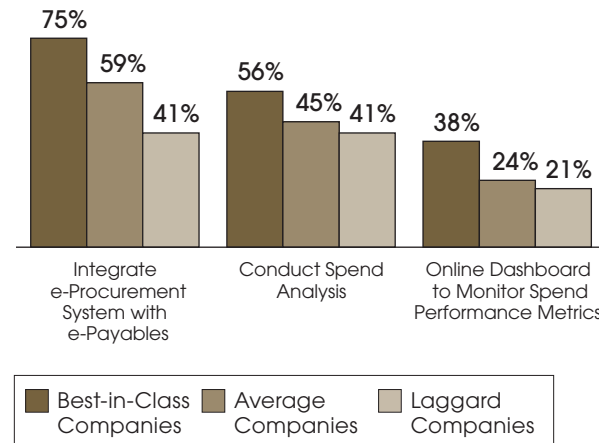
Companies more likely to have invested in e-procurement...

Prevalence of e-Procurement in Corporate Sector and Higher Education

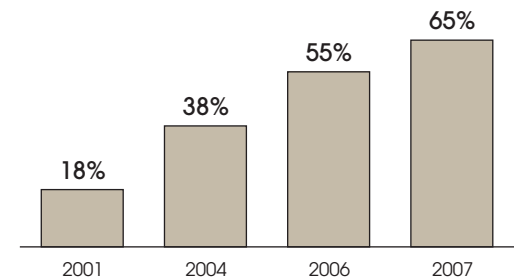


...and have high procurement technology utilization

Procurement Technology Utilization in Corporate Sector, 2007



Indirect Spend Managed by e-Procurement System in Corporate Sector



¹ Does not include community colleges.

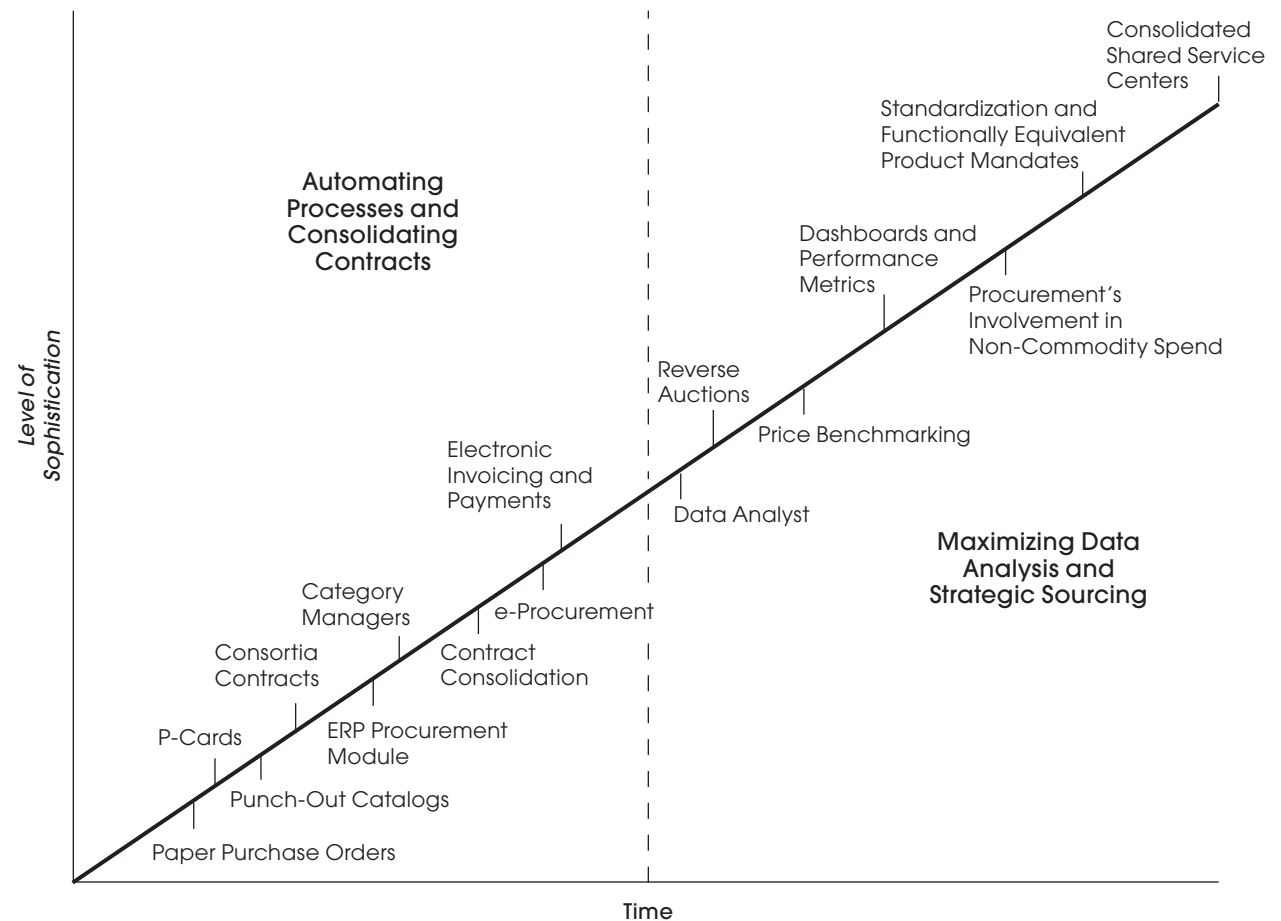
Source: Aberdeen Group, "The CPO's Strategic Agenda: Managing Performance, Reporting to the CFO," February 2007; Aberdeen Group, "E-Procurement: Trials and Triumphs," October 2007; Education Advisory Board and NAEP Survey, 2009; University Business Executive Roundtable interviews and analysis.

Higher Education Lagging in Procurement Practice

The end result of this difficult environment for university procurement is that many institutions are still struggling to automate processes and consolidate contracts rather than engaging in the analytics and data-driven performance management that drives value across the enterprise.

Most Procurement Functions Lacking Technology and Staff Expertise

Procurement Investment Timeline



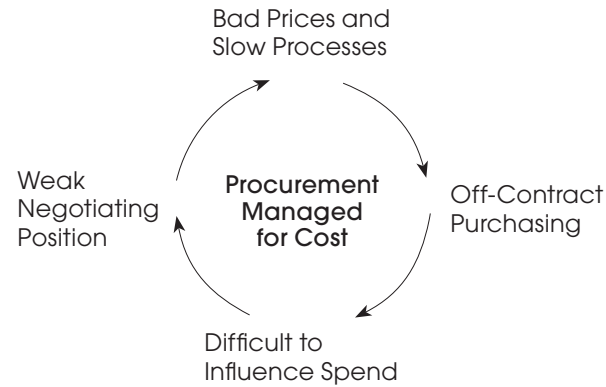
Source: University Business Executive Roundtable interviews and analysis.

From Vicious to Virtuous Cycle

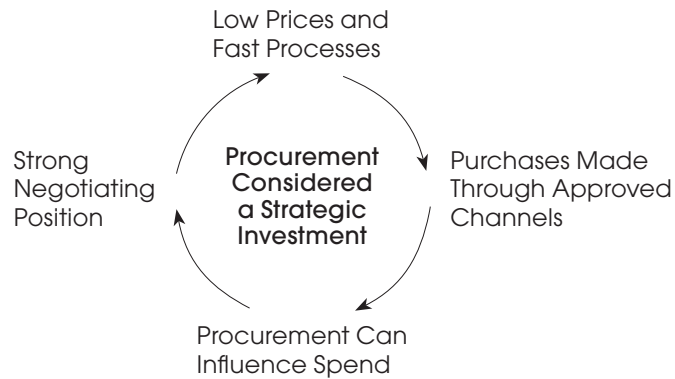
Unfortunately, procurement at universities is a self-reinforcing cycle. Poor prices lead faculty to avoid approved purchasing channels, which in turn limits procurement's ability to negotiate better contracts and lower pricing.

Fortunately, the reverse is also true. As faculty and staff use approved channels, they bolster procurement's negotiation position, which leads to better prices and ultimately greater compliance.

Procurement's Vicious Cycle



Procurement's Virtuous Cycle



Source: University Business Executive Roundtable interviews and analysis.

Technology Necessary but Insufficient

Investment in technology or staff alone, without efforts to change faculty and staff purchasing behavior, will not reverse the downward cycle trapping procurement at many universities. In many cases, these investments are necessary and beneficial, but ultimately doomed to failure without the broader support from the university.

Value Drivers of e-Procurement



Investment in e-Procurement

\$300,000 per year



Activities Required to Generate ROI

- Push faculty and staff for utilization
- Channel spend to preferred vendors
- Force purchases on contract
- Conduct item-level data analysis



Investment Returns

- Renegotiate contracts to realize volume discounts
- Better realization of contract prices
- Renegotiate contracts to benchmark prices

A Cultural, Not a Technological, Revolution

“Technology isn’t the success factor. E-Procurement itself doesn’t save you anything—it is just a tool. And it isn’t our private university funding that led to our success, either. I proved the ROI first—we have resources because we save the university money.”

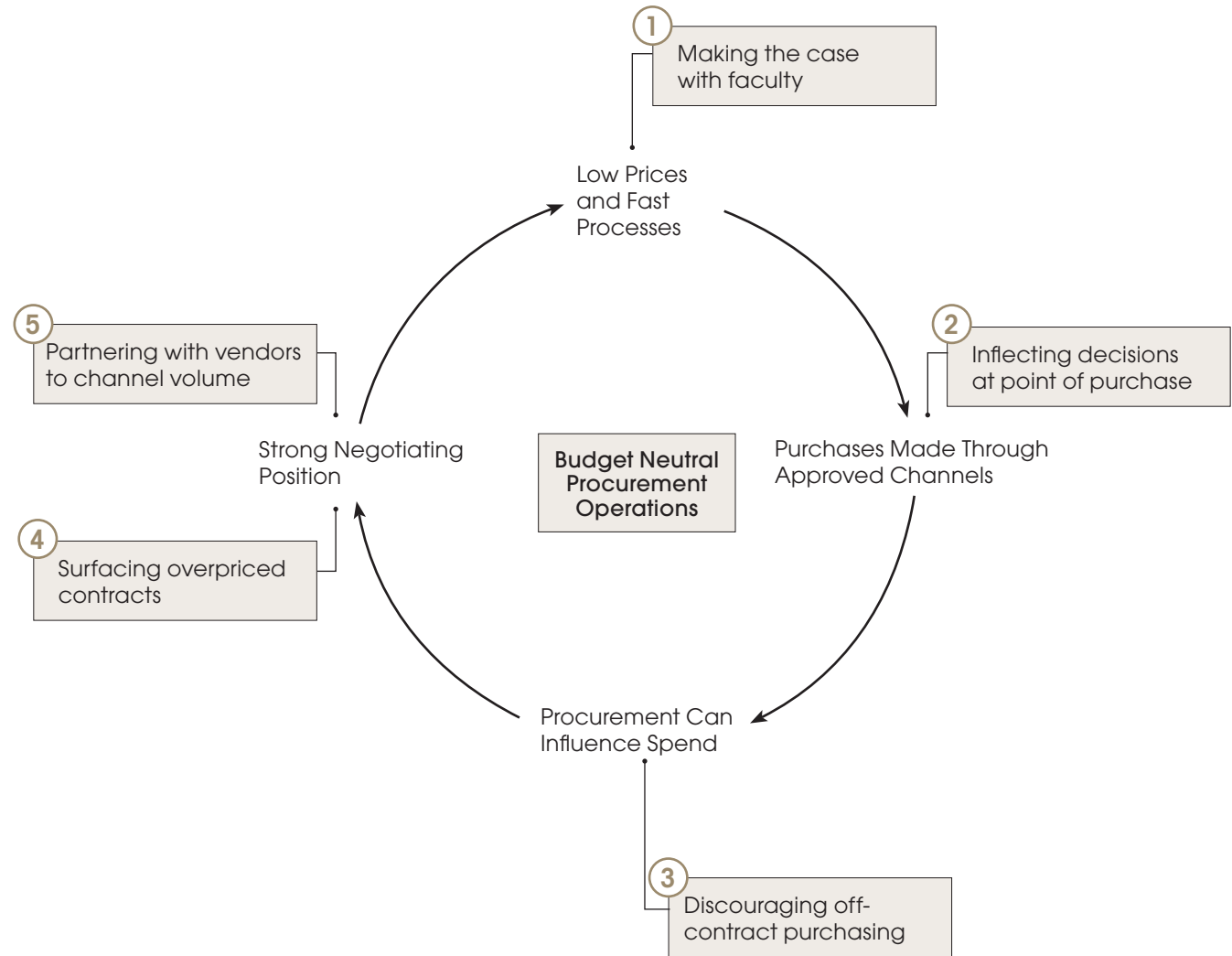
Chief Procurement Officer
Research University

Source: University Business Executive Roundtable interviews and analysis.

Strategies for Reversing Procurement's Vicious Cycle

Roundtable research has identified five key strategies designed to help universities improve their procurement processes and reduce outside spend. These strategies will form the framework for the best practices profiled within this study.

Five-Point Plan to Improve Higher Education Procurement

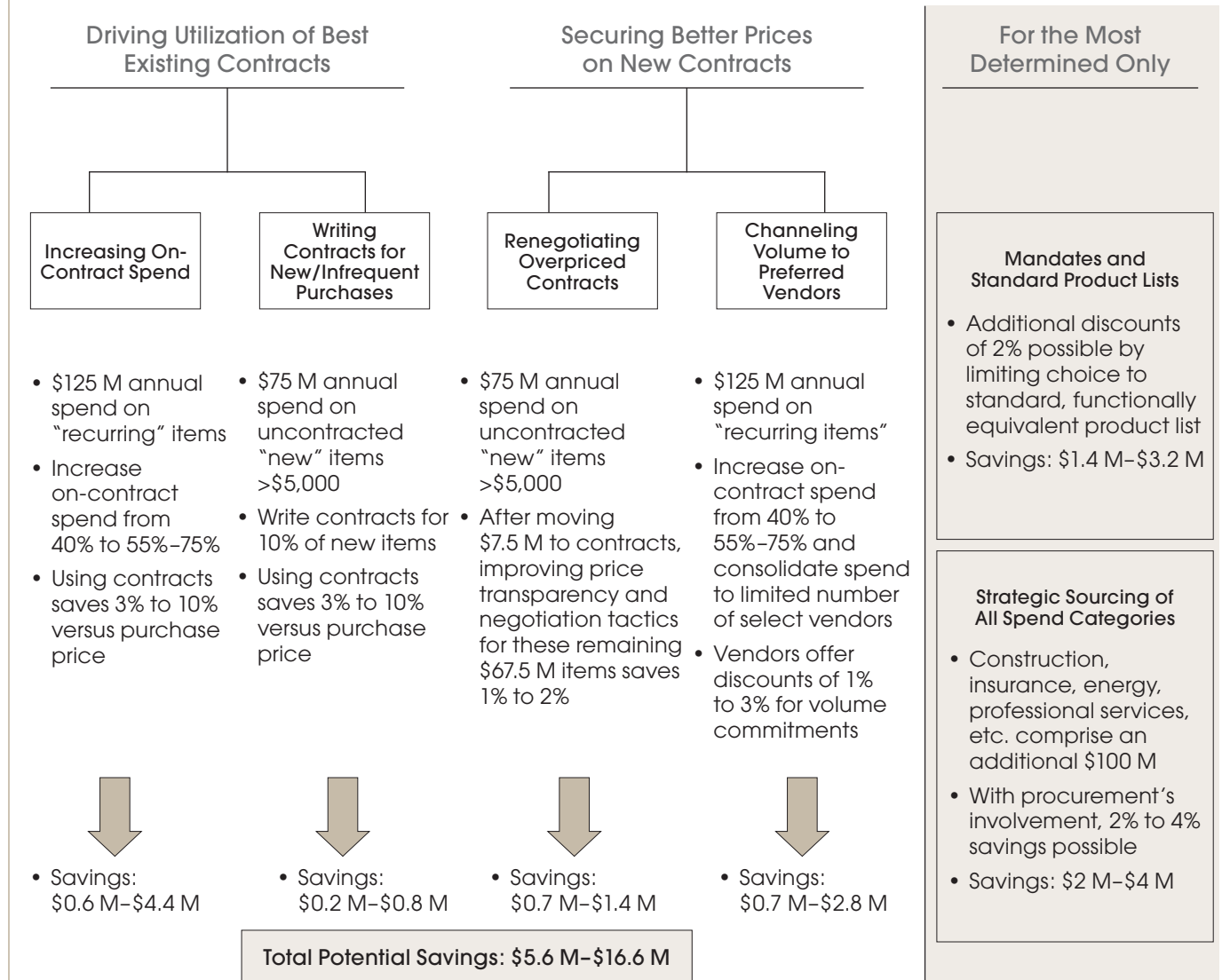


Source: University Business Executive Roundtable interviews and analysis.

Multimillion Dollar Savings Plausible for Many Institutions

If universities are able to employ these strategies and affect behavior in their faculty and staff, the possible financial benefits can be meaningful. These rough calculations are meant to be used as a guide and indicator for what is possible, as well as to help spur action across the campus.

Estimating the Opportunity for a Typical University with \$300 M in Outside Spend



Source: University Business Executive Roundtable interviews and analysis.

Disciplining University Spend

Strategies and Best Practices for Achieving Savings from On-Contract Purchasing

Driving Utilization of Best Existing Contracts

Securing Better Prices on New Contracts

I

Making the Case with Faculty

1. Procurement Rebranding Campaign
(page 24)
2. Department Opportunity Gap Analysis
(page 28)
3. Outlier Education Sessions
(page 31)
4. Instant Post-purchase Feedback
(page 35)
5. Vendor-Submitted Rogue Purchase Reports
(page 37)

II

Inflecting Decisions at Point of Purchase

6. Procure-to-Pay Customer Care Line
(page 47)
7. Department Spend Specialists
(page 50)

III

Discouraging Off-Contract Purchasing

8. Preferred Vendor Access Privileges
(page 59)
9. Rogue Purchasing Internal Audits
(page 62)
10. Off-Contract Exemption Letters
(page 64)
11. Staff-Only Purchasing Mandates
(page 66)

IV

Surfacing Overpriced Contracts

12. Data-Driven Price Negotiation
(page 77)
13. Reverse Auctions
(page 81)
14. Shelf Pricing
(page 86)
15. Objective-Based RFPs
(page 91)

V

Partnering with Vendors to Channel Volume

16. Preferred Vendor “Premium Position” Packages
(page 101)
17. Vendor-Led e-Procurement Campaigns
(page 105)



I. Making the Case with Faculty



University of
Pennsylvania

Practice #1: Procurement Rebranding Campaign
page 24



University of
California, San Diego

Practice #2: Department Opportunity Gap Analysis
page 28



Emory
University

Practice #3: Outlier Education Sessions
page 31



Massachusetts Institute
of Technology

Practice #4: Instant Post-purchase Feedback
page 35



University of
Michigan

Practice #5: Vendor-Submitted Rogue Purchase Reports
page 37

I. Making the Case with Faculty

Typical University Challenges

- Higher education procurement leaders agree unanimously that the first step in inflecting on-contract purchasing is convincing internal customers of the threshold desirability of managed spend.
- Traditional efforts have flunked the WIFM Test (“What’s in It For Me?”), with procurement policies perceived to exist for the convenience of central administration, with no value added to the customer.
- Roundtable analysis suggests several reasons why procurement has struggled to engage customers consistently:
- **Low Visibility and Credibility of Central Procurement:** Procurement staff is too small to build relationships with the entire campus community, with many customers viewing procurement at best as a transactional rubber stamp, and at worst as a bureaucratic hoop.
- **Overemphasis on Price Without Reassurances of Responsiveness:** Procurement must present a compelling case that managed spend will not come at the expense of time; customers perceive buying on contract to involve extra administrative steps.
- **Inability to Size Local Savings Opportunity:** Procurement is trapped in a vicious cycle of sparse data; off-contract spend limits data capture, rendering credible, unit-specific savings estimates difficult and leaving the case for managed spend an appeal to abstract, greater goods rather than customer self-interest.
- **Outreach Efforts Focused on Business Officers, Not Faculty:** Procurement has “preached to the converted,” appealing to department business officers instead of doing the harder work of addressing faculty prejudices and ingrained buying behaviors.
- **All-but-Impossible to Build Widespread Customer Awareness:** Customers are too busy with too little personal incentive to learn managed spend policies on their own, and there are too few procurement staff to reach full range of campus customers with any consistency.
- **Too Little Feedback, Too Late:** Most procurement departments review contract utilization patterns with customers quarterly or annually, too infrequently to influence behavior, and too distant from customer decisions to diagnose why in-place contracts were not used.
- **Cumbersome to Generate Timely Data on Maverick Purchasers:** Universities lacking e-procurement systems must comb through purchase order records to identify units and individuals repeatedly ignoring preferred vendors or mandates, exceeding the bandwidth of central procurement staff, already arguably under-resourced.

Progressive Universities' Approach

- **Reorganize Communications Around “Customer-Centric” Value**
Proposition: Procurement director initiates “listening tour” with influential customers, acknowledging past service concerns, pledging that subsequent managed spend efforts can achieve individual savings without sacrificing choice or responsiveness.
- **Focus on Individual Opportunity Analysis and Involve Department Heads as Data Quality Improves:** As more customers use contracts, education efforts change from retrospective, aggregated reviews to prospective gap analysis of departments, and eventually faculty-specific savings opportunities from using negotiated contracts. These reports engage deans in enforcing on-contract purchasing by tracking performance against opportunity.
- **Focus Outreach on Outlier Customers, Emphasizing That Lowest Quoted Price Is Often Not Lowest Total Cost:** Best universities are triaging procurement outreach efforts, targeting training and education on departments with the highest aggregate spend or those with the highest rates of off-contract purchasing. These universities are emphasizing aspects of managed spend policies that are least intuitive to end users, especially the common trap of mistaking low unit price for lowest total cost when delivery and support services are factored in.
- **Provide In-the-Moment Feedback at Point of Sale to Encourage Contract Compliance:** Leading universities are developing instant surveys to send via e-mail to customers who purchase through rogue channels (i.e., through the ERP system instead of e-procurement). The ERP requisition triggers the survey, which asks for the specific reason for noncompliance. The survey itself is a gentle reminder that the offender should be purchasing on contract and allows for procurement to follow up to address any material problems that are surfaced in survey responses.
- **Require Largest Vendors to Identify Customers Who Are Failing to Use Preferred Contracts and Channels:** Institutions are mandating that their largest vendors submit monthly reports aggregating all transactions across the university, spotlighting customers failing to utilize preferred contracts and e-procurement channels. Departments and individuals repeatedly ignoring policies are triaged for procurement department outreach and brought to department chairs' attention.

