

PUBLIC PROCUREMENT PERFORMANCE

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ABSTRACT. After more than 15 years in the private sector, the matter of public procurement which I am managing now, represents a new challenge for me and although private procurement would certainly gain a lot from some of the best practices applied in public procurement, the reverse certainly does hold true. Public Procurement devotes significant resources and time, to ensure the processes and the procedures are sound, transparent, shared and followed. This very attention to the latter's, in many instances dilutes the value for money of the items procured. While current public procurement practices are driven mainly by value and item types, and in my eye, they do not pay enough attention to market and to customers, I have investigated a different approach that puts the focus on the latter's. The methodology used is in large parts empirical stemming from AfDBs current procurement portfolio and from my previous private sector procurement experience, but it also builds on the academic teachings of marketing and purchasing. The paper does not pretend to be 100% accurate or scientifically full proof, but merely challenges current views of public procurement performance assessment.

INTRODUCTION

This paper is a theoretical draft analysis of Public Procurement Performance written by a practitioner of Public Procurement with a strong background in private procurement. It focuses on one of the key performance indicators in procurement: Value for Money. The aim of this paper is mainly to propose a new way to look at public procurement performance.

One definition of procurement is: the activity of assessing, buying and receiving goods, works and services. It is Public whenever this process is performed by public organisations or whenever it is performed on their behalf or again funded by public organisations. The process of procuring starts with the definition of what is to be procured (goods, services and/or works, quality), then is followed by how it should be

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etc...), then proceeds to perform the act of procuring that is finalised by a contract or an order, followed by a delivery and the subsequent payment of the supplier. Performance is defined by how “well” this process is conducted and how “good” the outcome is. The present paper will focus is that a good process leads to a good outcome, therefore, the analysis does touch upon the process in some areas.

The central perspective taken here, to assess performance, hence value for money, is the perspective of the consumer, (I use this term in lieu of customer, this differentiation is common in the private sector, especially in the FMCG sector). Value for Money therefore, will be addressed through the lens of primarily consumer and secondarily customer satisfaction. This means, that Value for Money is achieved when consumer and customer satisfaction ratings are highest for a given competitive price.

DIFFERENTIATION BETWEEN CONSUMER AND CUSTOMER SATISFACTION

The difference of consumer vs. customer is made to differentiate the payer from the actual consumer of the good/service or work procured. Although both have to be satisfied, if the consumer is not, there is little chance the customer will, while the reverse often is true in real life.

Any company in the private sector is highly concerned with consumer satisfaction or at least should be. If its consumers are not satisfied and are given a choice, they shall depart. In Public Procurement though, in many instances, the consumer does not have a choice, does that mean his expectations should not be met? It is fair to assume that if expectations are not met, sooner or later, consumers shall create an alternative for themselves and demand that the state monopoly be lifted. More and more so, the trend is towards public organisations being driven into competition with private ones for formerly strictly public activities (railway, electricity, phone, nurseries are good example of this trend).

To illustrate the differentiation made, when a new school is equipped, it will matter to the ministry of education (the customer in this instance), that it can fulfil its mandate to provide adequate school facilities but bottom line, it will matter more so that the pupils (consumers) that are due to attend this school do so happily and efficiently. Although pupils are consumers, they are not yet taxpayers, beside not being in a position to express all their requirements. Therefore

some of their interests will be put forward by their parents, the taxpayers, regrouped in parental organisations. Parents are expected to integrate some of the consumption aspirations of their children in their pattern of choices for the new school.

Therefore, the public sector and especially public procurement should aim at adopting consumer satisfaction as a key performance indicator of their activities. In public procurement, this will lead to more resources being invested upfront to assess who the consumer is and what his expectations are.

CONSUMER AND CUSTOMER SATISFACTION PERFORMANCE BASIS

The objective of the organisation becomes then to meet the expectations emerging from the target group analysis and to measure its performance in doing so. This would imply moving more resources to market research and working closer with civil society and consumer organisations to establish service level agreements as thresholds for performance.

Consumer satisfaction can be assessed through regular before/after surveys, market tests and consumer panels/groups. Consumer satisfaction should also allow to take into account minority expectations thru options to be validated by minority representatives, since public organisation have a mandate to cater for specific minority needs. This task is equivalent to market research in the private sector, since the identification of the target group, its expectations and insights happens to be a core marketing activity.

