Procurement in the Charity and Not-for-Profit (NfP) Sector

In its role as a leading Spend Control and eProcurement solution provider, PROACTIS, organised a roundtable to answer the question; “What is the State of Procurement in the Charity and NfP Sector?”

This was the first in a series of invite only events. The Buying Team Manager at the RSPCA chaired the debate and it was a packed morning discussion between senior procurement experts from the industry.

The roundtable discussed the following key areas:

• What does Spend Control mean to NfP organisations today – is it just about cost cutting and sourcing for best value, or more?

• What is the role of Procurement in facilitating better performance and what kind of investments need to be made by leadership?

• What are the risks involved in not facing emerging challenges in the sector?

Background Note

By PROACTIS

In an age of austerity, attracting more money and new donors is costly and difficult. Government funds and grants are limited and the ability to attract a regular flow of donations from a diverse set of funding sources (individuals, foundations, corporations, service fees etc.) is challenging. At the same time, demand for services has continued to rise.

Revenue growth and its consistency is a top priority to ensure the organisation can hire and retain staff, sustain facilities, create programmes, or even maintain tax-exempt status in order to ultimately deliver services that impact the maximum number of intended beneficiaries.

That being said, opportunities exist to reduce the bottom line without aggressively growing the top line.

Organisations spend nearly half of every pound earned on external goods and services, with each pound in operational savings having multiple times more impact on the bottom line than a pound increase in funding.

The main point being that Spend Control initiatives afford more control and accountability over operating profit by increasing the efficiency gained from each pound of revenue and gaining valuable insight into each pound of spending. So, while focusing on the top line, establish a systematic approach to governing costs as a way to ensure long-term value creation.

The challenge associated with this in many NfP organisations is due in part to the lack of capabilities, domain expertise and business process knowledge, and technology automation for truly enabling Spend Control principles at all levels of the organisation and across all spend categories.

Spend Control requires creating value from sourcing events, contract management, preferred suppliers with active supplier development programmes and spend visibility. It also requires capturing value through purchasing controls and compliance, and ensuring efficiency with which things are paid for.

Technology is the only tool that can connect everyone to getting spend under management - procurement professionals, finance managers, operational department managers, category experts, employees throughout the organisation and all of the organisation’s suppliers.

Good eProcurement systems create a communications network among all participants combined with an underlying foundation of information about suppliers, items, policies, activities, transactions, organisational structure and more.

Like any important initiative, Spend Control and eProcurement requires management focus and commitment, a process to drive change, and continuous tracking of results that come out of that effort to ensure success.

Panel Members

British Heart Foundation
Cancer Research
Citizens Advice
Marie Stopes
Merlin
PROACTIS
RNLI
RSPCA (Chair)
Treloar Trust
Working Links

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Spend Control in NfP Organisations

Q: What does Spend Control mean to NfP organisations today - is it just about cost cutting and sourcing for best value or more?

"I prefer the term sourcing for best value when you are dealing with internal stakeholders. It is about delivering something they actually need. This requires asking questions that they perhaps can’t ask themselves and teasing out what they are looking to achieve. It is all of our responsibilities when we spend money, regardless of our position, to manage risk for our business and I think people can lose track of that focus. So it should be much more than a focus on cost-cutting: best value and risk mitigation."

"The only way you can achieve best value is by instilling the right cultural mind-set. It doesn’t matter how good your centralised Finance or Procurement policy is, at the end of the day if the staff, the stakeholders, and the business aren’t in the right mind-set in terms of getting best value the whole time, it will never actually happen."

"Achieving best value requires a disciplined commercial approach that is open and transparent and can be challenged, controlled and reported against. This ensures that those who are involved in the process are fully engaged throughout the process and you bring different expertise together in order to make the right decision."

"Part of our role is to find measures for best value and also ensure people understand the language we use. In the past, a lot of contracts have been awarded on lowest price or because someone has liked the supplier and there isn’t a lot of science about that. Equally, creating most economically advantageous tender models and quality-price splits etc. comes as a shock to the business."