Procurement Function's Communication Flunking "What's in It For Me" Test

A fundamental disconnect exists between administrative goals and academic expectations for procurement. Business officers expect procurement to deliver savings and value to the university budget, while faculty and staff care only about speed and service levels. Leading procurement practitioners tailor communication efforts to reflect an understanding of these two distinct constituencies, publicizing two messages: one that speaks to faculty and staff priorities, and one that focuses on savings and internal performance metrics for executive leadership.

Typical procurement language stresses price and appeals to common good...



Sample Policy

"Purchasing decisions are business decisions made on behalf of the university and therefore should consider what is in the best interest of the university."



Sample Procurement Mission Statement

"Provide a professional business function for the procurement of goods and services that results in the efficient utilization of university resources."

...while faculty prioritize speed and personal interest

Arizona State University's Buying Community's Priorities

Average Points Assigned, Out of 100 Potential Points



From the Faculty Perspective

"I tried to follow procurement's rules. I found three quotes, then I submitted the purchase order request. The whole process is tedious—the ERP system is non-intuitive, I don't have time to look up contracts, and the buyers don't understand my needs. Truthfully, I'd rather just work around them."

Faculty Member
Research University

Source: Riley, John, "Shop Smarter," *Purchasing Link*, NAEP, September 2009, available at: <http://www.naepnet.info/plink/archives/0909/plink.html>, accessed November 14, 2009; University Business Executive Roundtable interviews and analysis.

Trade-Offs Exist Between Efficiency and Effectiveness of Purchasing Training

Low-cost mass communication tools (i.e., e-mails and websites) are not effective at providing faculty with the detailed and often complicated information necessary to comply with purchasing policies, as they require busy faculty to spend time digging through often lengthy and complicated material to save money, a benefit they undervalue. Conversely, effective one-to-one assistance in training is difficult as procurement staff is stretched too thin.

Faculty and staff are too busy to learn policies and procedures on their own...

Challenges to Learning Policies and Procedures



Infrequent Training

New employee training and "one-time" courses don't help the infrequent buyer



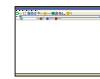
Too Many Purchasing Mechanisms

Faculty and staff cannot remember which purchasing methods to use for which items



Lengthy Policies and Rules

Sixty-section procurement policy too long to read or remember



Poor Contract Search Function

No easy way to search for contracts on procurement's website or verify that contract covers specific item

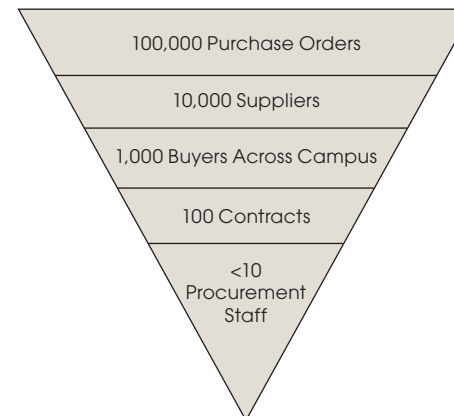


Too Many Forms

Fifteen forms on the website frustrate busy staff member who needs help quickly

...and procurement ranks are too thin to cover every buyer or every purchase

Procurement's Responsibilities (Illustrative)



Source: University Business Executive Roundtable interviews and analysis.

Practice #1: Procurement Rebranding Campaign

Typical University Problems

- Procurement communicates messages focused on price and compliance, areas about which faculty and staff care little
- Often, procurement is viewed as a back office function, limiting its ability to advise faculty and staff

Best Practitioner Approach



University of
Pennsylvania

The University of Pennsylvania began its procurement transformation in 1993 by meeting face to face with faculty across the university to commit to addressing their problems with procurement. The “listening tour’s” goal was not necessarily to collect information, but rather to improve the relationship with faculty and staff and change their impression of procurement from a bureaucratic, policy-focused function to one that understood faculty priorities and could address their needs.

Key Animating Principles

- The listening tour is explicitly not about uncovering hidden problems, but instead used to showcase procurement’s new focus on service
- The tour allows new initiatives to be framed as solutions to faculty problems instead of administrative cost initiatives

Source: University Business Executive Roundtable interviews and analysis.

1.1 Enfranchise Faculty and Staff Through “Listening Tour”

In many universities, faculty and staff view the procurement function as unhelpful or a hindrance to the purchasing process. Before launching new technology platforms or renegotiating major contracts, procurement must first engage customers personally to explain how these efforts will benefit them. Leading institutions started their procurement evolution with a “listening tour” that proves to the most influential customers that procurement is committed first and foremost to facilitating an easier, faster purchasing process. This posture of “running to criticism” builds support and credibility. Procurement directors rarely discover previously unknown problems, but simply listening to customer feedback and committing to addressing concerns will indicate to faculty that procurement is making positive changes on their behalf.

Penn's Procurement Director Conducts One-on-One Interviews with Key Faculty and Staff in 1993

Components of Penn’s “Listening Tour”

Interview Logistics

- Approximately 50 faculty and staff from each school and division
 - Most frequent buyers
 - Loudest complainers
 - Business officers from each school
- One-hour interviews
- Six-month process

Interview Questions

- What is wrong with purchasing?
- Why don't you use our approved purchasing channels or preferred suppliers?
- What should we do that we currently don't?



Goal of the Interviews

- Reposition procurement as a service-focused function rather than a gatekeeper and convey a commitment to helping faculty and staff

Running to Criticism

“I had a good idea what was wrong with our function—it took us too long to process a requisition—but the listening tour helped me build political capital so that when I made the changes, I could return those same faculty and staff and ask for their support. Just listening and showing a willingness to improve goes a long way toward building trust and credibility.”

Ralph Maier
Chief Procurement Officer
University of Pennsylvania

Source: University Business Executive Roundtable interviews and analysis.

1.2 Frame All Procurement Initiatives as Response to Faculty and Staff Concerns

The listening tour builds political capital that in turn allows the procurement director to implement changes while simultaneously requesting that faculty and staff make changes as well. By casting future change as a response to faculty concerns, procurement directors are able to more credibly ask faculty to adjust their behavior.

Procurement Director Addresses Problems and Asks for Support

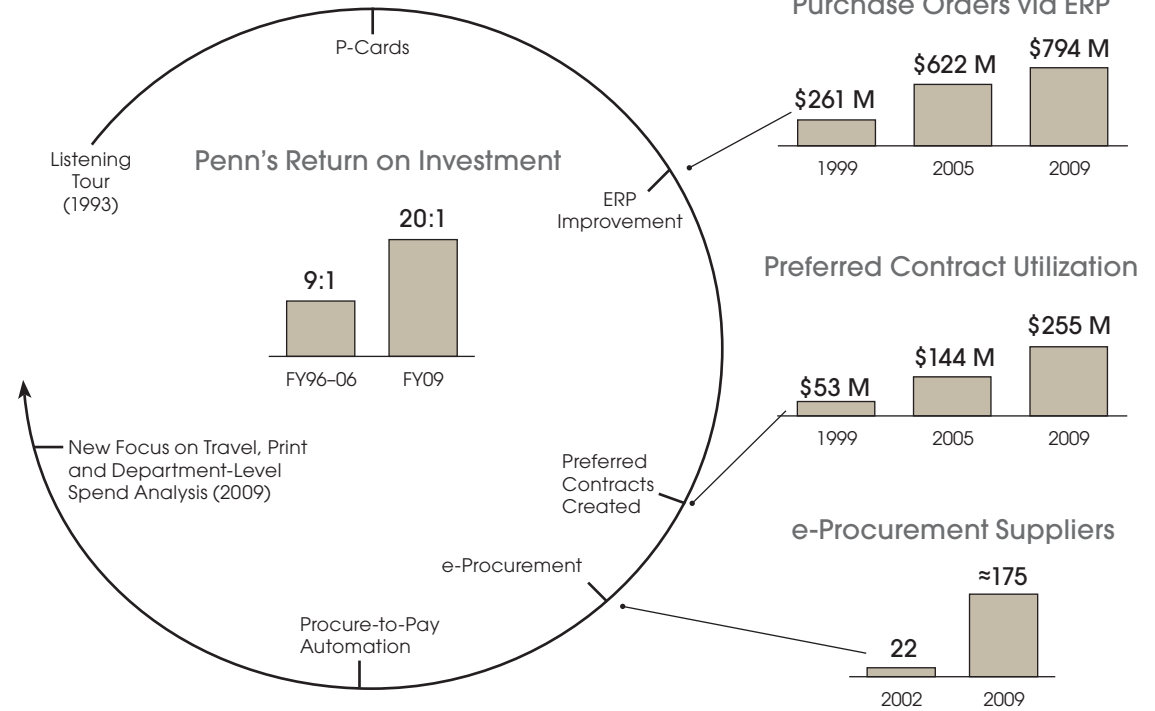
| Problems Identified | Procurement's Solutions | Procurement's Ask of Customers |
|--|---|---|
| <ul style="list-style-type: none"> • Too many approvals required for low-value items | <ul style="list-style-type: none"> • Allow p-card usage for certain commodity purchases under \$1,000 | <ul style="list-style-type: none"> • Only use p-card for low-dollar, one-time purchases that are not on contract |
| <ul style="list-style-type: none"> • Contracts do not reflect customer needs | <ul style="list-style-type: none"> • Create 15 to 20 new contracts each year | <ul style="list-style-type: none"> • Serve on RFP committees to help select vendors |
| <ul style="list-style-type: none"> • Paper-based ordering is confusing and time consuming | <ul style="list-style-type: none"> • Implement automated ordering and approval process | <ul style="list-style-type: none"> • Submit all purchase requests through the ERP system |
| <ul style="list-style-type: none"> • Procurement does not respond to phone calls quickly | <ul style="list-style-type: none"> • Pledge to respond to phone inquiries within one business day | <ul style="list-style-type: none"> • Call the procurement office rather than resort to off-contract purchasing |
| <ul style="list-style-type: none"> • Unclear which items are on contract or how to find new contracts | <ul style="list-style-type: none"> • Distribute commodity matrix that shows commodities and appropriate purchasing method for each | <ul style="list-style-type: none"> • Order through approved contracts and processes whenever possible |

Source: University Business Executive Roundtable interviews and analysis.

1.3 "Listening Tour" Launches Penn's Procurement Evolution

By framing procurement's efforts as customer service initiatives as opposed to cost savings efforts, procurement is able to change faculty behavior with each new technology enhancement. As demonstrated by the timeline, these changes have not happened simultaneously, but through consistent effort and effective communication, Penn has been able to drive strong utilization of procurement's services.

Penn's Procurement Evolution



Customer Relationship Trumps Technology

“When people look at Penn’s procurement, they think it’s about technology. We’ve certainly benefited from these automation investments, but all of our success hinges on the relationship we built with our customer. The listening tour was the first step in our procurement evolution. If the customer doesn’t believe that procurement is looking out for their best interest, they will simply ignore contracts and procedures, no matter how easy the procedures are to follow.”

Ralph Maier
 Chief Procurement Officer
 University of Pennsylvania

Source: University of Pennsylvania Purchase Services, Performance Metrics, available at: <http://www.purchasing.upenn.edu/supply-chain/performance-metrics.php>, accessed November 3, 2009; University Business Executive Roundtable interviews and analysis.

Practice #2: Department Opportunity Gap Analysis

Typical University Problems

- Without item-level detail, procurement cannot easily make the case for savings opportunities to individual departments; faculty and staff do not know how much money they personally can save from buying on contract
- Department administrators, deans, and business officers lack frequent, granular reports on where and how their departments can save on purchasing to help them correct uneconomical behavior
- Annual or ad hoc spend analysis provided to departments are rarely actionable because they are too “high level” and require decentralized buyers to remember purchases from months ago

Best Practitioner Approach



University of
California, San Diego

To increase contract compliance, the University of California, San Diego provides monthly department spend analysis reports to business officers, deans, and division vice presidents. The reports identify the hard dollar savings opportunity lost from non-contracted items and point to specific researchers and staff members who bought the most items off-contract. Department administrators can use the report as a conversation starter with faculty and staff to encourage their compliance with contracts.

Key Animating Principle

- Deans and department leadership will drive faculty behavior changes when faced with unarguable data on lost cost savings

Source: University Business Executive Roundtable interviews and analysis.

2.1 Create a Department Report Card That Presents Specific Savings Opportunities

Using data from e-procurement or accounts payable, leading universities make the case for compliance by presenting specific savings opportunities to those contacts within each department who are interested in cost savings. Report cards are provided to business officers who are motivated to stretch operations and grant budgets, as well as deans and vice presidents who wish to avoid appearing as poor stewards of university funds. The two success factors to this practice: pointing to the actual items that were purchased off-contract and the responsible account holders, and submitting the reports to the departments that have the most to gain from buying on university contracts.

UCSD Reports Contract Compliance to Deans and Departments

Chemistry Department Monthly Spend Report (Illustrative)

| Chemistry Spend Report | |
|----------------------------|----------------------------------|
| <u>Total Transactions</u> | <u>Off-Contract Transactions</u> |
| 1,005 | 412 |
| <u>Total Spend</u> | <u>Off-Contract Spend</u> |
| \$437,996 | \$124,667 |
| Off-Contract Items | |
| | |
| | |
| Off-Contract Buyers | |
| | |
| | |

Spotlighting Item-Level Opportunity

| Description | Price Paid | Contract Price |
|--------------|------------|----------------|
| Pipette Tips | \$77.54 | \$60.15 |
| 22" Monitor | \$169.99 | \$162.75 |

Presented to:

- Department business officers
- Department chair

Spotlighting Rogue Buyers

| Account | Noncompliant Transactions |
|---------|---------------------------|
| Lab A | 65 |
| Lab B | 50 |
| Lab C | 26 |

Presented to:

- Dean or vice president of division

Implementation Guidance

- Start with departments that could purchase 60 percent of their spend on contract
 - UCSD sends reports to the science and engineering departments, as well as information technology and the libraries
- Run query from financial system (aggregating data from e-procurement, ERP, and accounts payable), and upload into Access database so all procurement staff members can create report cards as necessary
- Present contract list prices in contrast to actual price paid

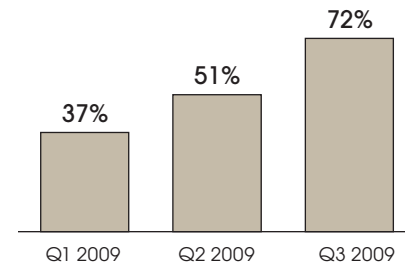
Source: University Business Executive Roundtable interviews and analysis.

2.2 UCSD Increases Compliance Through Gap Analysis Reports

University of California, San Diego's pilot program has generated positive early results, increasing compliance at both the individual department level and across the university overall. Given the positive results, the pilot program will be expanded from 20 to 110 departments.

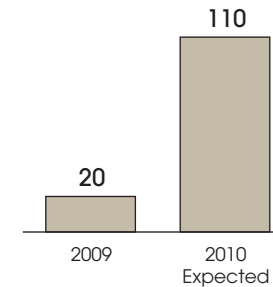
UCSD increases compliance...

Percentage of Purchase Order Dollar Spend with Contracted Suppliers



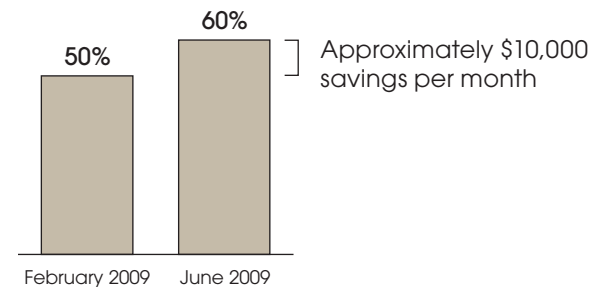
...by expanding program scope...

Number of Departments Receiving Reports



...and proving dollar value of savings

Example Department Compliance Improvement



Making the Case with Data

"I'm not the researcher's boss, so I am not in the best position to tell him to buy on contract. What I can do is offer decision support to the people who can actually influence the end customer. We are providing timely reports and granular data that the deans and department chairs appreciate. They want to be good stewards of university funds, and this kind of report is exactly what they need to achieve savings."

Ted Johnson
 Director, Procurement & Contracts Operations
 University of California, San Diego

Source: University Business Executive Roundtable interviews and analysis.

Practice #3: Outlier Education Sessions

Typical University Problems

- High-frequency education efforts (e.g., e-mails, newsletters) have minimal impact on purchasing behavior
- High-impact education efforts (e.g., in-person meetings) are too labor-intensive to reach desired audiences

Best Practitioner Approach



Emory
University

To prioritize procurement staff's educational efforts, Emory University developed sessions targeting highest-influence customers through quarterly sessions that make the case for contract compliance.

Key Animating Principles

- Business officers should be used to identify most influential (as opposed to highest spend) faculty for small scale intervention and training
- Effective compliance training focuses on value to customers as opposed to policies and procedures

Source: University Business Executive Roundtable interviews and analysis.

3.1 Select Influential Spenders to Attend Education Sessions

Leading practitioners target the highest spending departments and ask business officers to nominate the most influential purchasers to attend quarterly procurement-led education sessions. These sessions allow procurement to target their limited educational resources on those faculty and staff with the greatest influence over spend, while removing some of the educational burden from business officers hesitant to go head-to-head with recalcitrant faculty.

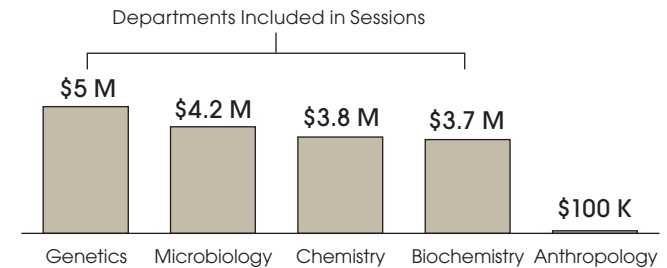
Emory selects top-spending departments for education sessions...

Session Logistics



- 20 to 25 attendees
- Meet quarterly

Annual Spend by Department at Research University (Illustrative)



...while business officers use additional criteria to determine nominees

Selection Criteria Includes:

- Researchers with political clout
- Individuals who influence top spenders (e.g., lab managers who order on behalf of many PIs)
- Frequent off-contract purchasers
- Vocal procurement opponents

Reaching the Researchers

“Our goal for selecting participants in education sessions is to go beyond those with highest spend alone. We prefer a more nuanced approach where local business officers provide input on holistic selection criteria through firsthand knowledge. Getting the right people in the room is critical to our success.”

Loette King
Senior Director of
Procurement and Payment Services
Emory University

Source: University Business Executive Roundtable interviews and analysis.

3.2 Use Sessions to Drive Home Three Procurement Messages

During these education sessions, procurement should tailor its message to the researchers' priorities and concerns. There are three critical messages to convey: (1) off-contract vendors may include hidden costs or charges; (2) buying off contract may leave the customer personally liable for damaged or undelivered goods; and (3) procurement's processes facilitate faster and easier purchasing than sourcing goods independently.

Procurement explains rationale behind decisions and procedures...

...to appeal to researchers' priorities

Elements of Contract and Buying Processes

Benefits to Researchers

All-In Price

- Procurement negotiates the best possible all-in price to the university
- Vendors will often take advantage of the decentralized university by luring researchers with low unit costs and charging expensive add-ons



- Researchers will stretch grant dollars by using procurement contracts rather than finding items on their own
- The university negotiates free or reduced shipping costs and better terms and conditions

Vendor Evaluation

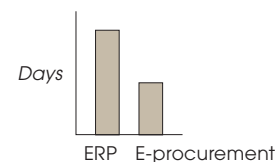
- Procurement is trained to complete a rigorous vendor selection and RFP evaluation process to minimize university risk



- Researchers who purchase items independently are at personal risk if vendor has not agreed to university terms and conditions

Purchase Process

- Procurement adopted e-procurement as the quickest procure-to-pay tool
- Utilization will save time for researchers, procurement, and the vendor



- Contrary to researchers' popular belief, ordering an item through the university's e-procurement system will decrease process time compared to a traditional purchase order through an ERP system

Source: University Business Executive Roundtable interviews and analysis.

3.3 High Participation Levels Lead to Increased Compliance

At Emory, the practice has resulted in increased contract compliance and improved credibility with the highest spenders at the university. Their procurement team recommends fostering communication in between quarterly meetings through a listserv where participants can pose questions or request purchasing assistance from the group.

Other universities, such as Iowa State University, are conducting similar education sessions with the top 20 percent of p-card spenders. These sessions have dramatically increased p-card contract compliance.

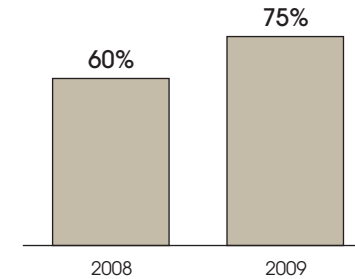
Captive audience...

Results of Education Sessions

- Full attendance is norm at meetings
- While participants can opt out after one year, most have not
- Active listserv of participants keeps conversation flowing
- Emory is considering rolling out sessions to other high-spend commodity areas (e.g., MRO, technology)

...leads to increased compliance

Contract Compliance for Science Departments



Iowa State Uses Mandatory P-Card Training to Make the Case for Contract Compliance

- Iowa State University conducts contract education sessions for top p-card spenders as part of mandatory p-card training sessions
- The top 20 percent of p-card spenders (around 100 people) attend four two-hour sessions led by the procurement director
- While the training curriculum covers p-card policies and procedures, educating customers on new and existing contracts is a primary focus
- Contract utilization has increased for attendees, positive word-of-mouth has led to other p-card users requesting the same sessions, and procurement call volume has doubled, resulting in savings from contracts and bidding assistance

Source: University Business Executive Roundtable interviews and analysis.

Practice #4: Instant Post-purchase Feedback

Typical University Problems

- Procurement lacks necessary information to identify cause of—and prevent—off-contract purchases as they occur
- Typical procurement surveys are infrequent, requiring the respondent to remember details of past purchases; the delay prevents procurement from following up with effective education or relevant information

Best Practitioner Approach



Recognizing the shortcomings of annual customer service surveys, MIT plans to develop a new approach, sending a brief survey e-mail to purchasers immediately following each non-e-procurement transaction. Still a work in progress, the survey aims to pinpoint the reason for off-contract purchases so procurement staff can follow up with accurate information as soon as possible.

Key Animating Principle

- In-the-moment surveys inquiring about reasons for rogue channel purchases can serve as subtle reminders that faculty and staff are violating policy

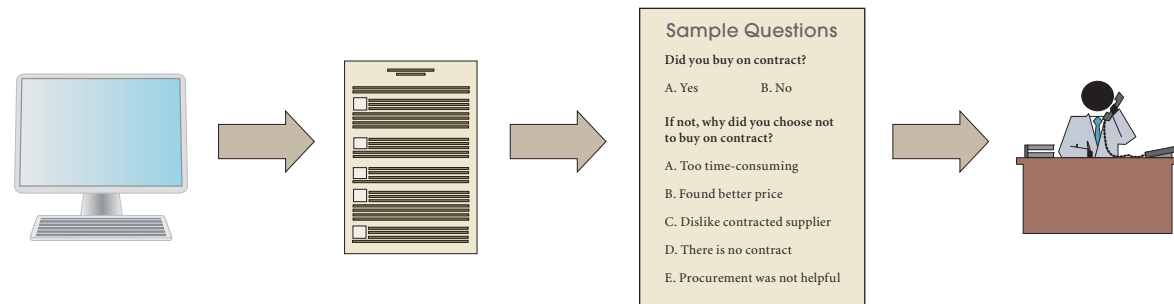
Source: University Business Executive Roundtable interviews and analysis.