The action plan is as follows:

- Identify the target group(s);
- Identify the expectations;
- Identify hierarchy/priority in expectations (need to have, nice to have);
- Identify the minimum satisfaction level and shortfalls (gaps) in satisfaction; and
- Identify cost benefit ratio between expectation elements i.e. for a new school, if larger classrooms or more bathrooms are provided, what is the respective gain in satisfaction at equal cost?

Consumer satisfaction is here defined as the variable (US). Customer satisfaction captures the concept of what procurement needs to provide in order to meet the requirements of the customer in our example, the Ministry of Education. In example, the Ministry of education could require the builder of the school to be a certified company, to provide easy maintenance materials, extended warranties, to meet certain deadlines, to provide certain reports etc...

Customer satisfaction can be measured in the traditional way, through a set of measurable indicators: right product, right quantity, right quality, on-time and documentation accurate and complete, or any other that the procuring organisation sees fit as long as it does not contradict consumer satisfaction achievement. This last point is important since, the need of the consumer, comes second to none. This is an underlying principle since the needs of the customer are meant to reinforce, emphasize and support the need of the consumers towards which the customer organisation is geared. Therefore, it is also expected that the relative significance of customer satisfaction in any value for money equation be lower or at most equal to consumer satisfaction.

Customer satisfaction is here below defined as the variable (S). S encompasses all customer service requirements towards potential suppliers.

VALUE FOR MONEY

Having said that, consumer and customer satisfaction cannot be achieved at any price. This is when Value for Money comes into the picture. What is value for money? Value for money: “A concept associated with the economy, effectiveness and efficiency of a service, product or process, i.e. a comparison of the input costs against the value of the outputs and a qualitative and quantitative judgement over the manner in which the resources involved have been utilised and managed.”

If the concept of Value can be captured through consumer and customer satisfaction, the concept of Money can be captured in the price tag to achieving the latter satisfaction ratings. In terms of efficiency of public procurement, it boils down to how much is US\$1.0 of procurement going to deliver with regard to increasing my consumer and customer satisfactions.

In order to assess value for money accurately and in line with customer satisfaction ratings, it is essential that the procuring organisation devotes significant resources to the following activities:

- Classification of procurement portfolio;
- Value for Money target setting; and
- Benchmarking exercise.

Classification of Procurement Portfolio

This activity consists in classifying items up for procurement according to the criteria's that define value for money as per above. These criteria are the basis to the equation of value for money:

- Market availability refers to the value/price concept;
- Target group satisfaction refers to the effectiveness concept; and
- Customer satisfaction requirements refer to the efficiency concept of the procuring organisation in meeting its requirements towards the procured item.

The aim of the classification approach is to determine which criteria among the three criteria listed above is the key driver of the value for money performance and consequently determine the respective weighting of three criteria's in the value for money equation (Table 1).

TABLE 1
Weighting of Three Criteria's in the Value for Money Equation

Items No.	Market Availability	Target group satisfaction impact	Customer Satisfaction Requirements	Items classification	Key Drivers: US, S, P
	High	High	High	Commodity	US +S
2	High	High	Medium	Commodity	US+S
3	High	High	Low	Commodity	US
4	High	Medium	High	Commodity	US+S
5	High	Medium	Medium	Commodity	P+US+S
6	High	Medium	Low	Commodity	P+US
7	High	Low	High	Commodity	P + S
8	High	Low	Medium	Commodity	P

9	High	Low	Low	Commodity	P
10	Medium	High	High	Specialised item	US+S
11	Medium	High	Medium	Specialised item	US+S
12	Medium	High	Low	Specialised item	US
13	Medium	Medium	High	Specialised item	P+US+S
14	Medium	Medium	Medium	Specialised item	P+US+S+
15	Medium	Medium	Low	Specialised item	P+US
16	Medium	Low	High	Specialised item	S
17	Medium	Low	Medium	Specialised item	P + S
18	Medium	Low	Low	Specialised item	P
19	Low	High	High	Customised item	US+S
20	Low	High	Medium	Customised item	US+S
21	Low	High	Low	Customised item	US
22	Low	Medium	High	Customised item	US+S
23	Low	Medium	Medium	Customised item	US+S
24	Low	Medium	Low	Customised item	Discount +US
25	Low	Low	High	Customised item	Discount +S
26	Low	Low	Medium	Customised item	Discount + S
27	Low	Low	Low	Customised item	Discount

Notes: US = User satisfaction;
 S = Customer Satisfaction Requirements;
 P = Price

The classification should be stable in the mid-term. Any new item up for procurement requires classification.

