NUTS AND BOLTS OF CENTRALIZED PROCUREMENT

Breakout Session C - Governance of Service Delivery

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Consip, the Italian Central Purchasing Body

- **Consip S.p.A.** is a public company, 100% owned by the Ministry of Economy and Finance.

- **National Central Purchasing Body**: management of the Program for the Rationalization of Public Spending on goods and services since 1999.

- **Mission**: efficient and transparent use of public resources, by providing tools and skills to public entities enabling them to easier and more effective public purchases.

- **Procurement services**:
  - Centralized procurement: **Framework Contracts** (FCs), **Framework Agreements** (FAs)
  - Vertical procurement
  - E-procurement tools (procurement platform, e-Marketplace)

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**Evolving role of centralized procurement**

- **Bargaining power**
- **Specialized skills**
- **E-proc**

- **Savings**
- **Transparency**
- **Streamlined process**

- **E-procurement**
- **Quality**
- **Efficient solutions**

- **Impact on the market, SMEs**
- **Sustainability**
- **Innovation**
THE STORY

Consip's “classic” procurement tool: Framework Contracts

CASE 1. CAT scanner machines

- Supply: 5-6 large companies
- Demand: about 100 machines per year
- Single award (per lot), 20 machines (20% yearly demand)
- MEAT criterion, lab tests for quality evaluation
- Top-quality machines, 40% discount vs the market price
- The whole quantity was sold in a few hours
- Prices outside of the FC plunged by 30%!

✓ Leveraging CPB's bargaining power
✓ Streamlined procurement process for customers
✓ Increased transparency and competition on the market

CASE 2. Office Facility Management: integration of cleaning, small maintenance, gardening, concierge...

- Supply: few large firms, hundreds of local SMEs
- Demand: thousands of buildings, poor data
- 10-15 lots, about 20% of the total est. demand
- MEAT criterion, mostly discretion evaluation + a few measurable SLAs, environmental criteria
- Low prices but low perceived quality; contracts not suiting all customers’ specific needs
- Complaints from SMEs, subcontractors, workers
- Collusion detected by the Competition Authority

✗ Hard collection of data on demand, misalignment with actual customers' needs
✗ Some buyers unprepared to manage a complex contract
✗ Barriers to SMEs
✗ Non-measurable quality leading to excessive price reduction

BUILDING EFFECTIVE, ACCOUNTABLE, AND INCLUSIVE INSTITUTIONS
EUROPE AND CENTRAL ASIA GOVERNANCE CONFERENCE
Moving to multi-award Framework Agreements

- Foster participation and involvement of SMEs
- Widen menu of categories including more complex services
- Flexibility and better fit to actual demand

**CASE 3. Desktop Outsourcing:** integrated management of employees’ workstations, including sw licensing and hw rental, maintenance, service desk

- **Market**
  - Supply: about 10 national and multinational firms, working with local partners
  - Demand: Large public entities with highly heterogeneous needs (different sub-services, service levels, hw fleet...)

- **Design**
  - Multiple award (3-4, depending on participation)
  - Customization to take place at the call-off stage: procuring entities make the 4 awardees compete by “adapting” their tenders (quality, price, additional hw/services)

- **Outcome**
  - Provision of high-quality, innovative service for reasonable cost
  - Lot of work and skills required to the buyers to award a contract

**IMPLEMENTED ACTIONS**

- ✓ Reduced cost for desktop management
- ✓ Increased flexibility and customization compared with FCs
- ✓ Higher number of awardees useful on such an innovative market

✗ Cumbersome process for specific contracts award, high skills, long time and effort required to procuring entities
A more flexible model of Framework Agreement

**CASE 4. Public lighting management:** Energy Performance Contract for retrofitting (LED technology ...) and management of public lighting systems of municipalities

- Supply: a few large integrated firms, working with local partners/subcontractors and many SMEs
- Demand: thousands of cities adopting various technologies with different skills
- PPP model for risk sharing among buyers and service providers
  - **Multiple award** (2-5 per lot, depending on participation)
  - Separated geographical lots for large/small contracts
  - Large menu of technologies and optional services, with detailed price-list; competition on price, quality and energy saving target
  - Municipalities compare and select the best provider for their specific contract by using an on-line configurator, without reopening competition (call-off)
- Call-off for award of large contracts only

**Implementing actions:**

- Fixed terms/conditions model: simplified award for most of the contracts
- Flexible model allowing reopening of competition for large contracts
- More opportunities (to participate and to win) for SMEs
- Currently working on guidelines to help buyers on specific contracts award and management

- Looking forward to tender evaluation!
- Relevant increase in participation with respect to previous FCs
Learning from experience: different FAs design for different goals and markets

**RESULTS**

- **SW licenses**
- **Vehicles**
- **Phone services**
- **Launch coupons**
- **Office and IT equipment**
- **Utilities (Electricity, Gas, Fuel...)**
- **Medical devices, equipment and diagnostics**
- **Services for buildings (Cleaning, Facility Management, Small maintenance...)**
- **Travel services**

**Multi-award FA, 2-stage competition**
- **IT services**
- **Public lighting services**

**Multi-award FA, fixed conditions**

**Standardized products**

**Concentrated market**

**Diversified products, complex services**

**Customization needed**

**Fragmented market**

**Single award FC**
Diversified and adaptive strategy works

- Wider set of covered categories, larger managed expenditure
- More tailor-made and innovative solutions available for the whole public sector
- Increased involvement of smaller firms
- Reduced pressure on price for labor-intensive services

Spending channeled through FCs and FAs (€ MLN)

Given the procurement initiatives currently at the tenders evaluation stage, the share of FAs is expected to increase in the next two years.
Centralized procurement is powerful: handle with care!

- There is no optimal solution. Best (centralized) procurement design depends on:
  - What is your goal? Price savings, high quality, involvement of SMEs, innovation...?
  - What market conditions? Both demand-side and supply-side matter!

- Information is key: collect data on competitive tendering and contract management

- E-procurement is essential but it won’t solve your problems alone

- You can award a great contract, but no success without good contract management

- A CPB can make the most of specialized skills but its impact is limited without skilled customers: provide buyers with guidance and training and involve them in decision making
THANK YOU!

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