4.1 Receive In-the-Moment Noncompliance Feedback via Survey

Surveys can be an effective mechanism to remind faculty and staff to purchase on contract while maintaining a posture of “running to criticism.” Leading universities are developing instant surveys to send via e-mail to customers who purchase via the ERP as opposed to e-procurement. The ERP requisition triggers the survey, which would ask for the specific reason for noncompliance. The survey itself is a gentle reminder that the offender should be purchasing on contract and allows for procurement to follow up to address any material problems that are surfaced in survey responses.

MIT Plans to Launch In-the Moment Feedback Mechanism

Transaction Triggered Survey Process



Order

- Customer places order via ERP system

Requisition

- Requisition triggers e-mail survey sent automatically to customer
- Can be used to target specific commodity areas such as lab supplies, furniture, IT, and professional services

Survey

- Survey questions pinpoint reason for noncompliance
- Customer able to provide specific feedback for each transaction

Follow-Up

- Procurement staff can call the customer, using survey information to help solve their specific noncompliance issue
- Customer satisfaction and compliance goals are reflected in procurement staff's performance metrics

Practical Considerations for Implementation

- Partner with campus IT function to implement survey
- Do not overburden customers with frequency of survey
- Ensure that procurement staff follow up on survey responses

Source: University Business Executive Roundtable interviews and analysis.

Practice #5: Vendor-Submitted Rogue Purchase Reports

Typical University Problems

- Procurement often lacks the item-level detail that indicates exactly what was purchased off-contract and who bought the item; even those universities with e-procurement systems may only be able to review item-level detail on the small portion of spend funneled through that system
- Vendors may over-charge universities inadvertently, either through billing errors or not realizing the buyer is from the university
- Procurement often does not collect data, believing that sophisticated technology is required

Best Practitioner Approach



University of
Michigan

The University of Michigan requires 180 vendors to submit monthly electronic invoices that include item-level detail on every item purchased, regardless of purchasing method. Three accounts payable staff members store the data feed in simple Access databases that include contract pricing, enabling procurement to verify that the correct price was paid and follow up with customers who may not be following proper purchasing procedures. An added benefit: Michigan receives prompt payment discounts from these 180 vendors, totaling \$4.5 million annually.

Key Animating Principles

- A university's largest vendors can provide detailed transaction data on a monthly basis with minimal hassle or additional cost
- Procurement can use this data to identify faculty and staff who are not using appropriate purchasing methods

Source: University Business Executive Roundtable interviews and analysis.

5.1 Request Monthly Electronic Invoices with Item-Level Detail

Many university procurement functions have difficulty identifying which customers are buying through channels other than e-procurement. To gain visibility into off-channel spend, leading practitioners are requesting monthly transaction data for all items purchased from their top vendors. The university can then use this data to identify customers buying through methods other than e-procurement and target outreach accordingly.

Michigan includes monthly data transfer requirement and prompt payment terms in the RFP...



Data Submission Requirement

- Vendor will submit detailed billing information in addition to one-page summary invoice
- Data will be provided in tab-delimited ASCII text file format
- Payment issued only for lines with completed fields



Data Requested

- Item number
- Description
- Price
- Quantity
- Account number charged for order

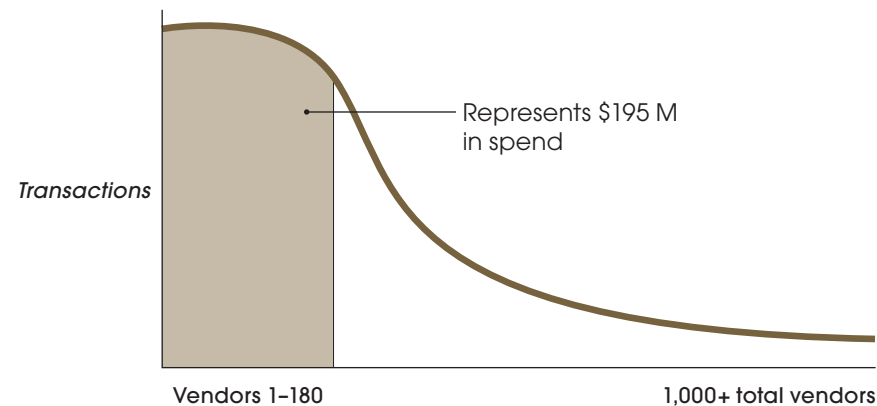


Contract Terms

- Each line item will be compared to contract price
- Vendor will provide 2 percent prompt-payment discount

...and collects line-item detail from highest-transaction vendors

Michigan's Vendors by Total Transactions (Illustrative)



Source: University Business Executive Roundtable interviews and analysis.

5.2 Collect and Store Data via Simple Access Database

Vendors submit simple tab-delimited ASCII text files to the university accounts payable team, who uploads them into an Access database pre-loaded with the contract prices. Some vendors may protest the additional data submission burden, but after the initial data capture, monthly updates are routine and fast. Through this process, the university can consolidate invoicing and secure a prompt-payment discount on all spend with these vendors, regardless of how the order was placed.

Low-Tech Approach Provides Easy Storage of Vendor Data and Contract Prices

Vendor-Provided Data



Data Transferred by:

- E-mail
- Jump drive
- CD
- EDI

Access Database



Data Managed by:

- Three high-potential accounts payable staff
- Staff selected for:
 - Attention to detail
 - Knowledge of Access database
 - Awareness of contracts

University Contracts



Michigan's AP and Procurement Staff:

- Upload contract prices after negotiation
- Assist vendor's IT team via phone to create electronic text file and monthly data feed



Payment

Receiving batched electronic invoices once per month allows Michigan to pay within 10 days and receive prompt-payment discount

Source: University Business Executive Roundtable interviews and analysis.

5.3 Use Data to Correct Prices and Reach Out to Noncompliant Customers

Procurement examines the data for orders that came in through means other than e-procurement, and once these transactions are identified, procurement reaches out to remind users of the e-procurement portal. The data also has tangential benefits as well: procurement can ensure contracted prices are received, and electronic invoicing facilitates prompt-payment discounts.

Universities also review level-one p-card data to identify purchases made with these top vendors. Procurement then demands the prompt-payment discounts for these transactions per previously agreed contract. This requirement incents vendors to discourage p-cards at the point of purchase so they can avoid double transaction payments.

Item-Level Detail Guarantees Contract Price and Targets Outreach Efforts

Actions Taken to Address Issues

| Problem Surfaced | Policy States | Who Caused the Problem | Action Taken |
|------------------------------|---|------------------------|---|
| Wrong Ordering Method | For e-procurement enabled vendors, orders should be submitted via e-procurement | Customer | <ul style="list-style-type: none"> Procurement follows up with buyer to educate about e-procurement |
| Wrong Price Paid | Vendors must offer same contract price or lower price regardless of ordering method | Vendor | <ul style="list-style-type: none"> Procurement refuses to pay if amount charged is higher than contract price Vendor can submit proper price the following month |
| P-Card Used | P-cards cannot be used with these vendors; contract-pricing verification is not possible without line-item detail, and Michigan loses prompt-payment discount | Customer and Vendor | <ul style="list-style-type: none"> Procurement follows up with buyer to educate about policy Vendor is required to issue 2 percent discount on any p-card transaction |

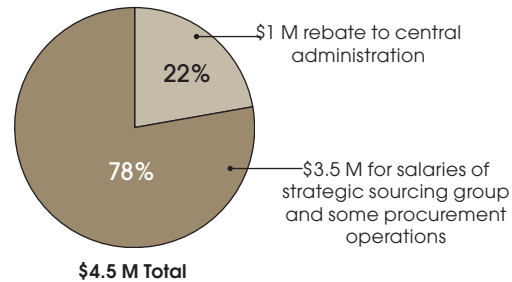
Source: University Business Executive Roundtable interviews and analysis.

5.4 Michigan Captures Savings, Increases Visibility, and Reduces Paperwork

Collecting data from the vendor is not ideal; universities should try to capture item-level detail through their own purchasing systems in order to exert more control over their own processes and vendor relationships. But in the absence of perfect data capture and visibility, vendor-provided data helps universities target noncompliant campus customers, receive negotiated discounts, and reduce the number of invoices processed by accounts payable.

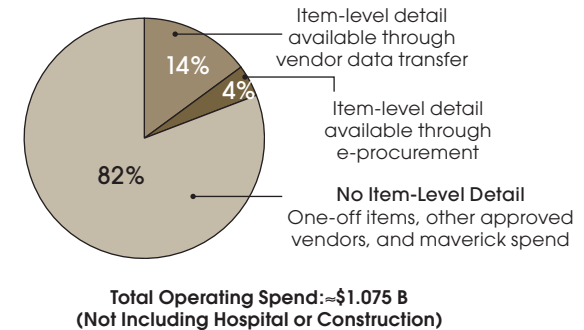
Program brings in revenue...

Annual Revenue from Prompt-Payment Discounts



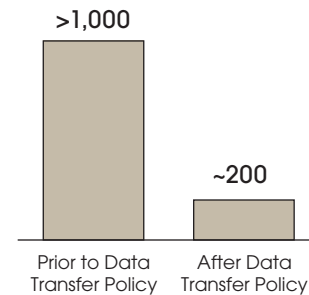
...increases visibility into spend...

Percentage of Spend with Item-Level Detail



...and reduces accounts payable workload

Number of Invoices from Top Vendors



Collecting Data Any Way We Can

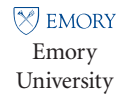
“Obviously, you want the data from your own systems as opposed to from the vendor, but until we can upload more contracts onto e-procurement, this is a good solution. We now know what our customers are buying no matter how they buy it, and it is much easier to target specific buyers and commodity areas.”

Judy Smith
Director, Procurement Services
University of Michigan

Source: University Business Executive Roundtable interviews and analysis.



II. Inflecting Decisions at Point of Purchase



Practice #6: Procure-to-Pay Customer Care Line
page 47



Practice #7: Department Spend Specialists
page 50

II. Inflecting Decisions at Point of Purchase

Typical University Challenges

- Having convinced customers that managed spend is in their self-interest, procurement's next challenge is "competing with Amazon"—ensuring that buying from best existing university contracts is easy enough that customers do not become impatient and default to familiar, convenient (but unmanaged) channels.
- The vast majority of universities are struggling with this issue due to a systematic mismatch between procurement staff expertise and customer inquiries; the most expensive procurement staff resources are spending too much time on repetitive inquiries and too little time assisting with complex problems.
- **Many Customers Unable to Execute Basic Contract Searches and Transactions on Routine Items:** Complicated processes, unfamiliar information technology systems, infrequent training, and high job turnover leave a high percentage of customers unable to use ERP or e-procurement functionality without assistance, resulting in high contract search abandonment rates, preventable off-contract purchases, and high volume of "nuisance calls" to senior procurement staff involving repetitive service questions.
- **Few Customers Know "Who to Call" for Help with Complex Purchases:** Customers cannot independently navigate the procurement organizational chart to ask for assistance in sourcing complex items, while central procurement staff lack expertise on department-specific buying needs.
- **Customers' Last-Second Purchases Leave Procurement Little Advance Notice to Search and Negotiate Contracts:** Majority of customers approach procurement with "need-it-yesterday" purchase orders; low visibility and short notice magnify the perceived "lag time" of reviewing existing contracts or negotiating new ones within aggressive deadlines.
- **Hard for Procurement to Keep Up with High Velocity of New-Item Purchases:** Compared to private sector and government, universities have a high proportion of purchases of new-to-the-institution or infrequent items; procurement staff have little visibility into these emerging needs and are challenged to negotiate contracts on short notice.

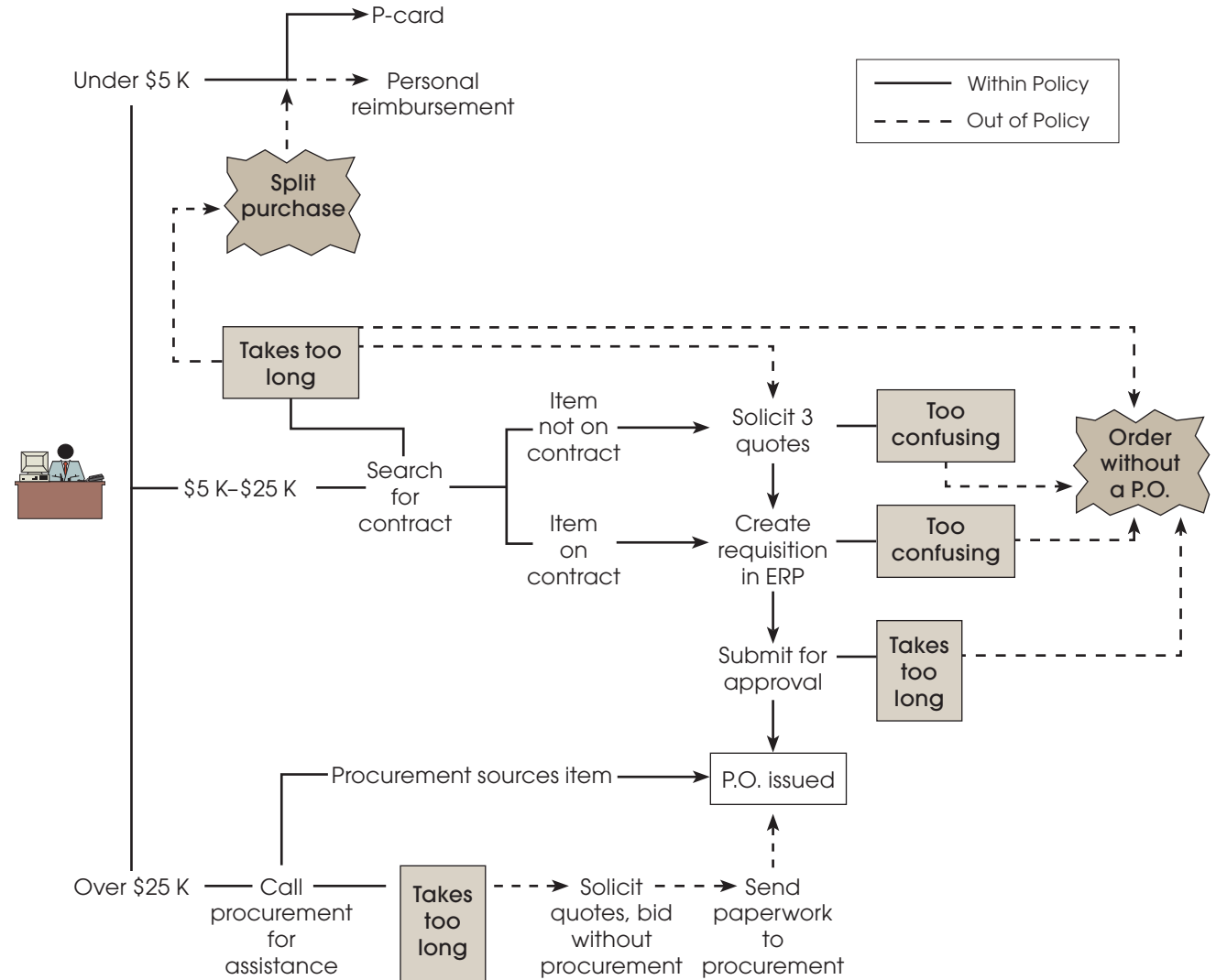
Progressive Universities' Approach

- **Create and Drive Traffic to “Level One” Contact Center to Support Routine Purchases:** Growing number of universities are branding a “311” service line for procurement inquiries, educating customers to seek just-in-time support on procure-to-pay systems or contracts library. The goal is to make training accessible at point of purchase, minimizing off-contract spending arising from end-user frustration with navigating central procurement services.
- **Assign Ongoing Departmental Liaisons to Broker Just-in-Time Introductions Between Distributed Buyers and Central Commodity Specialists:** Handful of universities are designating central procurement staff as first point-of-contact relationship managers for clusters of departments with similar buying needs, allowing procurement staff to develop visibility into the technical needs and seasonality of individual departments, identify opportunities to link purchases across units, and expedite complex requests to the most qualified commodity specialists for front-of-the-queue consideration.
- **Regularly Poll Department-Level Buyers on Emerging Product Requirements to Ensure Contracts Can Be Negotiated in Advance of Articulated Need:** More institutions are creating steering groups to improve demand transparency for new or non-recurring items; customers advise procurement of items with sufficient forward demand to negotiate contracts and channel end-user utilization in early stages of adoption curve.

Today's Purchasing Process—Too Long, Too Confusing

Procurement in higher education faces the challenge of serving faculty who care more about speed and ease of purchase than price. Unfortunately, for those universities without e-procurement, the purchasing process is often cumbersome and confusing, especially for the infrequent buyer. As a result, buyers may make a maverick purchase rather than take the time to follow procedure. Through just-in-time customer service or advanced notice of capital equipment needs, procurement can deflect decisions at the point of purchase.

University Purchasing Processes and Challenges (Illustrative)



Source: University Business Executive Roundtable interviews and analysis.

Practice #6: Procure-to-Pay Customer Care Line

Typical University Problems

- Procurement is competing with instant, familiar means of buying such as Amazon.com, p-cards, and calling vendors directly, and often does not measure up in terms of service, speed, and ease of use
- Busy, distracted customers may not remember every purchasing protocol, and the procurement website may not provide accessible answers; if customers do not receive answers at the moment of purchase, they are likely to resort to non-preferred vendors or unapproved purchasing methods

Best Practitioner Approach



Emory
University

At Emory University, buyers were swamped by the volume of basic purchasing questions they received, and were often not able to respond in a timely fashion, causing university customers to purchase off-contract. To answer in-the-moment customer questions, Emory created a three-person hotline (for both purchasing and accounts payable questions) which now handles 175 calls per day.

Key Animating Principle

- Assigning a few staff members to respond to level-one service inquiries frees buyers' time to focus on higher-value activities

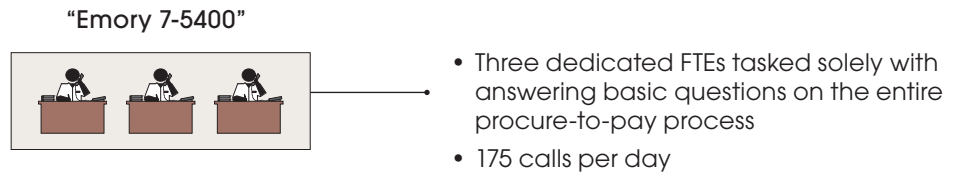
Source: University Business Executive Roundtable interviews and analysis.

6.1 Create a Single Point of Contact for Basic Procurement Questions

Rather than relying on busy procurement buyers and contract specialists to field basic level-one customer questions, leading universities create a customer care line, similar to a call center, to serve as a first line of defense. Three individuals answer questions via phone and e-mail on the entire procure-to-pay process (accounts payable and purchasing), with a call volume of 175 calls per day.

Specialized staff...

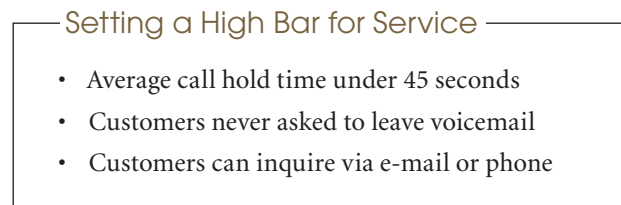
Elements of Emory's Procurement Customer Care Response Line



...answering basic procure-to-pay questions...

| | Internal Customers | Vendors |
|---|--|---|
| Accounts Payable Questions (2/3) | 80 percent of calls <ul style="list-style-type: none"> • Has my purchase order been processed? • Can I expedite payment to my vendor? | 20 percent of calls <ul style="list-style-type: none"> • What is the status of my payment? • We received an order from Emory; why doesn't the purchase order match our pricing? |
| Purchasing Questions (1/3) | 100 percent of calls <ul style="list-style-type: none"> • Do we have a contract for DNA sequencing? • What is the best way to purchase flowers that I need for tomorrow? | |

...with high customer service levels



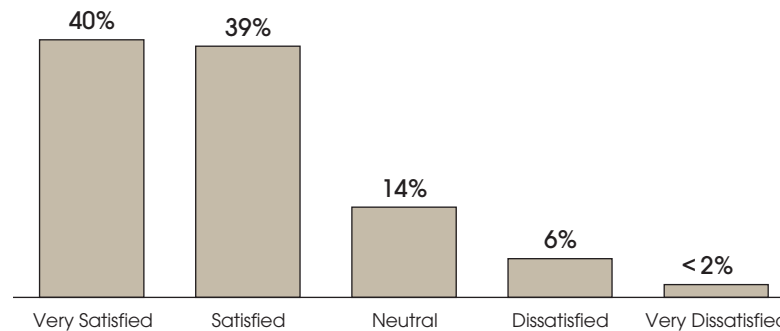
Source: University Business Executive Roundtable interviews and analysis.

6.2 Customer Care Line Has Nearly Eliminated Customer Dissatisfaction

The customer care line has improved procurement's customer service survey results and helped build credibility within the university community. More important, buyers are freed up to spend more time on higher-value activities (e.g., one-off purchases, negotiations, and customer outreach).

Results from Emory's Customer Care Line 2009 Survey

"They Responded Quickly to My Needs"



- Less than 2 percent of users were very dissatisfied with Emory's customer care line
- Additionally, the cost per query was cut in half, given the difference in average salary of a customer care line staff compared to a procurement buyer

Time Reallocated to Buyers

"With FTEs answering basic procurement questions, this frees up our buyers and commodity managers to answer complex questions, intervene in instances of rogue purchasing, and spend productive time with our suppliers."

Jennifer Hulsey
Director of Communications and Marketing,
Procurement and Payment Services
Emory University

Source: University Business Executive Roundtable interviews and analysis.

Practice #7: Department Spend Specialists

Typical University Problems

- There are too few experienced commodity managers to serve the number of departments on campus at an optimum service level, and departments often resort to sourcing on their own rather than wait for the commodity manager to conduct a proper negotiation or bidding
- When customers do approach commodity managers for assistance, they often wait until the last minute, not giving the commodity manager enough time to find the best value
- Universities buy many products each year that are “new to world” or have not been purchased in the last 12 months, leaving commodity managers scrambling to conduct a proper negotiation or identify a functionally equivalent and less expensive item

Best Practitioner Approach



University of California,
San Diego

The University of California, San Diego assigns procurement staff members to specific departments and tasks them with relationship manager responsibilities. The “spend specialist” becomes familiar with the purchasing patterns of the department, meets monthly with the department business officer to review upcoming purchasing needs, and serves as the primary liaison between the commodity manager and the assigned departments. With a dedicated advisor in the procurement function, departments have begun to view procurement as a partner and communication levels have increased.