Calculation Model

Value for Money (VfM)

Where:

- User Satisfaction (US) ratings from 0 to 100;
- Customer Service Requirements (S) from 0 to 100; and
- Price (P)

KPI 1: VfM

$$VfMT = (x \text{ US} + y \text{ S}) \quad (1)$$

$$X + Y = 1$$

Where:

X weight given to US determined thru classification;

Y weight given to S, maximum weight is 50% determined thru classification, can be 0 (zero) when User = Customer; and

VFMT = VfM Target

KPI 2: US Ratio

$$\frac{\text{US highest VfM} - \text{Current US}}{\text{Current US}} > \frac{\text{P highest VfM} - \text{Base P}}{\text{Base P}}$$

Where:

Current US can be defined as actual, best, average or whatever baseline is deemed appropriate; and

Base P can be defined as actual, estimate, budgeted, average or whatever price can constitute a valid starting base.

KPI 3: Cost of 1pt US Increase

$$\frac{\text{US Highest VfM} - \text{Current US}}{\text{P highest VfM} - \text{base P}} \quad (3)$$

Where:

It is assumed that when Price is the only driver,

VfM is determined by the sole benchmarking of prices.

An Example of this Calculation Model for a New School

Current Situation

Starting US rating on a scale from 0 to 100 = 50

Starting S rating on a scale from 0 to 100 = 70

Weighting of US and S:

Target VfM KPI = 70% US + 30% S = 35 + 21 = 56

Vfm:

Current Value for Money (VfM) = 56

Price baseline:

Current cost of an average school P = 55

Selection Criteria Setting

The VfMT = 70

The minimum VfM =66

The maximum P = 100

A tender is run and offers received are as follows:

Offer 1: P1=80, US1 = 60, S1 = 80,

Offer 2: P2 = 60, US2= 90, S2 = 70

Offer 3: P3 = 100, US3 = 70, S3 = 70

KPI 1: VfM

VfM 1= 70% x 60 + 30% x 80 = 43+24= 67

VfM 2 = 70% x 90 + 30% x 70= 63+21 = 84

VfM 3 = 70% x 70 + 30% x 70 = 49+21 = 70

The best overall bid is bid number 2 with VfM 84. All bids meet selection criteria on VfM.

VfM ratio

KPI 2: US Ratio

$((US2-US)/US) > (P2-P)/P$

$0.8 > 0.09$

$0.8/0.09 = 88$

KPI 3: Cost of 1pt US increase

$(US2 - US)/(P2-P) = 8$

The cost of increasing User Satisfaction can be benchmarked against other public organisations or against the private sector, as well as overtime, in relative terms. In practice, this means that organisation X to achieve Y% US increase, needs to spend Z% more. While organisation X 1 to achieve Y% US increase needs to spend Y% more, if $Y > Z$, then organisation X is deemed to create Value for Money in a more price competitive manner than organisation X1. Incidentally, such a comparison, also provides a cost/benefit comparison basis between procurement for different target groups hence priority setting.

To achieve 1 ppt in user satisfaction increase in this example vs. current situation, the public organisation to achieve an 80% increase in user satisfaction the public organisation needs to spend 9% more.

Benchmarking Exercise

A critical task of procurement organisations is benchmarking its output against private and public best practices. The aim is to assess whether the achievements in customer satisfactions are in line with best practices and if these improved satisfaction ratings have been achieved efficiently, at a competitive cost. Further, the benchmarking exercise can also address the issue of the efficiency of the procurement organisation, since VfM equation as per above, considers a portion of the VfM dedicated towards satisfying the organisations own requirements. This means that a comparison can be organised between KPIs of different organisations. The most efficient ones will be those with lowest weighting on S for similar procurements.

Consumer and Customer Satisfaction Ratings

Beside comparing itself to other public organisations within the same sector or outside of it, it is worthwhile, comparing the consumer satisfaction ratings, with market leaders in consumer goods, services and works companies that operate in the private sector. Since market leaders in the private sector, in many instances have attained sizes both in turn over and customer pools, that meet or exceed those of a public organisation, hence constitute a valid basis for comparison. Benchmark data could be obtained through entering confidential benchmarking agreements.

Prices

Data on prices for commodities is readily available in the market place, and can be acquired from specialised consultants such as Nielsen, Gartner Group or through benchmark partnerships. Further, indexes on market price variations are also available and constitute benchmarks in the same manner as stock exchange indexes for the financial market. Further again, historical data also provides valuable information on trends and performance achievements.