"One of the things Procurement can do is to keep expectations on track. It is unrealistic to think that over a five year contract, for example, what the business wants from a supplier will be exactly the same from start to finish. It is important to manage the contract through the term so you can keep expectations under control. They might change but as long as it is communicated and the supplier and business understands the position, then it can be managed. So traditional aspects of Procurement - creating Procurement projects, best-value, and contracts and reducing risk etc. - are all good, but after contracts are in place Procurement can deliver value by keeping expectations on track between both suppliers and the business."

"We don’t have the capacity to manage all contracts and do that. However, by taking the 80/20 rule we can prioritise our suppliers and contracts that account for the highest amount of spend and potential exposure to risk."

"In my experience there is a "let’s forget" culture when it comes to buying. People forget that once a contract is in place this is when the hard work actually begins. We have to educate people what a contract should mean, who should own it, and just because you have something on a purchase order, it doesn’t mean the work stops there. We need to create an understanding and culture that gets staff to work those contracts for the organisation and therefore challenge suppliers when they fail to perform under criteria."

What is your primary focus?

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<thead>
<tr>
<th>Increase Procurement capacity</th>
<th>Now</th>
<th>In 12 months</th>
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<tbody>
<tr>
<td>22%</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Squeeze more value from existing arrangements</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Ensure no cost leakage</td>
<td>44%</td>
<td>22%</td>
</tr>
<tr>
<td>Develop supplier capabilities</td>
<td>12%</td>
<td>22%</td>
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<tr>
<td>Improve business insight</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Other</td>
<td>0%</td>
<td>12%</td>
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"Staff are reluctant to let favourite suppliers go even though they might not be the best suppliers. This is certainly the case in departments like marketing. It is important to have control mechanisms in place to ensure people can’t just do their own thing. The risk of not doing proper due diligence on suppliers and the lack of competency involved in creating contracts has enabled us to highlight the potential of risk and ultimately get greater buy-in from the senior management team."

Q: Is Procurement for NfP organisations a special case - in comparison to other sectors?

"Procurement is a good idea whatever sector you operate in. However, internal stakeholders would argue special cases (funding sources, donor requirements and regulations etc.) influence spending in the NfP sector. Procurement must align its strategy to these business objectives."

"Industry sectors have different focuses: in the NfP sector we have grants and donations to deal with, in the Public Sector they have OJEU and other regulations to deal with, and in the Private Sector they have hard profit to deal with. However, in comparison NfP organisations tend to be less structured and professional and the culture is family orientated. We need to get more commercially savvy."

Is Procurement in the NfP sector a special case?

- Yes: 67%
- Maybe: 33%
- No: 0%
“Our CEO is currently hiring in talent from the commercial world to address that very issue.”

“One of the difficulties we can face is monopoly-like situations where, in certain markets, the power resides with the supplier and uses it to set high prices. We need to find ways to redress the balance. This could be from collaborative working to increase knowledge about suppliers and markets or the formation of buying clubs to leverage spend volume and be taken seriously in the markets we buy from.”

“There is a history of collaboration in this sector and a perception that charity buying schemes and central government contracts are more expensive.”

“This is born out of factual information. We have found more advantageous deals ourselves in categories such as fleet, travel, hotels and print. If your focus is on cost then this is not really the right place to go. But if you don’t have the time, skills or capacity to conduct a due-diligent tender then it offers an alternative.*

*Many NfP organisations have dispersed operations and often, due to location or demand, feel the raft of supply options open to them fail to adequately meet their needs. Many goods and services are supplied with a “one size fits all” mentality. However, this is probably not unique to the sector.*

“Suppliers are often shocked to see a Procurement Manager sitting at the table. Many NfP organisations do not have the luxury of having a Procurement function. Suppliers take advantage of people who lack experience. Having someone present that is going to read and challenge the contract is often enough.”

Q: What progress has been made by the Procurement function to date?