Key Animating Principle

- Assigning buyers to spend small portion of time proactively liaising with departments can improve compliance

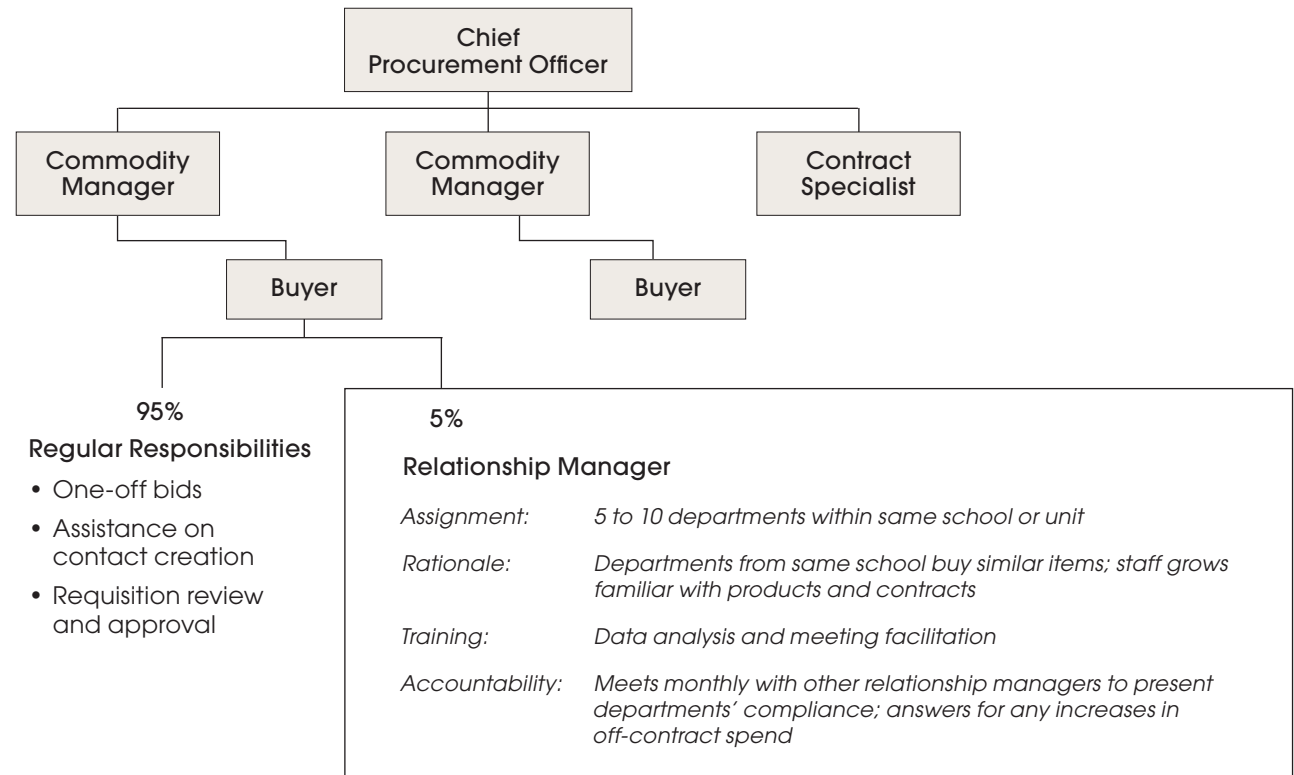
Source: University Business Executive Roundtable interviews and analysis.

7.1 Create Relationship Management Responsibilities for Procurement Staff

Commodity managers face two challenges in serving departments: first, departments have specific and frequently changing buying needs that may be unfamiliar to commodity managers; second, departments approach commodity managers at the last minute for complex sourcing needs, making it difficult to find the best value for the product. To develop visibility into departments' purchasing needs, some universities are designating central procurement staff as relationship managers for clusters of departments in similar subject or functional areas (e.g., sciences). These spend specialists are frontline staff responsible for generating proactive purchasing plans with departments and the relevant commodity managers.

UCSD Tasks Procurement Staff with Additional Support Roles

UCSD's Purchasing Organizational Chart (Illustrative)



Targeting Off-Contract Spend

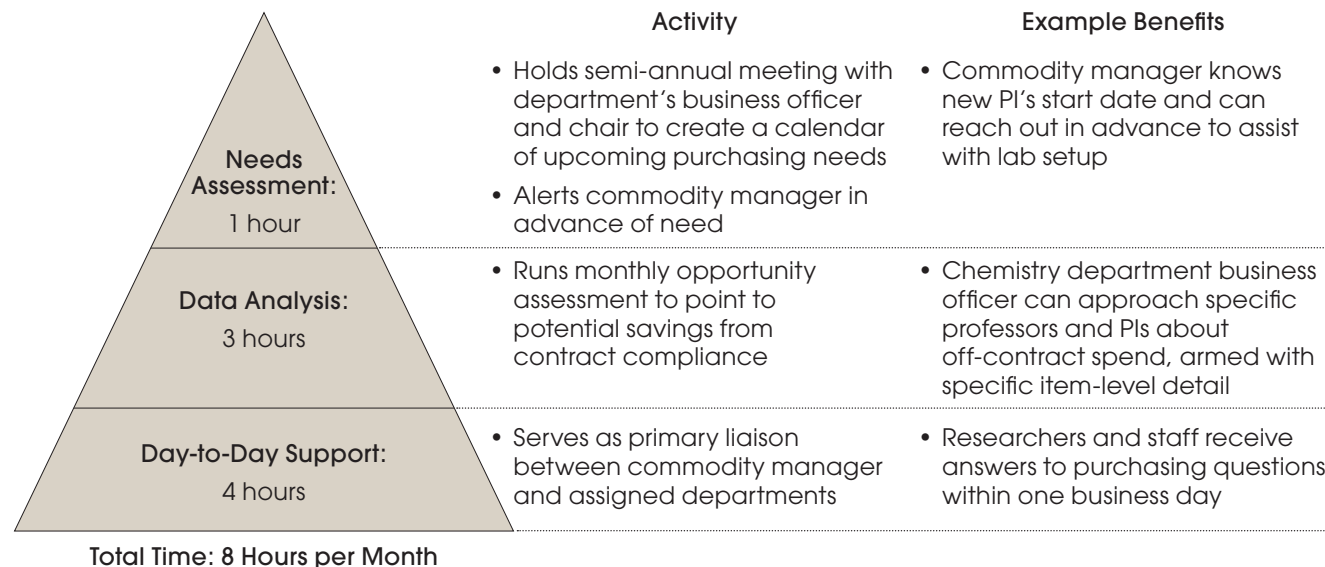
"Instead of managing the amorphous challenge of 'people' not buying centrifuge rotors on contract, we now have procurement staff responsible for helping those specific departments buy what they need, on our contracts. The staff devise solutions to move the dial on compliance."

Ted Johnson
 Director, Procurement & Contracts Operations
 University of California, San Diego

7.2 Provide Continuous Support to Departments

Spend specialists take on three responsibilities: (1) meeting with business officers and administrators to discuss upcoming purchasing needs; (2) conducting monthly spend analysis; and (3) answering day-to-day “level one” questions. The primary goal is to provide departments with support and data to help faculty understand the impact of their decisions and help them generate proactive plans to improve purchasing compliance.

Spend Specialist Time Allocation and Responsibilities per Month



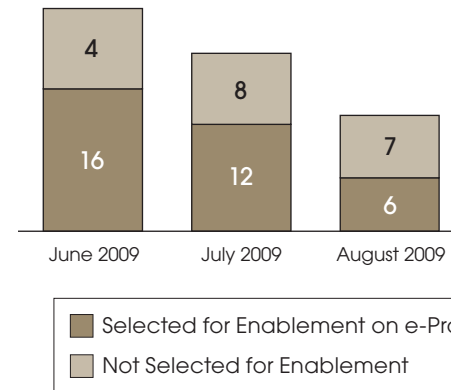
Source: University Business Executive Roundtable interviews and analysis.

7.3 Contract Requests Increase and Communication Improves

The University of California, San Diego launched a spend specialist program in early 2009. The spend specialists have surfaced new contracting needs and improved communication levels. UCSD views this kind of customized, “relationship manager” service as key to inflecting compliance across a decentralized university.

UCSD uncovers new contract needs...

Number of Requests for New Suppliers



...and provides more frequent communication

Proactive Outbound Communication

Spend specialists reach out to buyers monthly, in advance of purchasing needs, to inform them about new contracts

Compliance-Focused Inbound Communication

With many suppliers now enabled on e-procurement, incoming calls are increasingly focused on contract and supplier availability rather than e-procurement functionality

Reaching the Decentralized Buyer

“The spend specialist program allows us to make contact early and often to influence what the customers buy. We are hearing great feedback so far—customers appreciate the single point of contact and a liaison who knows their business needs. Spend specialists can answer their questions much faster than the commodity manager alone could. A university is essentially 100 mini companies running themselves—we felt that this level of support was necessary to influence their behavior.”

Ted Johnson
Director, Procurement & Contracts Operations
University of California, San Diego

Source: University Business Executive Roundtable interviews and analysis.



III. Discouraging Off-Contract Purchasing



Princeton
University

Practice #8: Preferred Vendor Access Privileges
page 59



University of
Pittsburgh

Practice #9: Rogue Purchasing Internal Audits
page 62



Emory
University

Practice #10: Off-Contract Exemption Letters
page 64



University
of Notre Dame

Practice #11: Staff-Only Purchasing Mandates
page 66

III. Discouraging Off-Contract Purchasing

Typical University Challenges

- Higher education's spectacularly decentralized organizational structure and culture of faculty entrepreneurship has prevented use of procurement mandates to discourage off-contract purchasing to levels considered routine in comparably sized private- and government-sector institutions.
- **Roundtable View:** The magnitude of potential savings from mandates is so large in many categories that most universities will begin phasing in mandates despite potential faculty backlash.
- Members report three recurring challenges in transitioning to culturally compatible, enforceable disincentives:
- **Vendors Directly Approach Faculty Who Are Unaware of Existing Mandates:** Vendors (and in particular distributors) send sales reps directly to local units, closing business before customer learns of existing preferred product lists.
- **Establishing Credible Non-financial Penalties for Purchasing Off-List:** Agreeing that the "nuclear option" of denying reimbursement for off-contract purchases is neither culturally nor logistically practicable in the short term, universities are challenged to develop an alternative currency for a meaningful disincentive to willful failure to utilize preferred contracts.
- **An All-or-Nothing Approach to Mandates:** Most universities assume mandates must apply to the entire campus population, including difficult-to-manage faculty, overlooking opportunities to selectively implement disproportionately promising product standardization opportunities with non-faculty stakeholders.

Progressive Universities' Approach

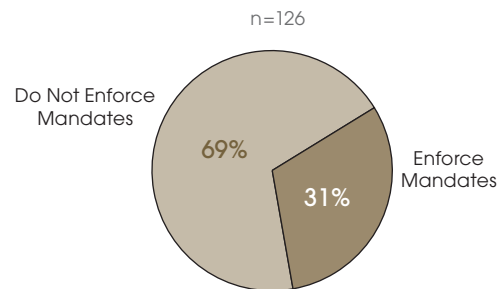
- **Reframe “Rogue Prospecting” as a Public Security Risk:** A handful of institutions are asking PIs working with hazardous materials not to take visits with unapproved vendors, citing safety risks. Only preferred vendors who guarantee to sell using the university’s best contracts receive access to facilities. The safety measure that has the benefit of limiting the temptation and opportunity of customers to buy off-contract.
- **Subject Repeated Maverick Purchasers to Internal Audits:** Dissatisfied with academic leaders’ attention to managing spend, one institution adds adherence to preferred contracts to criteria for triggering internal audits, in expectation that the specter of prolonged administrative distraction and reputational blemish will promote compliance.
- **Require Faculty to Submit Written Requests for Exemptions to Existing Contract Lists:** A growing number of universities are using minor administrative burdens as a “nudge” disincentive, obliging customers to write letters of explanation for big-ticket, off-contract purchases for department chair sign-off, in the expectation that the minimal levels of extra effort and scrutiny will suffice to preempt unjustifiable one-off purchases.
- **Implement Top-Down Mandates on Staff and Use Savings Data to Win Opt-In Support Among Faculty:** Wanting to pursue savings quickly without aggravating faculty, a growing number of universities are implementing top-down product mandates that apply to administrative staff for expensive, mature products (especially desktops and printers). The goal is to achieve near-term savings on the sizeable spend associated with non-faculty employees and to generate data on savings potential to make the case with faculty about the desirability of standard lists across a broader range of products.

Mandates in Name Only

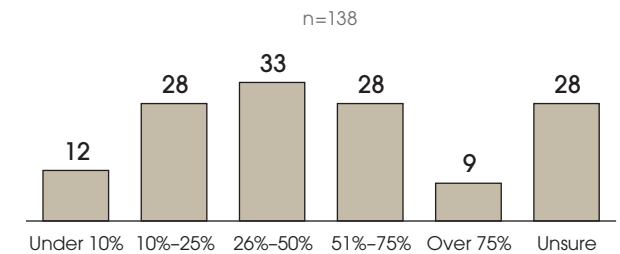
Procurement functions often have policies in place to prescribe purchasing processes for customers; however, these mandates are “in name only,” as decentralized customers feel empowered to purchase as they please with their allocated grant or budget dollars. The lack of enforced mandates inhibits procurement’s ability to predict or guarantee purchase volume with vendors to obtain favorable pricing. Rather than attempt to ratchet up enforcement of mandates, savvy purchasing departments are using customers’ desire for simplicity to help them drive customers to approved channels by making off-contract purchasing difficult and time-consuming.

Most universities not mandating compliance...

Status of Purchasing Mandates on University Campuses

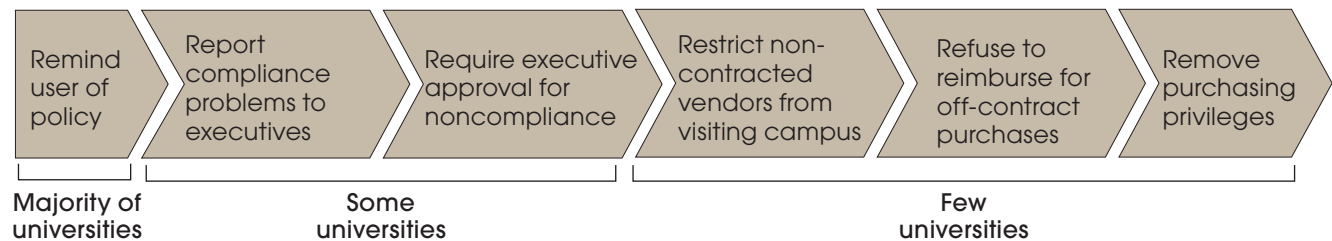


Number of Respondents by Percentage of Total Transactions on Contract



...or not enforcing purchasing policies

Range of Compliance Enforcements



Policies Don't Hold Water

“Do we mandate compliance? Yes. At least, that’s what our policy says. In reality, faculty and staff can buy whatever they want. No one backs up these policies. And I’m not about to go head-to-head with a dean about a faculty member’s choice of office furniture.”

Director of Purchasing
Research University

Source: Education Advisory Board and NAEP Survey, 2009; University Business Executive Roundtable interviews and analysis.

Practice #8: Preferred Vendor Access Privileges

Typical University Problems

- Vendors' unfettered access to departments and staff has made “back door” selling the norm, particularly in the sciences
- Procurement lacks the political capital to ban vendors from campus buildings

Best Practitioner Approach



Princeton
University

In an effort to increase contract compliance with preferred vendors, Princeton University partnered with environmental health and safety and public safety to allow only screened vendors into laboratories.

Key Animating Principle

- Procurement can partner with environmental health and safety to restrict vendors' access to research labs

Source: University Business Executive Roundtable interviews and analysis.

8.1 Appeal to Safety Risk as Cause for Restricted Vendor Policy

Procurement can partner with environmental health and safety to elevate the issue of unscreened sales representatives roaming campus labs to a primary concern. Citing the safety risk and communicating the message in conjunction with the EH&S team, procurement asks researchers to send non-preferred vendors to the procurement office to receive a pass before entering the laboratory. Procurement can then screen the vendor, evaluating pricing lists and product offerings and providing passes to those vendors who do not compete with established contracts.

Researchers Are More Concerned with Safety Than Contract Compliance

Princeton's Four-Step Restricted Vendor Access Process



1. Partnership

Procurement partners with environmental health and safety to introduce a restricted vendor access program.



2. Discussion of Safety Risks

Procurement markets new policy to campus departments through the lens of mitigating safety risks and unsolicited interruptions.



3. Restricted Access

If vendors approach a department without a pass, they are directed to the procurement office.



4. Procurement Vendor Evaluation

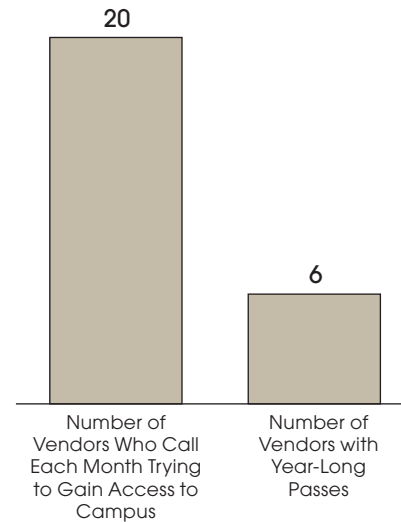
Procurement evaluates vendors, and decides whether or not to award a pass. Typically, procurement will restrict vendors who sell items that compete with existing contracts, refuse to provide a standard price list, or are not recognized by researchers.

Source: University Business Executive Roundtable interviews and analysis.

8.2 Restricting Vendor Access Leads to Fewer Unwanted Vendors on Campus

Procurement has the power to ban meddlesome vendors or, conversely, to offer unlimited access to preferred vendors, thereby encouraging increased volume to those suppliers. In the absence of guaranteed volume, this “favored status” on campus may be rewarded with better prices and improved partnership.

Number of Vendors Seeking and Receiving Access Passes



Vendor Priorities

“Since most universities can’t guarantee volume, one of the best things they can do from our perspective is to limit our competitors’ access to campus.”

Director of Sales
Large Vendor

Source: University Business Executive Roundtable interviews and analysis.

Practice #9: Rogue Purchasing Internal Audits

Typical University Problem

- Procurement has difficulty enforcing contract compliance policies due to lack of formal authority

Best Practitioner Approach



University of
Pittsburgh

The University of Pittsburgh acknowledges that departments will pay attention to contract compliance if there are repercussions and has developed an escalation process where repeat noncompliance offenders are turned over to the internal audit function for a business process audit.

Key Animating Principle

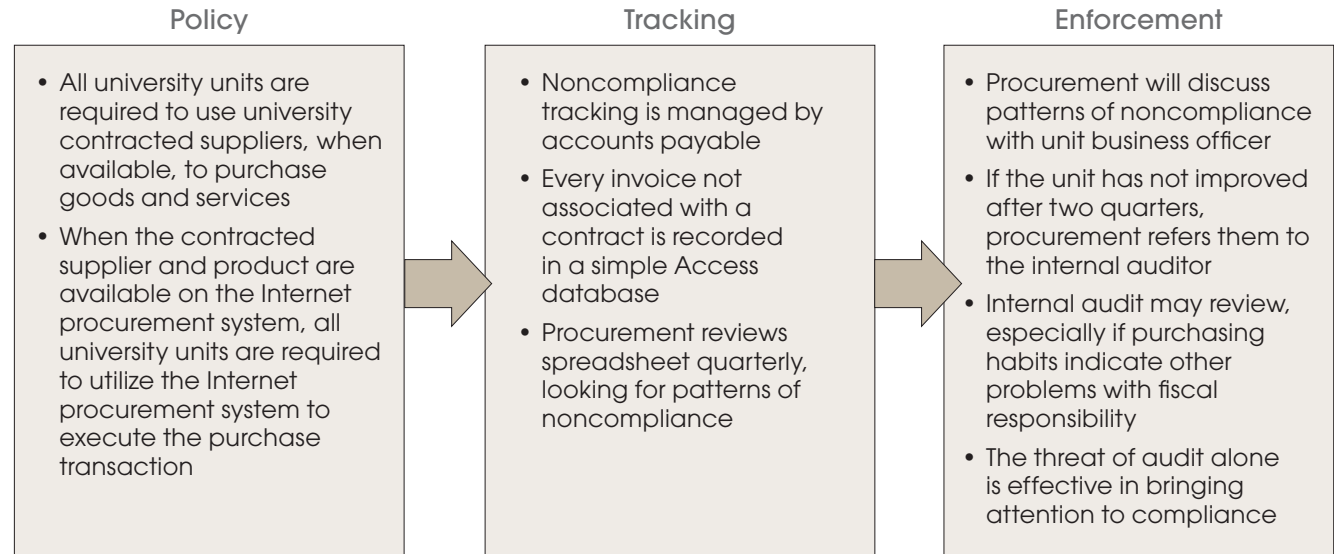
- Procurement can leverage internal audit's considerable authority to rein in rogue spending

Source: University Business Executive Roundtable interviews and analysis.

9.1 Create a Process to Escalate Noncompliance to Internal Audit's Attention

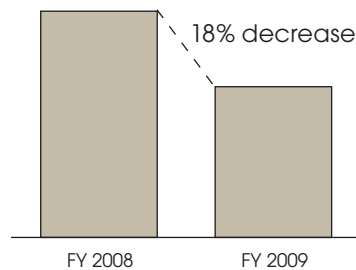
Internal audit can lend its political capital to help procurement enforce purchasing policies. Procurement can notify the audit function informally about those departments that repeatedly purchase off contract. While not all notifications lead to an audit, practitioners note that audit appreciates the information, since those noncompliant departments may also struggle with other fiscal management issues. Even the threat of an audit is effective at improving behavior by indicating that executive leadership is paying attention to policy adherence.

The threat of audit scrutiny...

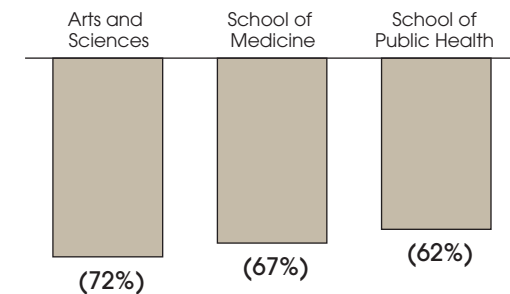


...is effective in changing compliance behavior

Policy Violations



Decrease in Off-Contract Transaction



Source: University of Pittsburgh Financial Affairs Policy, available at: <http://www.bc.pitt.edu/policies/policy/05/05-02-15.html>, accessed on October 14, 2009; University Business Executive Roundtable interviews and analysis.

