

## Appendix H

### Strategic procurement - Better practice examples of efficiency gains in Local Government.



**Towards improved local government in southern Tasmania -**  
**Strategic procurement - Better practice examples of efficiency gains in Local Government.**



Australian Government



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## What is Strategic Procurement?

The concept of strategic procurement is that through advanced planning, scheduling, group buying, supply chain management, competition and keen negotiation, organisations can achieve significant cost savings. This is very different to the decentralised purchasing that most organisations, including local Councils across Australia, undertake.

It is based on centralised procurement services, and is much more than buying in bulk. To work well it requires excellent communication, and a deep commitment, between the business unit and the centralised procurement services, within an organisation or group of organisations. It requires category managers within the centralised procurement service each of whom manages a product range such as “pipes”, “concrete”, “printing” or “stationery”. They understand the supply chain as well as, and sometimes better than the suppliers themselves. They gather market intelligence and can encourage new entrants into markets and produce more competitive tendering. The overall impact of the centralised purchasing service is that it assists suppliers to streamline their processes. There is an increased openness that suppliers appreciate. The negotiating teams achieve keen outcomes and better prices, but also more sustainable prices in the long run.

## Centre-Led Strategic Procurement

The most successful form of centralised strategic procurement appears to be when it is “centre-led”. When fully centralised, a business unit needs to ring or email the central unit for approval to purchase. It is very controlled and frustrating for the users. Human nature then gets its way and the system breaks down. Centre-led procurement, on the other hand, means that commercial arrangements are established ( via strategic sourcing ) centrally , central contracts put in place but supply against those contracts is managed on a decentralized basis.

## Typical Savings from Strategic Procurement

Materials and services typically are between 30% to 40% of all costs in an organisation. One of the global consulting firms<sup>1</sup> that specialise in strategic procurement estimates that savings of the order of 10 to 20% in materials and services are feasible where the baseline capability is poor. This company has a tangible results data base which records every sourcing event it has undertaken for each category in the world. The range of savings achieved (over about 30 years and tens of billions of spend) has ranged from zero to 100% ( finding ways to avoid using the category all together ). Using strategic procurement has just saved a major financial institution 50% on their laptops. Similarly, one of Australia’s top 100 companies has just saved under \$1billion on a spend of about \$11billion which will roll in over the next 12 months.

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<sup>1</sup> A T Kearney, global consulting firm, quotes 12% savings from strategic procurement.

## Strategic Procurement Savings in Local Government

At one large Australian Council,<sup>2</sup> savings of this order were achieved over an 18 month period. These savings were achieved even where previously existing contracts had been seen as quite competitive. If these same savings were applied to Southern Tasmanian Councils, less say 2% for an unknown factor, savings of 10% in materials and services would be achievable. In FY10/11 the total southern Tasmanian Councils expenditure was estimated by the State Grants Commission<sup>3</sup> to be \$235.4M, so 30% to 40% would be \$70.6M to \$94.1M in materials and services. Savings of the order of \$7M to \$9M would thus be achievable over an 18 month period through adopting strategic procurement for the southern Tasmanian Councils.

In Adelaide the G6 Councils (including Adelaide) have a discrete strategic procurement role. This is by far the most successful in South Australia. This success has been due to three factors: the quality of the governance, the quality of the management of the process, and the fact that there are only six councils. This has meant it is relatively easy to gain agreement about what is required. Even so, there are a number of contracts that one or two of the councils have hung back from. For this to be replicated in Southern Tasmania will need a strong governance framework and agreement between the participants.

One major consideration in small markets is the contestability of the supply market. In Tasmania, the local councils will understandably be very supportive of local suppliers, hence reducing the degrees of freedom to exploit competition in the category supply markets both nationally and internationally. However, strategic procurement could lead to local suppliers getting all the supply for a particular category and increase their own competitiveness, in the national economy or wider markets.

## Rolling Out Strategic Procurement in Southern Tasmanian Councils

The three most efficient ways for local government in southern Tasmania to be organised to achieve the savings shown above would be (a) the one large Council covering all existing twelve Council areas, (b) a greater Hobart Council covering the metropolitan area of Hobart offering a bureau - type strategic procurement service to the other Councils, and (c) an organisation such as the Southern Tasmanian Councils Authority offering a bureau-type service to its 12 member Councils.

The degree of success of any of these three models would be dependent on the degree of buy-in to using a centralised strategic procurement service, the quality of its governance and management of the process, and the amount of expenditure under strategic procurement management. The least efficient way would be the existing arrangement of

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<sup>2</sup> The City of Brisbane achieved 12% savings of \$89M over five waves of applying strategic procurement to product categories from mid 2005 until early 2007.

<sup>3</sup> 2010/11 State Grants Commission Report, Appendix 8

twelve Councils each trying to manage a strategic procurement approach because most on their own would be too small to be able to afford it.

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**STCA Review: Improving Local Government in Southern Tasmania**

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