“In the past, departments had autonomy and could do their own thing. There wasn’t a Procurement policy in place that mapped out the steps staff need to take. We introduced a system to enforce controls and ensure scrutiny of discretionary spend. Procurement was the champion of the Purchase-to-Pay system and saw the advantages of using it a lot earlier than Finance. It gives us power from greater visibility and control over spend and allows us to liaise with departments. The project required winning the hearts and minds of staff - we are now at the stage where collaboration with Finance is allowing us to “wield the stick” versus “dangle the carrot” to ensure adoption and compliance.*

*Procurement has been embedded into the organisation for seven to eight years now. We manage a huge amount of spend across a large number of internal stakeholders and suppliers. Fundraising and marketing remain the most difficult categories and areas to get buy-in from. As a result, we are restructuring the Procurement function and establishing an “assisted” sourcing approach to move towards more of a self-service model.*

“The Procurement team consists of me and some limited administrative support. The focus has been on setting up and developing frameworks for departments to place purchases against. The challenge is getting buy-in from staff and easing them gently into the bizarre world of Procurement.”

“We have a large centralised Procurement team whose primary focus is managing direct spend at an operational level across hundreds of locations. We are now expanding our focus into areas of indirect spend and have introduced eSourcing and eAuctions and a lot more information systems will follow. Our focus will be on Category Management and the introduction and integration of new business support systems to increase our ability to manage low value spend and the large number of suppliers associated with that.”

The Role of Facilitating Better Performance and Investments

Q: What is the role of Procurement in facilitating better performance and what kinds of investments need to be made by leadership?

“It has never been an easy marriage between Procurement and Finance.”

“We need closer ties with senior finance people to use their sphere of influence to gain organisational support for Procurement, help with refinement of Procurement policies and help to guide the application of enabling technology. Finance was previously a function that predominantly crunched numbers. But now they have a prominent role in the business.”

“We also need to find ways of engaging better with business operations. Properly evaluating and selecting suppliers, and against professionally-negotiated contracts etc. is a big challenge and especially when you consider the range of purchase categories and the number of suppliers involved. That is what the Procurement team is working to facilitate every day but it is difficult when departments don’t always want to take the time to involve Procurement when they should.”

How much spend is under management? (i.e. directly influenced by Procurement)

<table>
<thead>
<tr>
<th>% of spend</th>
<th>Now</th>
<th>In 12 months (anticipated)</th>
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<tbody>
<tr>
<td>0-20%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>21-40%</td>
<td>56%</td>
<td>11%</td>
</tr>
<tr>
<td>41-60%</td>
<td>11%</td>
<td>43%</td>
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<tr>
<td>61-80%</td>
<td>22%</td>
<td>45%</td>
</tr>
<tr>
<td>80%+</td>
<td>0%</td>
<td>0%</td>
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Our Finance function is working on initiatives like Accounts Payable automation and gaining control of the Purchase-to-Pay process. That will be a big step towards realising the benefits of Spend Control, including better management of budgets and consistent compliance with purchase authorisation policies.

“We are looking at investing in systems that "surround" P2P including supplier on-boarding, SRM, Contract Management, Catalogue and Content Management. The biggest benefit will come when we are able to reduce the cost of goods and services we buy by channelling a higher percentage of purchases to preferred suppliers and contracts. It will also free up time to do a larger number of deeper evaluations and to perform value-added activities such as supply base rationalisation, etc.”

“Risk of Not Facing Emerging Challenges

The impact that can result from supplier failure is huge: disruption of service, increased costs, management time, reputational damage and loss of funding. We are looking at introducing a formal programme and controls to enable greater visibility of the supplier base to identify early warning signs, decide where intervention is required and take appropriate action. Currently, we are limited by inaccurate and duplicate information that is locked away in multiple systems around the business.”

“If our processes are not correct, people will not continue to donate - they will vote with their purses.”

“We need to demonstrate all purchases are in line with policies, established budgets and negotiated supplier agreements in order to avoid costly off-contract or “maverick” purchases. It requires an executive mandate that includes strict compliance guidelines and enforced automatically.”

What is your greatest concern?

- Risk mitigation: 22%
- Compliance: 56%
- Regulations: 0%
- Cashable savings: 0%
- Efficiency savings: 0%
- Business continuity: 0%
- Other: 22%

If you are a senior Procurement professional in the Charity or NfP sector and want to join the panel and add to the debate contact info@proactis.com