Practice #10: Off-Contract Exemption Letters

Typical University Problems

- While many universities develop contract compliance policies, the policies lack enforcement mechanisms
- Purchasing on contract is often slower than purchasing off contract, and faculty care more about speed than price

Best Practitioner Approach



Emory University created an administrative process to make off-contract purchasing more challenging. By requiring a signed letter from the dean for off-contract purchases, Emory encourages customers to follow approved purchasing procedures.

Key Animating Principle

- Procurement can drive faculty to approved channels by making off-contract purchasing slower and more cumbersome than on-contract purchasing

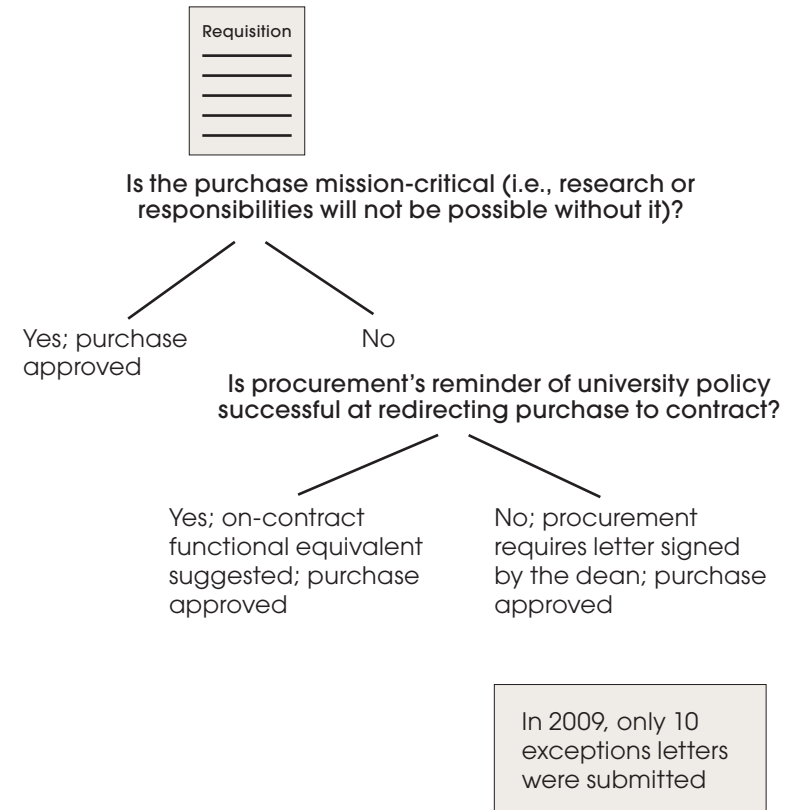
Source: University Business Executive Roundtable interviews and analysis.

10.1 Require Off-Contract Purchasers to Submit a Letter Signed by the Dean

Leading universities are capitalizing on faculty and staff's determination to save time by making rogue purchasing significantly slower than compliant purchasing. By creating an additional inconvenience for off-contract purchases (e.g., a letter of approval signed by the dean), universities drive customers to the de facto, faster channels of e-procurement and preferred vendors.

Emory's Policy for Purchasing from Preferred Vendors

- On-contract purchasing is required; however, some exceptions are permitted



Source: University Business Executive Roundtable interviews and analysis.

Practice #11: Staff-Only Mandates

Typical University Problems

- Purchasing policies that do exist are usually “one size fits all” with the same regulations for both administrative staff and research faculty, but only research faculty legitimately need purchasing flexibility
- Universities could save hundreds of thousands of dollars from restricting commodity spend to a few vendors or by standardizing product offerings, but most decentralized universities continue to allow customers to buy from whomever they choose
- Universities create “strategic” contracts, but without policies to drive volume to those vendors, the contracts rarely deliver the savings initially projected, and vendor relationships are risked

Best Practitioner Approach



University
of Notre Dame

The University of Notre Dame, recognizing the value of consolidating spend with one supplier and a few standard options, created a computer purchasing policy specifically for administrative staff. Administrative staff can choose from eight standard models from one preferred supplier; exceptions are approved on a case-by-case basis by deans and vice presidents. Notre Dame estimates \$500,000 in savings in the first year of the policy.

Key Animating Principles

- Institutions may be wary of mandating contract compliance for faculty, but staff have far less political clout
- Staff comprise a meaningful proportion of total spend in many categories

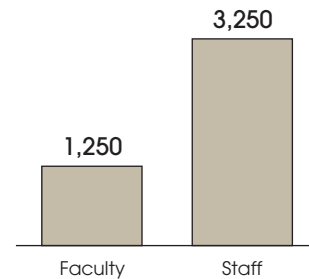
Source: University Business Executive Roundtable interviews and analysis.

11.1 Large Cost Savings Available from Staff Mandates

By design, it is difficult to force faculty to follow administrative guidelines or mandates; the same cannot be said of university staff. They have few of the same powers as faculty, comprise more than half of all university employees, and represent a similar proportion of many types of spend. Meaningful economic impact can be reached by forcing staff to adhere to specific purchasing rules separate from those offered to faculty members.

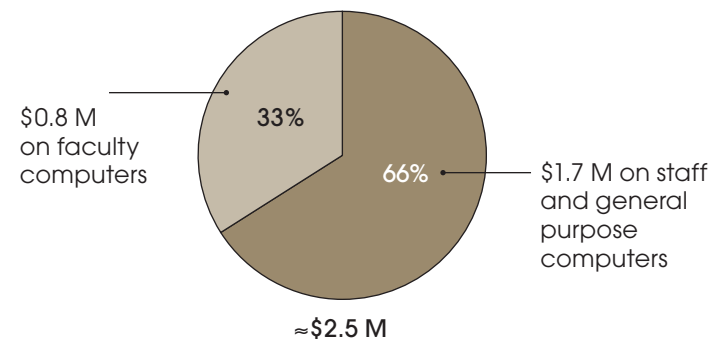
Most universities have at least twice as many staff as faculty...

Number of Faculty and Staff (Research University)



...and a proportional amount of spend...

Approximate Spend on Computers, FY 2008 (Research University)



...leading some universities to consider mandates for staff-purchased commodities

Exploring the Opportunity

“I realize faculty and researchers need specific items, but staff work with the same basic commodities as any other office at other companies around the country. We should mandate copy machine vendors, cell phones, furniture, and office supplies like any other company would do.”

Director of Procurement
Mid-sized University

Source: University Business Executive Roundtable interviews and analysis.

11.2 Set Mandates Specifically for Staff, Not Faculty

When crafting policy language, practitioners make clear distinctions between faculty, academic administrative staff, and non-academic administrative staff, with gradually increasing restrictions. To soften the pushback from staff, universities should offer a number of standard options from one preferred supplier. Over time, procurement can reduce the number of options according to buying patterns, thereby securing better volume discounts.

Notre Dame's policy applies varying degrees of pressure to faculty and staff...

Policy Language for Faculty and Staff



Faculty

- Appropriate technology to support teaching and research responsibilities



Academic Administrators

- Standard models from preferred supplier
- Exceptions require approval by dean



Non-Academic Administrators

- Non-standard models only for those with specific technical or functional job requirements (e.g., graphic design)
- Exceptions require approval by vice president of division

...to purchase one of eight standard computer options

Notre Dame's Computer Options

| Option Number | Desktop |
|---------------|--|
| 1 | Premium computer with extra memory and processing capacity |
| 2 | Basic desktop used by majority of staff |
| 3 | Smaller desktop for tight office spaces and cubicles |

| Option Number | Laptop |
|---------------|-----------------------------|
| 4 | Ultra portable |
| 5 | High-end desktop equivalent |
| 6 | Standard laptop, 15" screen |
| 7 | Standard laptop, 14" screen |
| 8 | Value laptop |

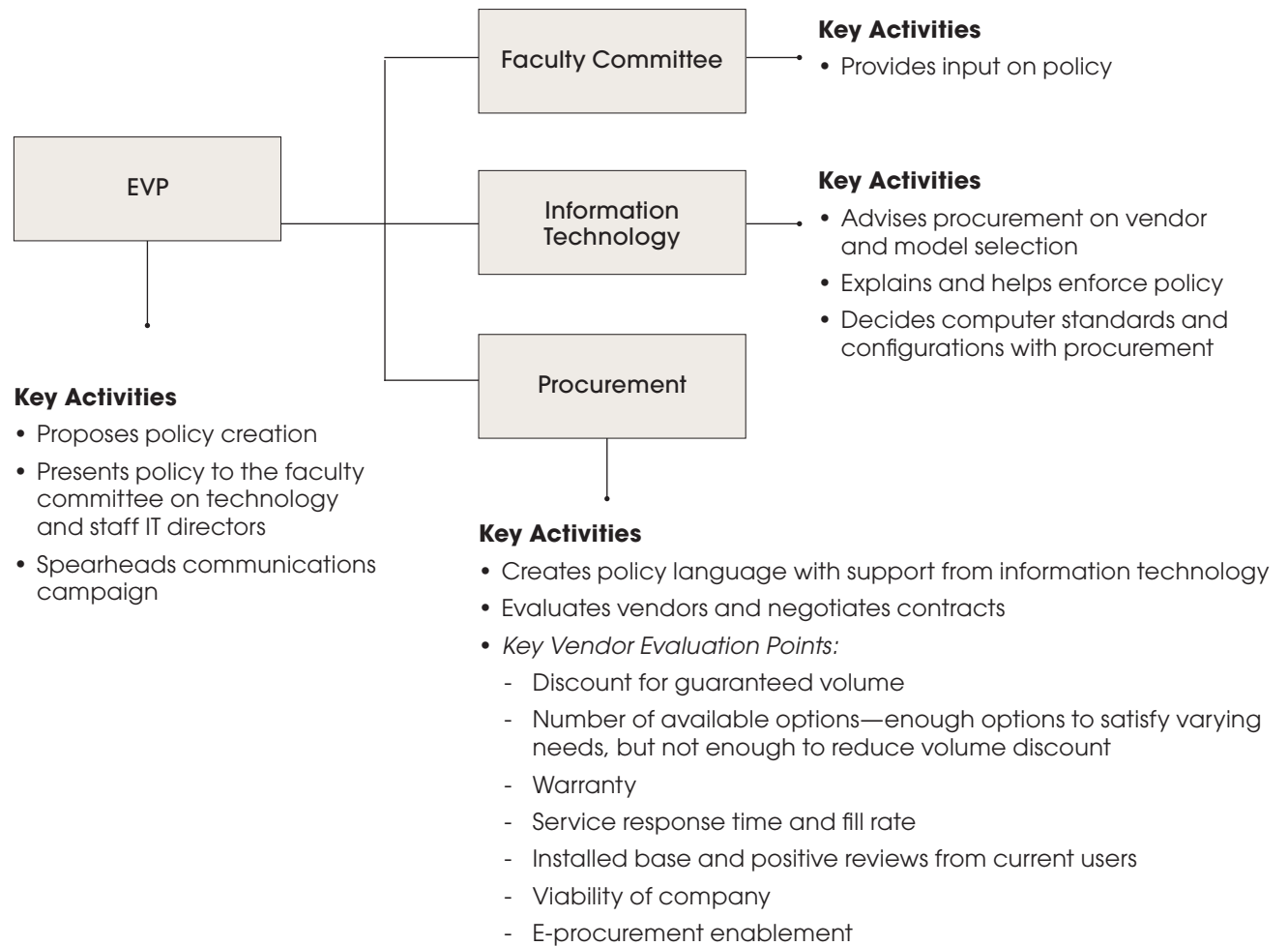
Source: University of Notre Dame, Computer Purchase Policy, available at: http://policy.nd.edu/policy_files/ComputerPurchasePolicy.pdf, accessed on October 13, 2009; University Business Executive Roundtable interviews and analysis.

11.3 Achieve Institutional Support

Given the history of unenforced purchasing policies at universities, the shift to enforcing compliance (even if limited to staff) can create political challenges. Successful policies start with the executive vice president, who oversees most administrative staff. However, the EVP must also seek input (though not ultimate approval) from the academic leadership, since some administrative support staff serve academic divisions. Enforcing mandates allows procurement to guarantee volume discounts—a rarity in higher education—and secure the best contract with the best vendor.

Multiple Players Vet Policy to Ensure Support Across the University

Responsibilities of Institutional Leadership



Source: University Business Executive Roundtable interviews and analysis.

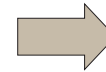
11.4 Establish Rigorous Exceptions Rules and Monitor Noncompliance

Successful implementation requires a rigorous exceptions policy, with deans and vice presidents reviewing any requests for non-standard items. Initially, the executive vice president should review personal reimbursements to verify that exceptions are driven by need. While this responsibility may not be in the normal realm of executive duties, practitioners note that this review deters staff from requesting frivolous exceptions. The EVP should also review all savings lost from approved exceptions with deans and division vice presidents to hold them accountable for the number of exceptions they approve.

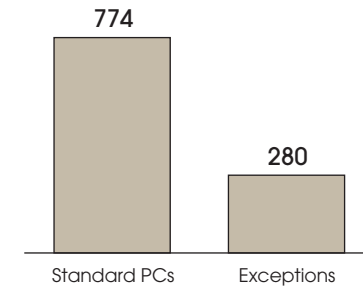
Exceptions Must Be Executive-Approved

Exception Request Process

- Requests must include:
 - Description of how model differs from standard
 - Reason for request (job- or compatibility-related)
 - Price of new model
- Dean or division vice president reviews request
- Procurement provides report to executive vice president to indicate savings lost from exceptions



PC Purchases, Q1-Q3 2009



Standing Behind the Policy

“Initially, our executive vice president reviewed all personal reimbursements for computers and contacted those purchasers individually. Word travelled fast that the EVP was personally overseeing the implementation of this policy, and that has helped reduce the number of overall exceptions. Then, to prevent the problem of deans and VPs simply rubber-stamping the exceptions requests, our EVP will be reaching out to deans and VPs to make sure they understand how much savings are lost through exceptions. He is hands-on with the policy implementation, and that has helped us achieve the half million in savings.”

Rob Kelly
Director, Procurement Services
University of Notre Dame

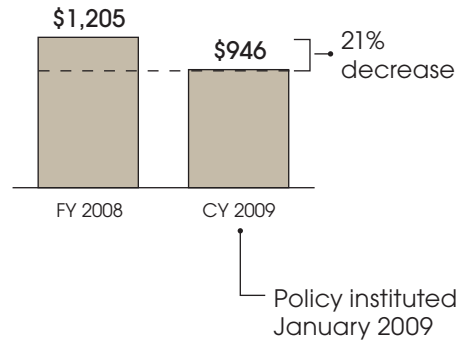
Source: University of Notre Dame, Computer Policy Exception Form, available at: http://buy.nd.edu/buying_help/documents/ComputerPurchaseExceptionForm.pdf, accessed on October 13, 2009; University Business Executive Roundtable interviews and analysis.

11.5 Computer Mandate Success Could Extend to Other Commodities

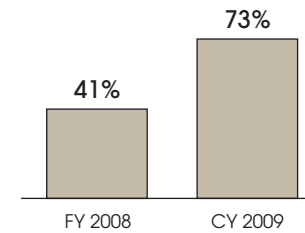
At the University of Notre Dame, the staff mandate resulted in roughly \$500,000 in savings on computers in the first year of implementation. Additional ancillary benefits include positive externalities on faculty purchasing decisions—faculty may be influenced by the easier, pre-configured options available to staff and elect to participate in the program.

Mandate delivers savings to Notre Dame...

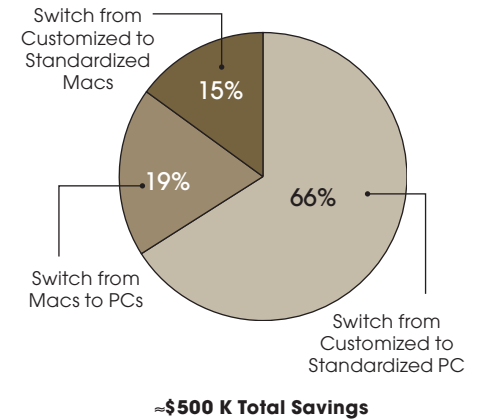
Average Cost per Unit of PCs



Compliance with Standard Model PC

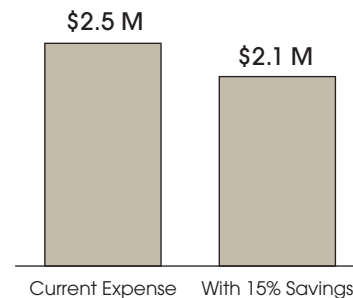


CY2009 Total Savings Based on Average Cost per Unit

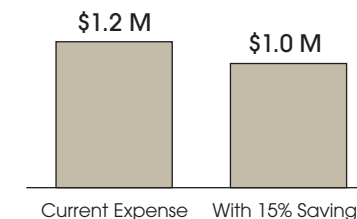


...and raises the possibility of savings at other universities in other commodities

Average Research University's Savings Opportunity from Cell Phone Mandate



Average Research University's Savings Opportunity from Copy Machine Mandate



Source: University of Notre Dame, Procurement Services Newsletter, August 2009, available at: <http://buy.nd.edu/irishbuyer/aug2009.html>, accessed on October 13, 2009; University Business Executive Roundtable interviews and analysis.



IV. Surfacing Overpriced Contracts



Practice #12: Data-Driven Price Negotiation
page 77



Rochester Institute
of Technology

Practice #13: Reverse Auctions
page 81



University of
Michigan

Practice #14: Shelf Pricing
page 86



Arizona State
University

Practice #15: Objective-Based RFPs
page 91

IV. Surfacing Overpriced Contracts

Typical University Challenges

- Deliberately or tacitly, vendors have benefitted from a lack of price transparency in higher education procurement caused by decentralized organization and perpetuated by sporadic use of negotiated contracts and e-procurement systems.
- This information asymmetry is equally disadvantageous to colleges and universities when negotiating item-specific contract price where absence of external benchmarks or internal volumes obscure “best possible price,” and for more complex product-service bundles where ultimate contract scope and costs to serve are imperfectly understood.
- Universities successful in driving contract utilization are marshalling information on who is spending what on which kinds of products to level the negotiating playing field. They identify and reverse unjustified vendor efforts to increase price and margin, focusing on four recurring areas of inefficiency.
- **Multiple Price Increases Within a Single Year:** Spend analysis reveals many vendors are able to increase price on specific items multiple times per year, unrelated to annual price increase plans or changing cost to serve or cost of goods sold.
- **Price Variation Across Campus:** Vendors and distributors often charge different prices for the same item to different purchasers within the institution; eliminating differentials between maximum and best-negotiated price can result in substantial savings.
- **Add-On Service “Scope Creep”:** Vendors win contracts by offering competitive pricing on a desired core item, but try to recover margins through large markups for complementary features and services not included in the initial negotiation.
- **Suboptimal RFP Price-Service Structure:** A growing number of universities recognize that overly prescriptive RFP specifications and lack of understanding of vendor capabilities and cost structures bias toward suboptimal contracts whose price could be substantially reduced with relatively minor changes to the RFP’s stated service and support expectations.

Progressive Universities' Approach

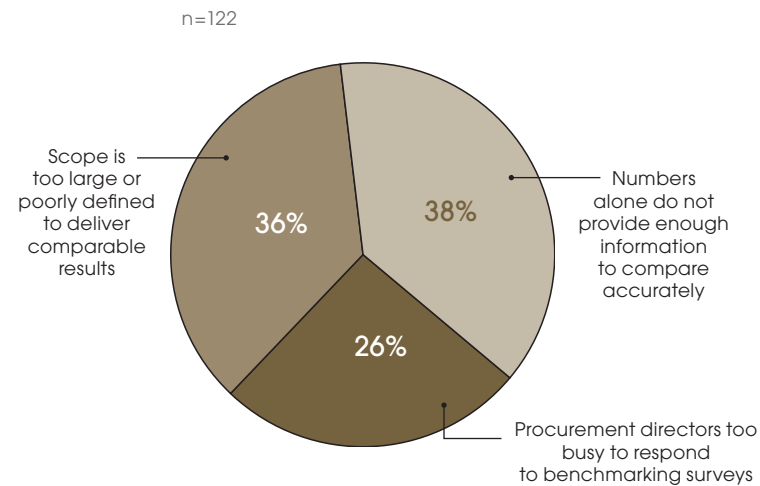
- **Combine Available Data from Ongoing Purchase Processes to Identify Unjustified Price Increases and Variations:** Even institutions lacking cutting-edge e-procurement systems are generating actionable data from AP records, vendor-generated monthly reports, peer institution and public university websites to reduce incidence of multiple price increases and pricing disparities across campus; reining in these two common vendors ploys can save in excess of \$300,000 at the typical institution.
- **Make Reverse Auctions Viable by Combining with Other Local Institutions to Commit “Visible” Contract Volumes and Utilizing Outsourcers:** A growing number of institutions are using reverse auctions as a price discovery tool. Successful pilots are predictably focused on fungible commodities (rock salt, copy paper, lab supplies, etc.) with innovators collaborating with other area colleges to achieve volume threshold of \$250,000 considered necessary to attract multiple vendors' bidding, as well as partnering with third-party outsourcers to conduct “learning runs” and avoid technology investment expense.
- **“Shelf Pricing”— Negotiate Single Price for Individual Items Regardless of Add-On Features:** A handful of institutions are combating service creep by requiring standard “all-in” prices from vendors, fixing price for the core good and allowing competition for university business based on customer service pledges. Pioneers are reporting 20 to 25 percent reductions in total cost, reduction in vendor incentive to push “premium” items, and increased customer satisfaction from non-price competition.
- **Objective-Based RFPs to Determine Optimal Price-Scope Combinations:** Some procurement functions are writing RFPs describing general service and performance goals rather than detailed specifications, utilizing vendors' superior process expertise to design mutually optimal cost-to-serve parameters.

Addressing the Price Opacity Issue

Efforts to benchmark university prices to prices paid by hospitals for the same products reveal that some universities pay higher prices for identical items. Worse, Roundtable interviews suggest that procurement directors have virtually no way to verify their prices: lack of item-level detail and complicated, lengthy contracts prevent easy data gathering for benchmarking purposes. Those procurement directors who do compare prices can do so only with other higher education institutions, which is not always the most competitive peer set. The lack of price transparency inhibits universities from surfacing “bad deals” on existing vendor contracts.

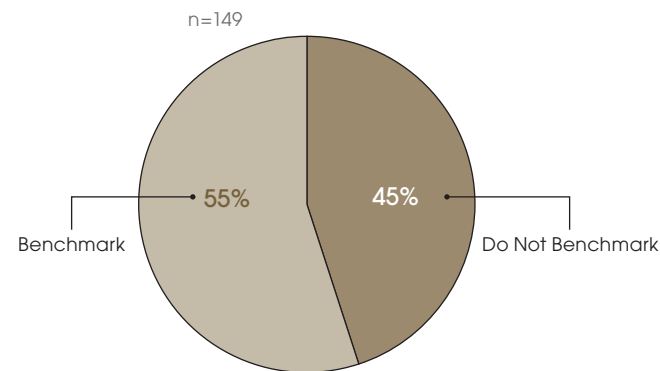
Universities face major challenges to benchmarking...

Major Challenges to Benchmarking in Higher Education



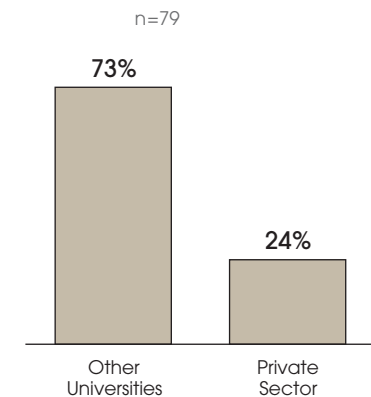
...and those who do benchmark...

Prevalence of Price Benchmarking in Higher Education



...compare to other universities

Partial List of Organizations Against Whom Universities Benchmark



Source: NAEP and Education Advisory Board Survey, 2009; University Business Executive Roundtable interviews and analysis.

Practice #12: Data-Driven Price Negotiation

Typical University Problems

- Most universities do not know what specific items are bought across the university or what prices they are paying, making it difficult to police vendor (or faculty and staff) compliance with contract pricing
- In most negotiations, university purchasing executives are at a distinct information disadvantage as they often don't know what they have bought or what prices were paid

Best Practitioner Approach



Universities are starting to take advantage of data available from various purchasing processes to build a spend database that includes granular information on what exactly is being purchased, when, and for how much. This information is then combined with price benchmarking information to help restore the balance of power between universities and vendors.

Key Animating Principle

- Vendors exploit universities' lack of purchasing data in negotiations and when pricing non-contracted goods

Source: University Business Executive Roundtable interviews and analysis.

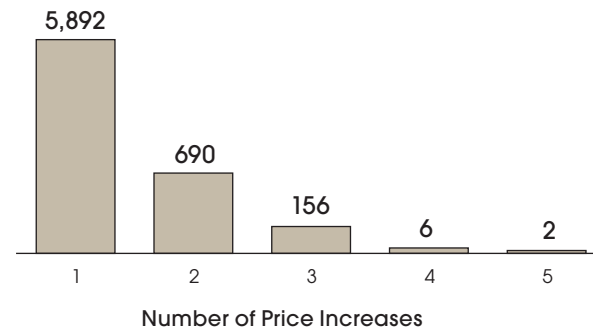
12.1 Without Item-Level Data, Universities Are Unable to Counter Vendor Pricing Changes

It is no surprise to procurement directors that vendors favor a decentralized university. Vendors routinely charge different prices for the same item, whether or not that item is on contract. A simple evaluation of accounts payable invoices can quickly confirm that the same item is purchased at different prices. Some price discrepancies can be attributed to normal price increases or administrative errors, however the frequency of some price changes suggest intention.

Vendors increase price several times per year...

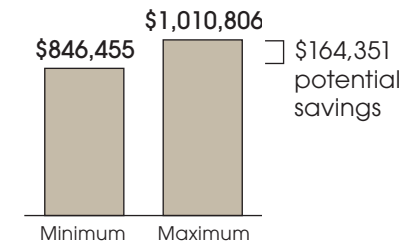
Item-Specific Price Increases, Previous Twelve Months¹

Major Research University



Price Differential Between Minimum and Maximum Item Price

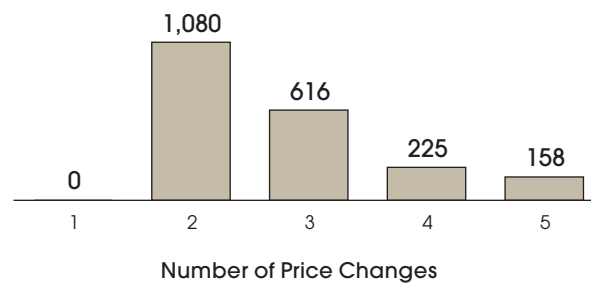
Major Research University



...and often charge different prices for the same item

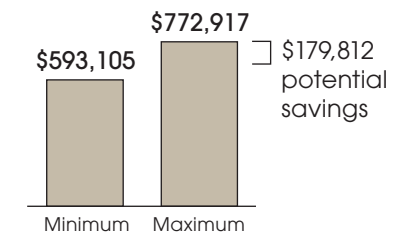
Item-Specific Price Changes, Previous Twelve Months

Major Research University



Price Differential Between Minimum and Maximum Item Price

Major Research University



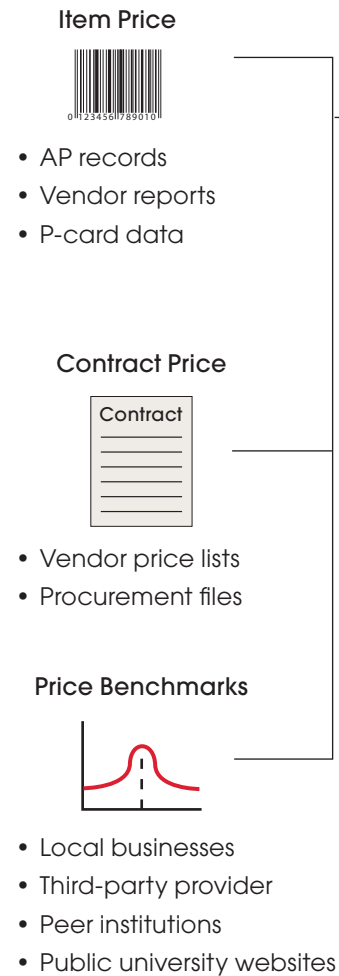
¹ Numbers are disguised.

Source: University Business Executive Roundtable interviews and analysis.

12.2 Many Sources of Procurement Data Are Available

Procurement can use disparate data sources to identify instances of unauthorized price modifications or vendor overpayments. Common sources include accounts payable records, vendor reports, or p-card reports with level-three detail. Random spot checks of this data against contract prices can indicate which vendors need to be watched more carefully for discrepancies.

Item Level Purchase Data and Price Benchmarking Database



Priority Vendor List (Illustrative)

| Vendor | Spend | % Pricing Above Benchmark |
|-------------------------------|---------|---------------------------|
| Fisher Scientific Company LLC | \$5.4 M | 2% |
| Sigma-Aldrich Inc. | \$1.6 M | 7% |
| Applied Biosystems LLC | \$1.4 M | 5% |
| Roche Diagnostic Corp. | \$1.2 M | 4% |
| Becton Dickinson | \$0.9 M | 9% |
| VWR International | \$0.6 M | 3% |

Source: University Business Executive Roundtable interviews and analysis.

12.3 Robust Data Helps Level the Playing Field Between University and Vendor

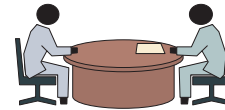
Vendors enter into negotiations armed with data on the university's past purchases and know that they have the upper hand—especially when the university requests the sales report from the vendor just prior to renegotiation. While it may not be possible to capture all purchasing data across the university, approaching the negotiation with even limited data and knowledge of price benchmarks or vendor priorities may be enough to shift the balance of power.

Information Required to Negotiate Fair Contracts

Vendor Knowledge

- Institutional sales projections
- Historical sales
- Margin for each product
- Planned new product introductions

Renegotiate contract prices



Key Negotiation Drivers

- Realistic target price
- Historical volume
- Brand value of institution
- Ability to promise future volume

An Unfair Advantage

“I always chuckle when we are asked for a university’s purchasing history because I know the next call will be from them, trying to beat me down on price. Of course, it does help that I have ample time to prepare.”

Senior Vice President, Sales
Major University Supplier

Source: University Business Executive Roundtable interviews and analysis.

Practice #13: Reverse Auctions

Typical University Problems

- Universities often lack price benchmarking capabilities that help determine if the prices they receive from vendors are fair; as a result, they often pay higher prices for the same products than similarly sized institutions in other industries
- Reverse auctions may be an appealing sourcing tool for universities, but procurement directors are uncertain about which commodities are best for reverse auctions or how to mitigate the risks associated with the process
- Universities do not have access to the technology required to run a reverse auction and may not conduct enough auctions to justify the expense

Best Practitioner Approach

R·I·T
Rochester Institute
of Technology

Rochester Institute of Technology has sourced items via reverse auctions for the past five years, often joining with nearby universities to aggregate volume on the same commodity items and capture even larger savings. In addition, RIT outsources the online bidding process to a third-party vendor who runs the auction on behalf of the university. This strategy has resulted in 10 to 20 percent savings over previously negotiated contracts.

Key Animating Principles

- Reverse auctions are particularly appealing for universities that lack robust pricing benchmarks or transaction histories
- Reverse auctions work well only if conducted on sizable contracts for fungible goods with reputable vendors

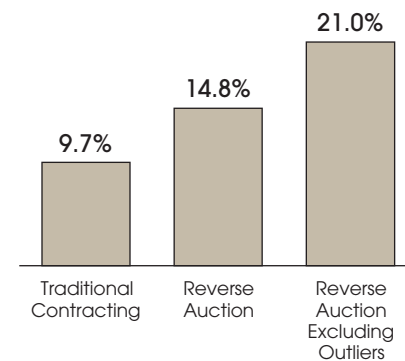
Source: University Business Executive Roundtable interviews and analysis.

13.1 Universities Not Taking Advantage of Reverse Auctions

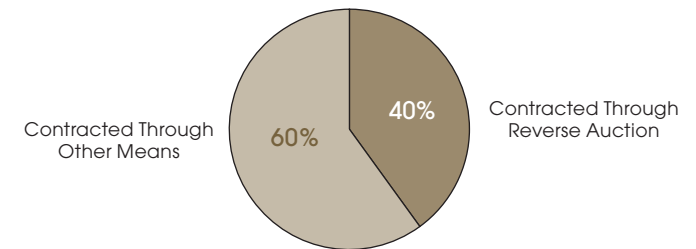
Corporate and hospital procurement functions have used reverse auctions for years, realizing savings above traditional contracting. Universities have not widely adopted the practice due to legitimate concerns around which commodities to source, how much spend is required, and how to obtain technology to run the auction. However, universities are uniquely positioned to benefit from reverse auctions, which can provide price transparency often lacking in higher education.

Proven savings from reverse auctions in all industries, including health care...

Average Acquisition Savings

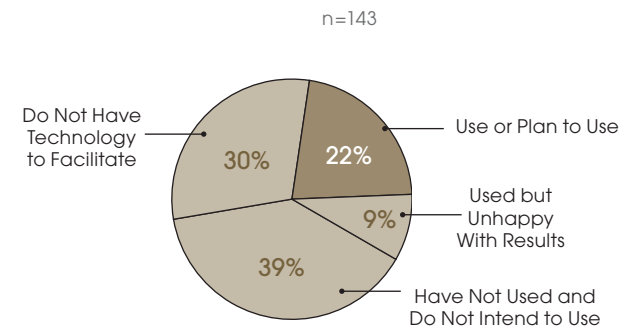


Total Hospital System Supply Spend



...but higher education lags behind...

Adoption of Reverse Auctions in Higher Education



...despite unique benefits to universities

Key Benefits for Higher Education

- Offers price transparency currently unattainable due to lack of benchmarking data
- Creates a more robust bidding environment by opening competition to more vendors
- Reduces time spent evaluating lengthy RFP responses

Barriers to Adoption:

- Unsure which commodities are appropriate
- Believe spend not large enough to appeal to vendors
- Cannot access necessary technology
- Fear backlash from preferred vendors

Source: Education Advisory Board and NAEP Survey, 2009; Advisory Board Company interviews and analysis.

13.2 Successful Examples of Universities Using Reverse Auctions

The higher education procurement landscape is replete with examples of reverse auctions for basic commodities. These experienced practitioners and success stories indicate that reverse auctions are a potentially beneficial sourcing mechanism for universities.

Leading Universities Capturing Savings from Reverse Auctions with Few Negative Implications

Commodities and Savings from Six Universities



\$1 M savings on office supplies joint purchasing contract



BROWN

\$15 M savings on electricity over five years



\$1.3 M savings on copy machine contract (total contract value of \$3.5 M)



\$42 K savings on student information system training (total contract value of \$225 K)



\$131 K savings on micro fridges (total contract value of \$417 K)

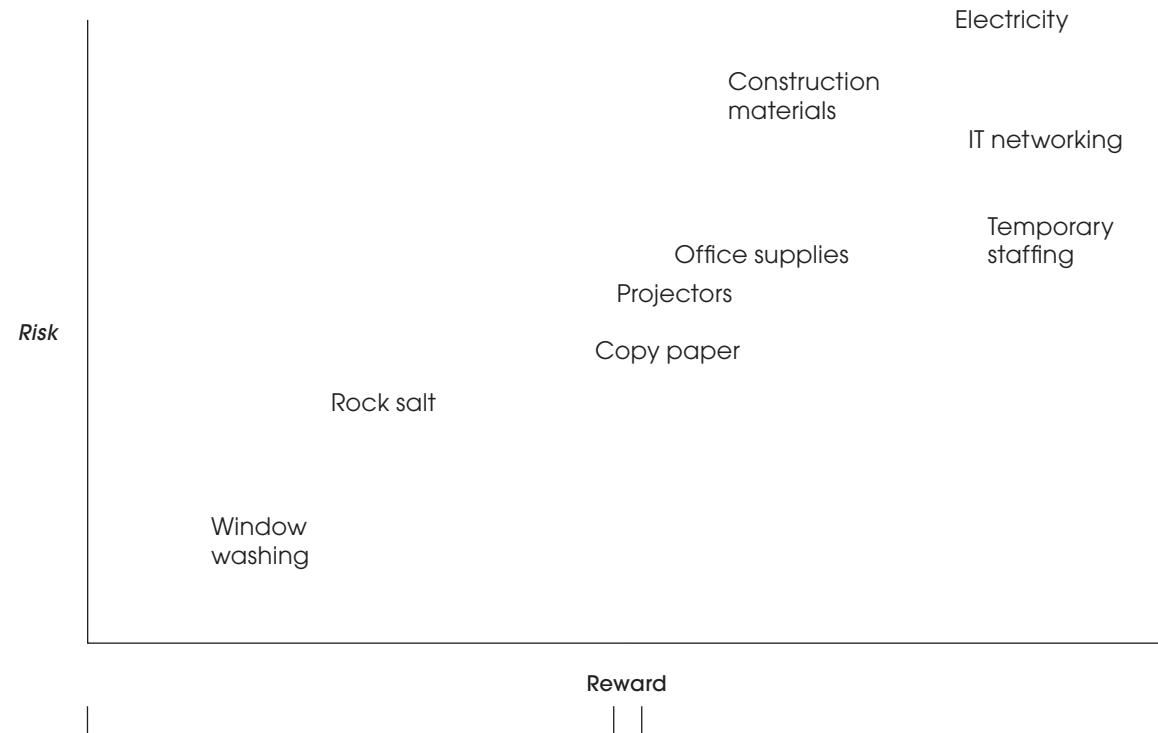
Source: Penn State ITS Finance Team, Purchasing Services presentation, May 31, 2007, available at: its.psu.edu/itsfinancial/Docs/PurchasingPresentation0507.ppt, accessed November 9, 2009; Simons, Anne, "Reverse-auction utility buying saves U. cash," *Brown Daily Herald*, February 27, 2009, available at: http://www.brown.edu/Departments/Brown_Is_Green/documents/Reverse-auctionutilitybuyingsavesUcash_000.pdf, accessed November 9, 2009; University of Rochester 2006-2007 Annual Report, available at: http://www.rochester.edu/aboutus/2006_2007/stewardship.html, accessed November 9, 2009; University of Pennsylvania Purchasing Services, "Procured Incorporated Enabled Electronic Sourcing Summary," available at: http://www.purchasing.upenn.edu/supply-chain/bidding_sc.php, accessed November 9, 2009; Quaranta, Katie, "Smart, Strategic Purchasing Yields Savings," *Ohio University Outlook*, January 12, 2009, available at: <http://www.ohio.edu/outlook/08-09/January/264.cfm>, accessed November 9, 2009; University Business Executive Roundtable interviews and analysis.

13.3 Conduct a Risk-Reward Screening to Determine Appropriate Commodities

The challenge for universities implementing reverse auctions is identifying fungible commodities with a total spend exceeding \$250,000 that have enough competitive suppliers to make an auction worthwhile. Once such commodities are identified, universities should perform an analysis of the expected cost savings and potential risks.

Universities Should Evaluate Commodities That Are Fungible and Where Spend Is Over \$250 K

Risk/Reward Evaluation



Basic commodity items may not deliver huge savings, but aggregating their spend across campus is easier, and preferred suppliers likely do not sell these products

Complicated commodity items have more margin to capture, but it may be difficult to provide exact specifications, and using reverse auctions may damage longer-term supplier relationships

Source: University Business Executive Roundtable interviews and analysis.

13.4 Partner to Facilitate the Auction and Increase Potential for Success

Leading practitioners aggregate spend with neighboring institutions and often rely on third-party vendors to run the auctions, until they grow more comfortable hosting their own. Other leading practitioners recommend contacting local corporations who run reverse auctions frequently and are willing to allow university procurement directors to observe a reverse auction and familiarize themselves with the process and technology.

Universities can join together to aggregate their spend...

Examples of Universities Aggregating Spend Volume, Achieving Critical Mass to Run Successful Auction



- Philadelphia Area Collegiate Cooperative partnered on cylinder gas purchase



- Big 10 universities bought copy paper together via reverse auction



- Rochester Institute of Technology joined the University of Rochester's reverse auction for lab supplies

...and outsource auction management to a third-party vendor

Benefits of Outsourcing Reverse Auction Management

Vendor Screening

- Third-party vendor vets suppliers to ensure quality goods and services

Spend Analysis

- Third-party vendor can analyze university spend data to determine which commodities are best candidates for reverse auctions

Reduced Costs

- If university only plans to run a few reverse auctions per year, it may be less expensive to outsource rather than buy the technology; third-party auction managers usually charge a flat fee, percentage of savings, or percentage of total purchase

Learn from Local Corporations

“When we were considering reverse auctions, I contacted the global pharmaceutical company located just down the street. They had bought the online bidding technology and invited me to watch a few auctions in progress and scope out the technology. I would highly recommend that procurement directors connect with companies nearby who may have experience with reverse auctions. These auctions can be tricky, and it was helpful to see the auction firsthand before making the build-or-buy decision.”

Director of Procurement
Research University

Source: University of Pennsylvania Purchasing Services, “Procuri Incorporated Enabled Electronic Sourcing Summary,” available at: http://www.purchasing.upenn.edu/supply-chain/bidding_sc.php, accessed November 9, 2009; Committee on Institutional Cooperation, “Report to the Members,” June 2005, available at: http://www.cic.net/Libraries/Reports/June_2005.sfb, accessed November 8, 2009; University Business Executive Roundtable interviews and analysis.

Practice #14: Shelf Pricing

Typical University Problem

- Vendors offer competitive pricing on a desired core item, but try to recover margins with large markups for complementary features and services not included in the initial negotiation

Best Practitioner Approach



University of
Michigan

After noticing expensive add-on costs from contracted items, the University of Michigan moved to a price per unit independent of add-ons. Setting a standard price for a good, regardless of brand or features, eliminates price “creep” and other vendor pricing tricks.

Key Animating Principle

- Requiring one price for an item from all vendors, independent of additional features, results in lower overall prices by preventing vendors from selling excessive “add-on” features at extra charge

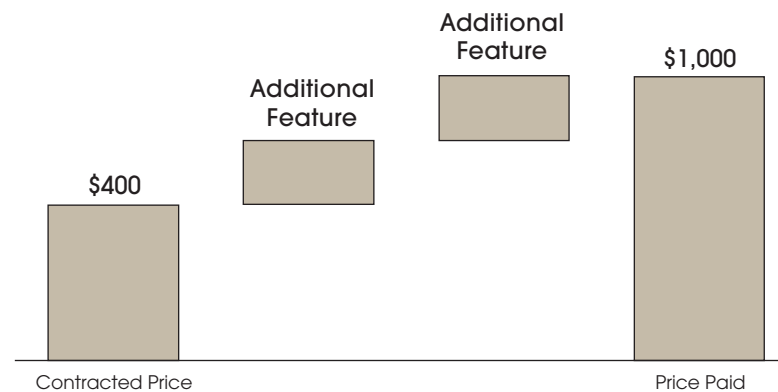
Source: University Business Executive Roundtable interviews and analysis.

14.1 Targeting Price Creep and Add-On Features

Vendors will often counter procurement's efforts to reduce spend on complicated medical or technical devices by offering a very competitive base price, which they then bolster with overpriced add-ons and additional features.

Purchasing Unable to Anticipate (and Negotiate Rates) for Potential Add-On Features

Contracted Price Versus Price Paid for Dental Crown (Illustrative)



Nickel and Diming

“We found out that vendors had dramatically inflated prices for ‘add-ons,’ particularly for our medical and dental schools. PIs and researchers would start with our contracted price then add different features not included in the contract... We needed to clamp down on vendors taking advantage of our decentralized environment.”

Judy Smith
Director of Procurement
University of Michigan

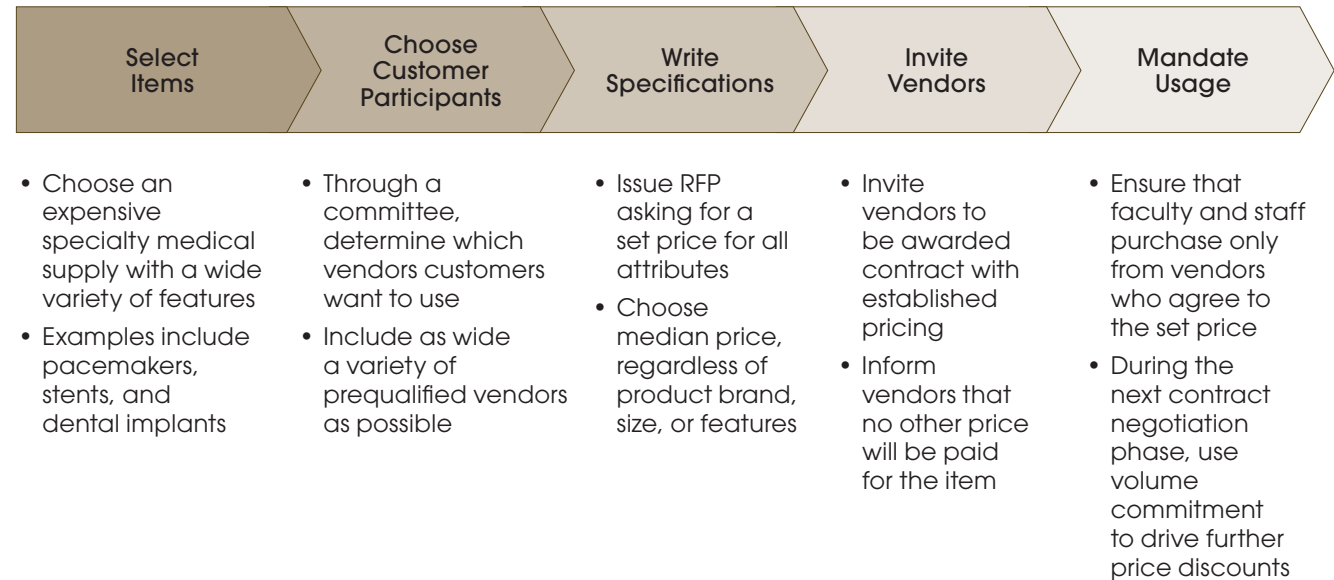
Source: University Business Executive Roundtable interviews and analysis.

14.2 Pay One Price for a Specific Device Regardless of Vendor or Features

Some academic medical centers, medical schools, and dental schools use “shelf pricing” to eliminate extra charges for these additional product features, creating one all-inclusive price. Procurement, with support from a committee of customers, determines the item parameters and potential add-ons and then selects a group of prequalified vendors. Vendors are invited to sell the product at the same agreed-upon price independent of add-ons.

One Item, One Fixed Price

Key Animating Principles for Shelf Pricing



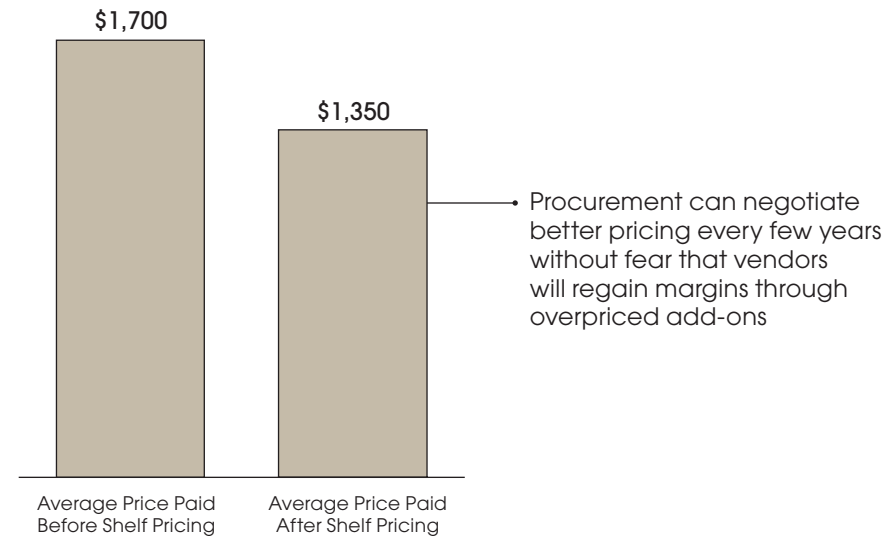
Source: University Business Executive Roundtable interviews and analysis.

14.3 Shelf Pricing Reduces Overall Price While Increasing Service Levels

Shelf pricing is not solely about realizing the lowest possible price (procurement usually selects the median to ensure a robust set of vendors), but it does save money overall by eliminating the excessively high add-on prices and reducing maverick spend. Fixing the price paid across multiple vendors also fosters competition on service and efficiency.

Shelf pricing results in lower overall price...

Average Price Paid for Stents



...and additional non-price advantages

Other Benefits:

- Removal of vendor incentive to push high-end devices
- Option for customer to choose product based on merit from multiple vendors
- Increased customer service levels due to vendor competition

Source: Advisory Board Company interviews and analysis.

Practice #15: Objective-Based RFPs

Typical University Problems

- The RFP process is time consuming; crafting the language, selecting the vendor, and then negotiating contract terms can take a year for some major contracts
- The RFP itself over-specifies requirements, some of which are not practical or reflective of current vendor practice; these requirements prevent the vendor from offering creative (and less expensive) solutions
- Proposals make promises or offer solutions that are later scaled back during the negotiation process, further deteriorating savings

Best Practitioner Approach



When negotiating its dining services contract, Arizona State University adopted a new approach to evaluating vendors, writing an RFP that asked prospective suppliers how they would deliver on the university's expectations of service and performance. Suppliers submit a short proposal, but no marketing materials. Evaluation is based on how the suppliers compare to each other in terms of financial performance, interviews, and client references. Once selected, the vendor's proposal and submissions become part of the final contract.

Key Animating Principle

- Vendors often know more about advancements in their field and can deliver better solutions if given more latitude over how to meet university needs

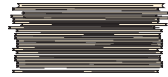
Source: University Business Executive Roundtable interviews and analysis.

15.1 Today's RFPs Can Lead to Suboptimal Contracts

Traditional RFPs include a long list of specifications, terms, and conditions that can lead to increased prices, poor service levels, and liability by locking the vendor into a single, predefined methodology to solve a problem. Leading practitioners rethink the RFP for some contracts, focusing on general expectations rather than tight specifications and relying on the expertise of the vendor to surface ideas and performance goals.

Leading Practitioners Redesign RFP to Reflect Expectations, Not Specifications

RFP Characteristics for Multiyear Contracts



Traditional RFP

- Hundreds of pages
- Extensive requirements that detail how services should be provided
- Lengthy terms and conditions, in anticipation of legal arguments



Objective-Based RFPs

- Under 50 pages
- Broad statement of expectation for superior performance
- Requirement for vendor to identify risks and develop attainable performance goals that will become part of final contract

Source: University Business Executive Roundtable interviews and analysis.


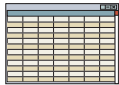
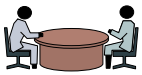

15.2 Require Short Response to Loosely Defined RFP

Using shorter, free-form RFPs encourages vendors to describe how they would meet the university's loosely defined expectations (e.g., first-class dining services) in a condensed format (around one-tenth the size of a traditional RFP). Allowing vendors to work outside the traditional RFP process encourages creative problem solving and use of new technologies instead of trapping the vendors into providing services in a manner prescribed by the university. The plans are then supported by easy-to-understand and easy-to-compare financials as well as interviews with frontline managers to determine if the plans are realistic.

The process also employs anonymous surveys to check vendor references. Experience shows that responses to surveys are more accurate and likely to include critical information compared to phone reference checks.

"Free-Form" Response Encourages Vendor to Propose All Potential Service and Savings Opportunities

RFP Response Components for Dining Services Contract

| | Written Response | Financial Reports | Interviews | Client References |
|------------------------------|--|---|---|--|
| Information Requested |  <ul style="list-style-type: none"> • Five-page document explaining: <ul style="list-style-type: none"> – Value vendor will bring to university – How vendor differs from competitors – Risks that might hinder performance |  <ul style="list-style-type: none"> • Proposed financial investment and return to the university in simple summary format • Specific venue-by-venue details submitted to subgroup of dining services staff |  <ul style="list-style-type: none"> • Individual interviews of frontline staff (e.g., caterer, chef, on-site general manager), not marketing or sales reps • Personal references for each frontline staff member |  <ul style="list-style-type: none"> • Survey response from other higher education clients and financial performance in those contracts |
| Rationale | <ul style="list-style-type: none"> • Overly specific requirements limit innovative approaches that might deliver value • Vendor should identify and manage supply chain problems • 100-page responses and marketing materials mask ability to manage difficult situations | <ul style="list-style-type: none"> • Vendor proposes revenue-generation and efficiency ideas • University can compare potential returns from one vendor to another | <ul style="list-style-type: none"> • Frontline staff interviews indicate feasibility of services and savings opportunity proposed by vendor's leadership | <ul style="list-style-type: none"> • References verify vendor's experience in higher education and ability to deliver as expected |

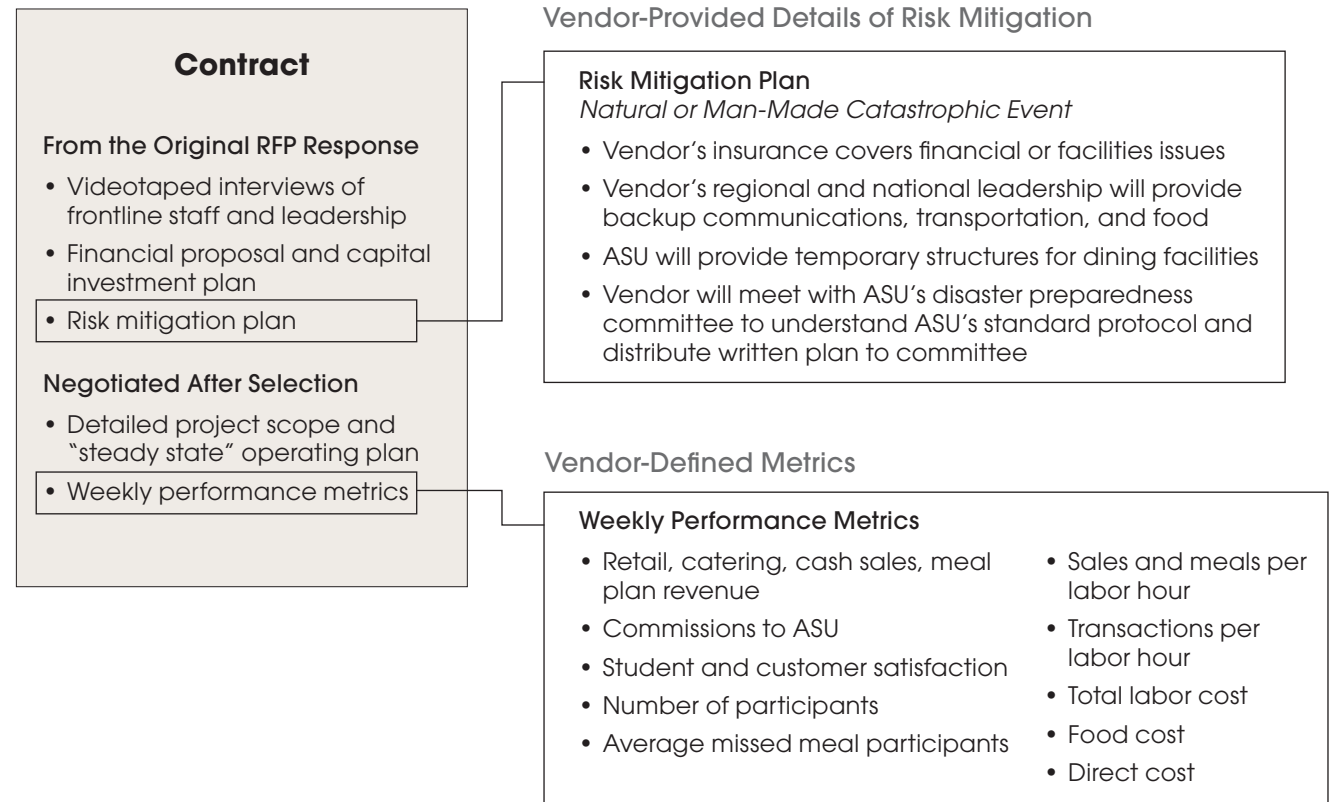
Source: Perozzi, Brett and Kenneth Sullivan, "A New Procurement Process: Dining Services at Arizona State University," The Bulletin, Association of College Unions International, July 2007, available at: <http://www.acui.org/publications/bulletin/article.aspx?issue=450&id=3612>, accessed October 15, 2009; Michael, John K. et al. "Leadership Based Project Management Model Tested On Food Services at Arizona State University," PM World Today, October 28, 2008, available at: <http://www.pmforum.org/library/cases/2008/PDFs/Kashiwagi-10-08.pdf>, accessed October 15, 2009; University Business Executive Roundtable interviews and analysis.

15.3 Use Vendor's Expertise to Create and Implement Best Contract

Most contracting processes involve months of discussion to carve down proposals made by sales staff into realistic and mutually agreeable contracts. Once the contract is in place, the vendor often blames the university for unsatisfactory service delivery, pointing to university-imposed limitations or restrictions in the contract. In contrast, an objective-based RFP assumes that the vendor is the expert; they know the risks and how to resolve them, and they should define the details and deliver appropriately. The RFP response becomes the foundation of the contract, and the vendor creates the performance metrics that it will report on a weekly basis.

After selection, ASU refines contract terms...

...with details and service delivery fleshed out by vendor



Source: Performance Information Procurement System, Arizona State University Dining Services Contract, available at: <http://www.pbsrg.com/pips/current/asu/pilots/foodserv/>, accessed November 9, 2009; University Business Executive Roundtable interviews and analysis.

15.4 ASU's Results Point to Success in Objective-Based RFPs

The use of objective-based RFPs has garnered exceptional results at Arizona State University, driving increased revenue, improved ROI, higher student satisfaction, and better risk management. ASU uses similar RFPs for other service-based contracts, such as construction, IT networking outsourcing, and sports marketing. All contracts using this process have exceeded cost or revenue expectations while dramatically simplifying the process and reducing the time to negotiate the contract.

New process delivers better financial returns...

Dining Services Year One Performance Metrics

| | 2006-2007 Incumbent | 2007-2008 New Vendor |
|------------------------------------|---------------------|----------------------|
| Revenue | \$27 M | \$31 M |
| Total Return to ASU | \$2 M | \$3 M |
| ASU Student Affairs Staff Involved | 7 | 1.5 |
| Student Satisfaction Score | 5.2 | 7.1 |

...ensures superior performance...

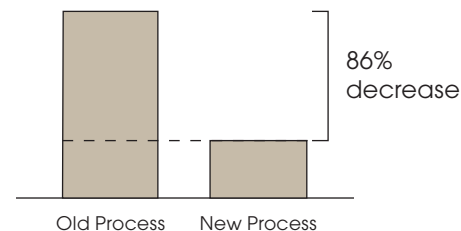
Vendor-Managed Risk

“There actually was a fire in an ASU dining facility, and the company responded just as we planned during the contract negotiation phase. The company took full ownership for managing the problem—they reached out to local stores and ensured that all students had access to meals within hours. The facility was up and running again within five days.”

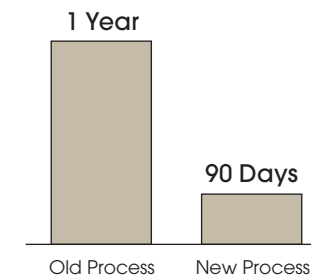
John Riley
Executive Director, Purchasing
and Business Services
Arizona State University

...and saves time during response review and contract negotiation

Number of Pages in Proposal Documents



Time to Negotiate Contract



Source: Perozzi, Brett and Kenneth Sullivan, “A New Procurement Process: Dining Services at Arizona State University,” *The Bulletin*, Association of College Unions International, July 2007, available at: <http://www.acui.org/publications/bulletin/article.aspx?issue=450&id=3612>, accessed October 15, 2009; Michael, John K., et al. “Leadership Based Project Management Model Tested On Food Services at Arizona State University,” *PM World Today*, October 28, 2008, available at: <http://www.pmforum.org/library/cases/2008/PDFs/Kashiwagi-10-08.pdf>, accessed October 15, 2009; University Business Executive Roundtable interviews and analysis.



V. Partnering with Vendors to Channel Volume



University of
Pennsylvania

Practice #16: Preferred Vendor “Premium Position” Packages
page 101



University of
Pittsburgh

Practice #17: Vendor-Led e-Procurement Campaigns
page 105

V. Partnering with Vendors to Channel Volume

Typical University Challenges

- **Getting Sell-Side Help in the Intractable Challenge of Delivering on Volume Commitments:** Higher education procurement functions' cardinal lament, recurring throughout this volume, is that decentralized organizational structure and cultural backlash against product mandates leave central purchasing unable to promise and execute the volume commitments or behavior changes needed to secure consequential discounts.
- **Beyond Zero-Sum Price Negotiations:** Despite these structural disadvantages, innovative institutions are pursuing negotiations with a core set of strategic vendors beyond price, creating incentives for vendors to aid in procurement's efforts to increase contract compliance and migrate to data-rich electronic purchase channels. Changing customers' behavior creates surplus margin that can be shared by both parties.

Progressive Universities' Approach

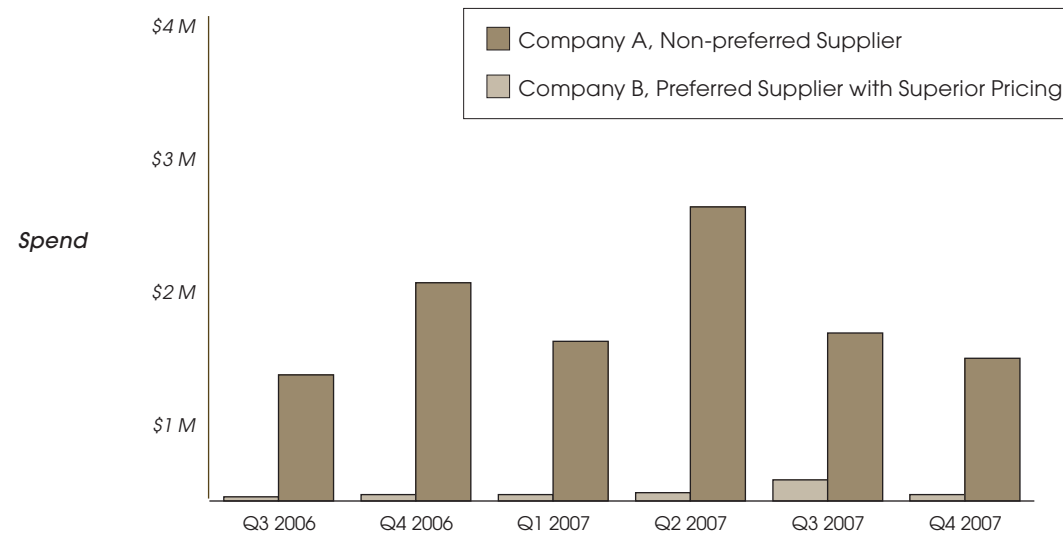
- **Pursue Gainsharing Partnerships with Preferred Vendors:** More procurement functions are explicitly linking “preferred vendor” status to those companies willing to work with the institution to increase contract compliance, reduce ordering and invoice costs, and streamline negotiation processes for complex product-service bundles. These arrangements make explicit promotional and training activities to be provided by both parties, and trigger mechanisms for sharing efficiencies in the form of automatic volume discounts or fast-payment rebates in later contract periods.
- **Barter Access and Efficient Payments for Lower Price and Adherence to Procurement Policies:** Many universities are offering vendors ways to reduce up-front marketing costs (high-visibility positioning on e-procurement websites, special informational visits with high-volume purchasers) and transaction costs (switch to single monthly electronic settlement) in exchange for up-front schedule of volume and cost-to-serve targets whose accomplishment triggers automatic discounts.
- **Vendor-Led e-Procurement Campaigns:** A handful of institutions are partially delegating training and education activity for migration to electronic channels to key vendors, who expand sales call topics to include how to order products, redirecting telephone orders to e-channels and generating marketing collateral for university promotional use.
- **Include Metrics About Reinforcing Desired Customer Behaviors on Vendor Balanced Scorecards:** Reaffirming that “what gets measured gets managed,” some universities are expanding balanced scorecard metrics to include “integration” alongside conventional measures of price and service. Up to 40 percent of vendors’ scores are based on channeled volumes, supplier website utilization, and training outreach to high-volume purchasers, making sellers accountable for raising awareness among faculty of managed spend policies, contracts, and ordering tools.

Driving Market Share to Select Suppliers

Universities often suffer from suboptimal contracts stemming from their inability to drive volume to preferred vendors. Without enforceable mandates, the most successful procurement functions look to vendors for support, investing jointly in marketing efforts to promote the time—and cost—savings of purchasing through preferred contracts. The vendor willingly participates in marketing efforts to capture share from competitors, and the university enjoys a better discount, further serving to increase volume with that supplier.

Universities Creating “Preferred Contracts” but Not Driving Spend to Those Contracts

University Spend with Computer Companies A and B
After Designating Company B as Preferred Supplier



Source: Derek Smith, Higher Education Practice, Huron Consulting Group.

Practice #16: Preferred Vendor “Premium Position” Packages

Typical University Problems

- Universities often have high “costs to serve”—the thousands of buyers on a typical university campus, as well as paper orders and payments, increase both marketing and processing costs, which the vendor passes along to the university
- Universities rarely discuss these costs with vendors; negotiations cover price discounts but not how the university and vendor can partner together to increase volume, increase process inefficiency, and subsequently decrease price

Best Practitioner Approach



University of
Pennsylvania

For selected vendors with a large portion of university spend and transactions, the University of Pennsylvania trades access to customers and streamlined payment processes in return for low prices and adherence to procurement’s policies.

Key Animating Principle

- Procurement can improve its negotiating position by reducing the university’s cost to serve and helping vendors serve and market to university customers

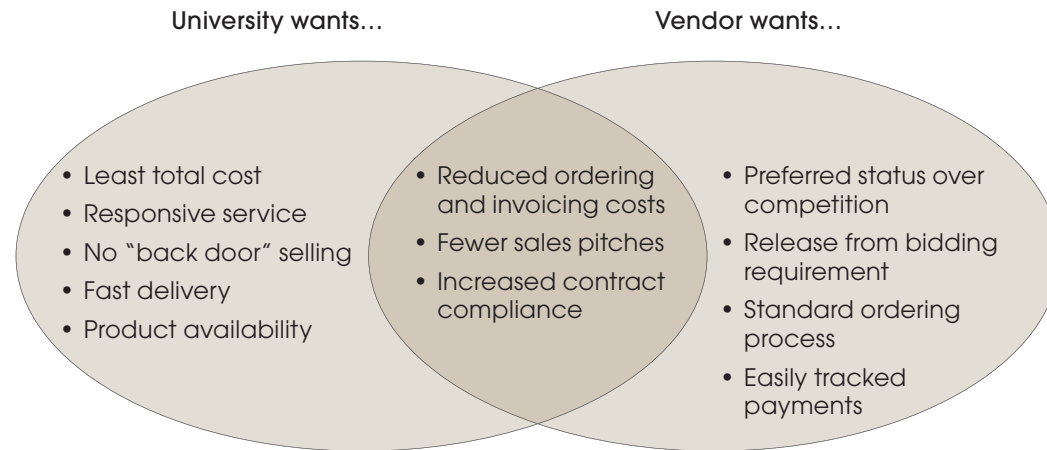
Source: University Business Executive Roundtable interviews and analysis.

16.1 Moving Beyond Zero-Sum Price Negotiations

Procurement should attempt to find areas of common interest with vendors to ensure the best possible contract that delivers competitive prices combined with preferential treatment and service. Procurement directors strive to identify unnecessary costs incurred by vendors and aim to reduce those costs as part of an overall relationship strategy aimed at enhancing procurement's negotiation position.

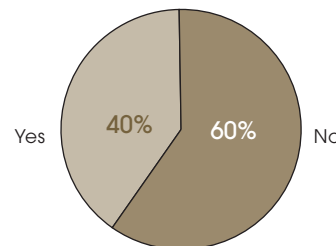
Universities should focus on shared interests with vendors...

Buyer and Seller Goals

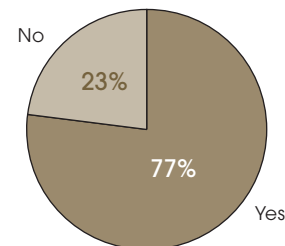


...to ensure preferential treatment

Percentage of Key Accounts Actually Receiving Preferential Treatment, Corporate Sector



Percentage of Suppliers Who View Procurement as Impediment to Strategic Relationship, Corporate Sector



Source: Corporate Executive Board, "Procurement Strategy Council Announces New 'Customer of Choice' Imperative," Press Release, October 10, 2006, available at: <http://ir.executiveboard.com/phoenix.zhtml?c=113226&p=irol-newsArticle&ID=913922&highlight=>, accessed November 4, 2009; University Business Executive Roundtable Interviews and analysis.

16.2 Discuss Process Efficiencies That Benefit University and Vendor

As part of regular, quarterly meetings with top vendors, leading practitioners address shared goals—increased process efficiency, fewer sales pitches, and increased contract compliance—and begin to put in place solutions that benefit the vendor, the procurement function, and the end customers.

University of Pennsylvania Conducts Consultative Sessions with Vendors

Example Shared Efficiency Ideas

| Goals | Penn's Actions | Vendor's Actions |
|--------------------------------------|---|--|
| Reduced Ordering and Invoicing Costs | <ul style="list-style-type: none"> Switches to single monthly electronic payment | <ul style="list-style-type: none"> Offers fast-payment discount and share of transaction cost savings |
| Fewer Sales Pitches | <ul style="list-style-type: none"> Publicizes vendor via stand-alone page on procurement's website Promotes vendor's new products to potential customers, providing a "warm lead" | <ul style="list-style-type: none"> Offsets some of Penn's website and marketing costs Discounts prices for promotional products and guarantees availability of items Assigns the most knowledgeable sales reps to the university |
| Increased Contract Compliance | <ul style="list-style-type: none"> Releases vendor from bidding requirement if item is on-contract Follows up with staff who purchase similar item off-contract | <ul style="list-style-type: none"> Pledges that no sales rep will increase prices in the interest of boosting individual sales Cooperates with university on other priorities (e.g., assistance in tracking federally regulated chemicals, sustainability initiatives) |

Attributes of Preferred Vendors

- High transaction, high spend volume
- Mission-critical, niche commodities
- Local community-based or diversity suppliers
- Spend with vendor is at least \$500,000

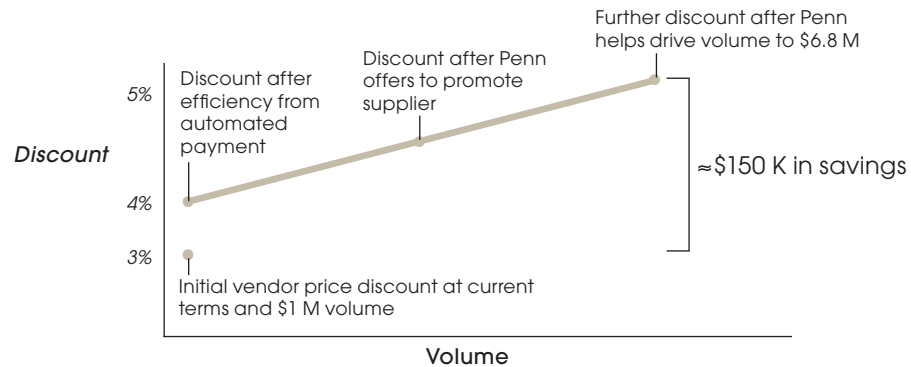
Source: University Business Executive Roundtable interviews and analysis.

16.3 Vendors Provide Increased Discounts in Return for Efficiencies

Each vendor negotiation will result in different process efficiencies and savings, but the University of Pennsylvania has uncovered hundreds of thousands of dollars in savings opportunity by employing vendor partnering as part of an overall negotiating strategy.

Corporate practitioners, who adopted this “customer of choice” practice years ago, have benefitted from first access to scarce or new products that enabled them to beat competitors to the market. While universities are not subject to the same market pressures as their corporate counterparts, researchers and staff alike can benefit from faster access to products and better overall prices.

Example Negotiation Terms from Penn (Illustrative)



From the Corporate Perspective

“Customer of Choice” Practice Addresses Three Primary Challenges

- Increasing prices for commodities and services
- Increasing frequency of supply chain disruptions
- Increasing reliance on suppliers for innovation ideas

Example Adjustments Made by Customers

- Reduced delivery, servicing, and customizing costs
- Improved forecast accuracy
- Relaxed legal demands or terms and conditions

Benefits to Those Customers of Choice

- Access to scarce resources before competitors
- Access to new products before competitors
- Better prices than those offered to competitors

Source: Corporate Executive Board, “Procurement Strategy Council Announces New ‘Customer of Choice’ Imperative,” Press Release, October 10, 2006, available at: <http://ir.executiveboard.com/phoenix.zhtml?c=113226&p=irol-newsArticle&ID=913922&highlight=>, accessed November 4, 2009; University Business Executive Roundtable interviews and analysis.

Practice #17: Vendor-Led e-Procurement Campaigns

Typical University Problems

- Purchasing lacks resources to mount an effective change management campaign
- Procurement enters into vendor negotiations with limited data, focusing only on price; strategies to increase vendor-specific volume or electronically integrate the procurement process are not considered

Best Practitioner Approach



University of
Pittsburgh

University of Pittsburgh pushes vendors to help them drive purchasers to the e-procurement channel. This helps them funnel volume to preferred suppliers, eventually lowering prices.

Key Animating Principle

- Procurement can enlist vendors' help in promoting procurement-approved channels, increasing procurement's control over spend and driving volume with those preferred vendors

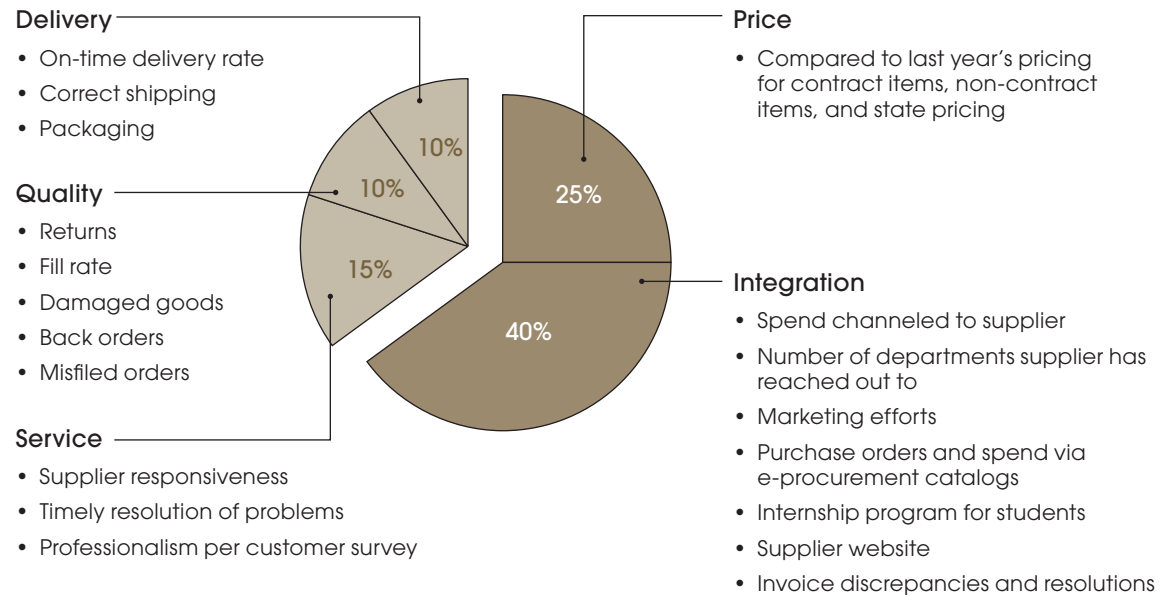
Source: University Business Executive Roundtable interviews and analysis.

17.1 Use Weighted Scorecard to Enlist Vendors

A vendor scorecard that emphasizes integration (e.g., number of purchases through university's e-procurement system) presents an opportunity for vendors to help universities channel volume to preferred contracts. With the vendor taking the initiative to guide customers to e-procurement, contract compliance increases, and the preferred supplier receives increased volume. This in turn drives lower prices year over year.

The University of Pittsburgh uses its vendor scorecard...

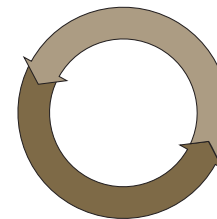
University of Pittsburgh Vendor Scorecard



...to drive purchasers to approved channels

Interplay Between Integration and Price

- Integration**
- University collaborates with vendor to promote e-procurement
 - Action increases both on-contract spend and drives volume to preferred suppliers



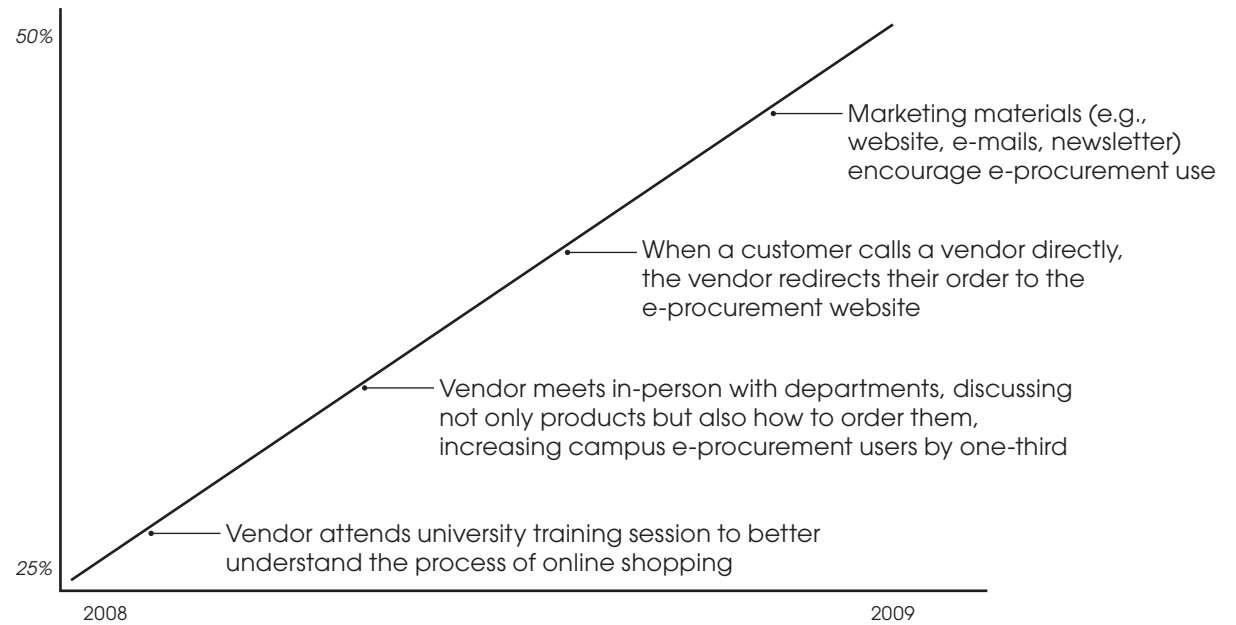
- Price**
- Pricing component ensures university benefits from increased volume
 - Lower pricing motivates customers to increase purchasing via e-procurement

Source: University Business Executive Roundtable interviews and analysis.

17.2 Delegate e-Procurement Campaign to Vendors

Vendors can help increase transactions via e-procurement in a variety of ways. Best practitioners encourage vendors to take the lead on marketing and customer outreach, leading training sessions and redirecting customers to the e-procurement site instead of ordering through the phone or fax. While the scorecard has only been in use for a short time at the University of Pittsburgh, most preferred vendors have already reached their integration targets, and the university is raising the target to encourage continued effort.

Percentage of Transactions via e-Procurement with Vendor A (Illustrative)



Raising the Bar

- The current target for the percentage of purchase orders through e-procurement is 50 percent
- Since 90 percent of vendors have met the 50 percent target, the University of Pittsburgh is planning to raise the target to 75 percent

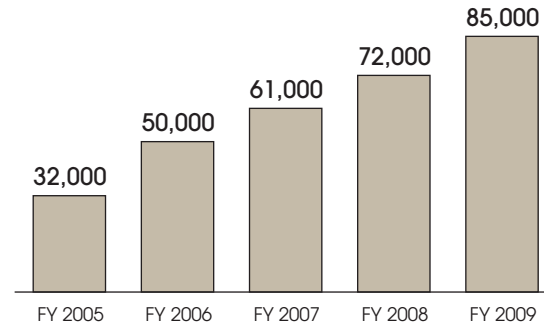
Source: University Business Executive Roundtable interviews and analysis.

17.3 Campaigns Lead to Increased e-Procurement Transactions

The University of Pittsburgh attributes much of its success in increasing e-procurement transactions to its vendor-led campaigns. Vendors appreciate the tracking and metrics because they help them target marketing and outreach, and procurement benefits from sharing the time and resources spent on customer education. Procurement expects that increasing volume with those e-procurement vendors will help secure better discounts in the future.

More transactions on e-procurement...

Number of Transactions with Vendors via e-Procurement at the University of Pittsburgh



...help both the vendor and the university

Scorecard Success

“We are excited that our scorecard leads vendors to take the initiative in increasing e-procurement transactions. It benefits the vendor through lower transaction costs and higher volume, and it benefits us in accessing spend data and negotiating volume-based discounts.”

Kevin Maloney
Manager, Supplier Management
University of Pittsburgh

Source: University Business Executive Roundtable interviews and analysis.



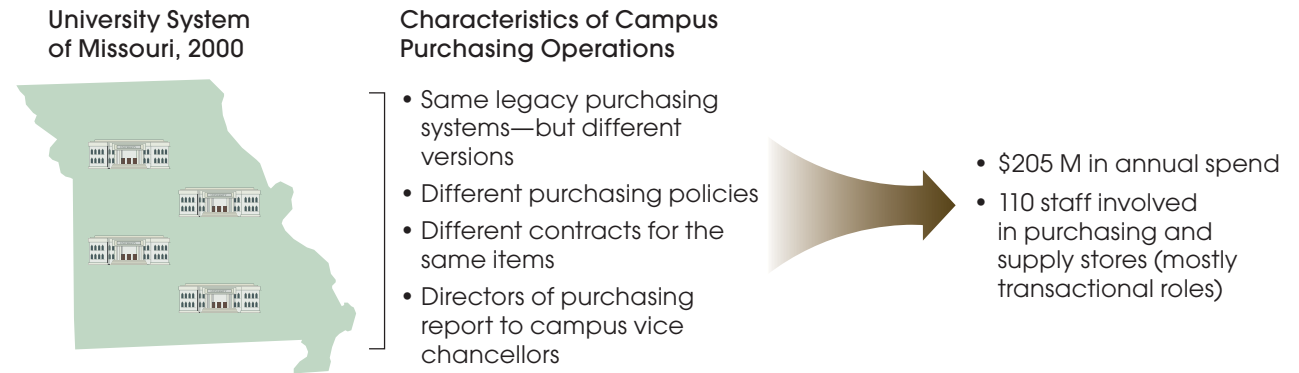
Coda

Moving to a Shared Services Procurement Organization

Making the Case for Procurement Shared Services

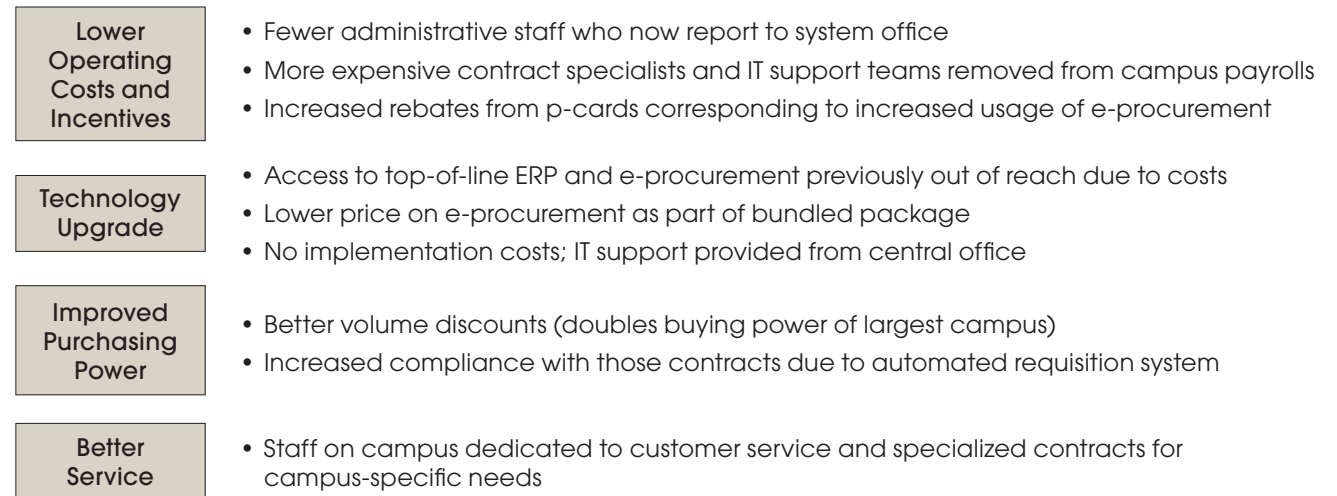
Hampering many colleges' efforts at developing world-class procurement operations is that the individual college or university ultimately lacks the purchasing scale to make the investment in technology and staff worthwhile. In an attempt to counter this problem, leading institutions are looking to consolidate procurement operations across several campuses to drive lower operating costs and improve service levels.

Missouri branch campuses fraught with redundancies...



...so system builds shared services, leaving small staff at each campus

Consolidation Results and Benefits



Source: Cooper, Bill, "Building a Strategic Procurement Function," CACUBO Best Practices Awards Program, 2007, available at: <http://www.cacubo.org/pdf/BestPracticePaper.pdf>, accessed on October 12, 2009; Cooper, Bill, "University of Missouri Gets Strategic about Procurement," CACUBO Best Practices Awards Program, 2008, available at: http://www.cacubo.org/pdf/2008/18_U%20Missouri_Procurement.pdf, accessed on October 12, 2009; University Business Executive Roundtable interviews and analysis.

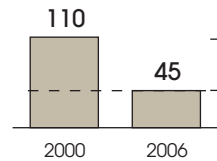
Increasing Shared Service Volume Through Seed Funding

The funding model for any move to shared services is critical to success as many university efforts are unable to secure initial central funds for future distributed benefits. The start-up investment is funded through staff reductions resulting from consolidation. Savings are applied to technology upgrades including new ERP or e-procurement systems. Once the shared services center is established and offering competitive price and service levels, it then looks to expand its offerings by bringing on other local schools and hospitals.

The shared services center also smooths the transition for smaller institutions financially by providing seed funding that is recouped through rebates and other transactions-related fees.

System keeps one-time savings from FTE reductions...

Purchasing Staff Across System, Including Central Office



Operating budget savings of \$700 K



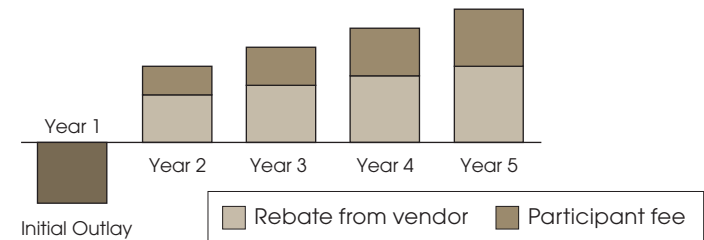
Offsets cost of initial ERP upgrade

...and funds ongoing operations and new additions with savings from contract rebates and licensing fees

Sources of Funding for Ongoing Operations

- P-card rebates
- Vendor rebates
- Prompt-payment discounts

System Revenues from Adding New Universities, Hospitals, or Schools (Illustrative)



Benefits of Procurement Shared Services

“We have extended our shared services to hospitals and are proposing to include other universities and school systems down the road. Essentially, we would cover the seed funding for the e-procurement installation, and then the organization pays us a licensing fee. They benefit from access to technology and better contracts; we benefit from better vendor and p-card rebates.”

Bill Cooper
 Chief Procurement Officer and Associate Vice President for Management Services
 University of Missouri System

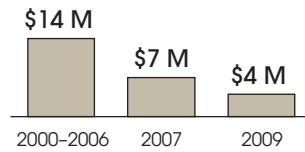
Source: Cooper, Bill, “University of Missouri Gets Strategic about Procurement,” CACUBO Best Practices Awards Program, 2008, available at: http://www.cacubo.org/pdf/2008/18_U%20Missouri_Procurement.pdf, accessed on October 12, 2009; University System of Missouri Procurement Services, “2006 Annual Report,” available at: <http://www.umssystem.edu/ums/departments/fa/management/procurement/>, accessed on October 12, 2009; University Business Executive Roundtable interviews and analysis.

Missouri's Self-Perpetuating Cycle Leads to Large-Scale Savings

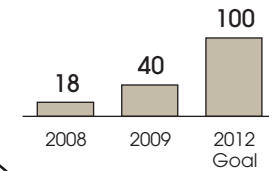
The University of Missouri System has started a cycle of better contracts and higher volume, which in turn leads to even better contracts. To ensure this cycle continues, the shared services center offers a portion of the rebates generated through the settlement process back to the branch campuses as an incentive to increase volume through central purchasing.

Results from Shared Services at Missouri

Savings from New Contracts



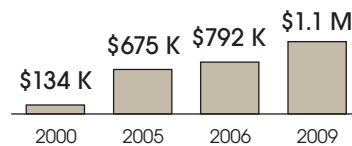
Suppliers Enabled on e-Procurement



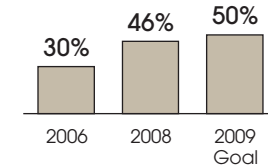
Better Contracts

Higher Volume

P-Card Rebates



Contract Compliance



Source: Cooper, Bill, "Building a Strategic Procurement Function," CACUBO Best Practices Awards Program, 2007, available at: <http://www.cacubo.org/pdf/BestPracticePaper.pdf>, accessed on October 12, 2009; Cooper, Bill, "University of Missouri Gets Strategic about Procurement," CACUBO Best Practices Awards Program, 2008, available at: http://www.cacubo.org/pdf/2008/18_U%20Missouri_Procurement.pdf, accessed on October 12, 2009; University Business Executive Roundtable interviews and analysis.

