Collaborative Procurement: Advantages and Disadvantages



Collaborative procurement is the practice of multiple organizations coming together to order the common goods and services they share.

It centralizes procurement for these public bodies – and is commonly seen across government agencies.

National procurement organizations are growing in popularity, as are regional and local bodies. By banding together, these organizations strengthen their position. Collaborative procurement is most often seen in certain industries, such as construction, health, and local government.

While pooling resources together to strengthen buying power is generally considered a good thing – it comes with some disadvantages, too. Let's take a closer look at the advantages and disadvantages of collaborative procurement.

Cost Savings

One of the most attractive benefits of collaborative procurement is that it helps to save across the overall budget.

This is particularly helpful in public procurement like government contracts where every dime needs to be stretched as far as possible.

Partnering with multiple organizations to purchase a single product makes it easier to capitalize on volume discounts that would otherwise be unavailable, thereby securing better pricing.

The joint venture methodology helps each organization save money on whatever it is they need, whether it’s raw materials or specific products or services.

That is what we call economies of scale. If every public organization needs a copier and paper, then why must every public organization develop a separate deal for those products? all of them had one deal they would get a much better price.

By bringing together spend from multiple organizations and approaching the market with that aggregate requirement, they have more buying and negotiating power and can secure a better deal.

Stronger Relationships with Suppliers

A collaborative effort gives procurement agents the chance to be a trustworthy client to their suppliers. As a result, the client-supplier relationship is strengthened.

Clients are valuable but so is knowing what they need. Procurement is also about communicating with the supplier and knowing what they can do for you, so a solid relationship that goes both ways is crucial.

As technology continues to evolve in advance, there’s no point in reaching out to a customer to find what they need. But, since everything cannot be based on technology, direct communication remains just as crucial as any other part of the equation. This is why collaboration is important.

By collaborating with suppliers, following their capabilities, and determining where their ideas are coming from, procurement freelancers can get a better understanding of what they are worthy of delivering.

A major part of collaborative procurement is being a reliable client for your

suppliers.

Better supplier relationships also mean that supply chain management is often easier. The collaborative working arrangement helps vendors and buyers alike.

Time Savings

In addition to saving money, collaborative procurement helps to save time. There is significant duplication of efforts when you have multiple government agencies all seeking procurement contracts for the same or similar products.

By reducing the duplication of effort, companies can save time and money.

More Expertise

If you need to get exposure to complementary fields within your industry, collaborative purchasing is incredibly helpful. Effective collaboration helps you learn more that can benefit you as a client.

Collaboration in procurement also helps benefit commissioners in terms of social value. It’s a good idea for you to gain insights into best practices and draw on the expertise of others.

Standardization

It’s possible to use collaboration as an opportunity to standardize things. Standardization itself provides businesses with another set of benefits. These can include a reduced need for total stock holding or a reduced need for staff training.

For example, if different police forces collaborate so that they all use the same protective equipment with the same specifications, sourcing itself becomes easier. But the real value for money comes because the equipment can be used by different police forces.

That means there’s no need to train a police officer who moves from one force to another. Each of the local authorities saves money on employee training, which can then go to commissioning other things they need.

How many people assume that the cost savings from the economy of scale argument is the most powerful motivator behind collaborative procurement, it's easy to disagree. The benefits of standardization in increasing expertise across the collaborative body can easily outweigh the cost savings achieved.

> *Though collaborative procurement offers many benefits, it's not right for every organization.*

Diseconomies of Scale

Though the economy of scale is a positive, there's also a potential negative at the other end of the spectrum. Sometimes the economies are overestimated by the collaborative initiatives.

There are many situations in markets where there are diseconomies of scale. the economy of scale can be achieved with relatively low volumes in the spend area. You don't have to activate the entire countries since to achieve.

In reality, there is little analytical work from the public sector to consider the economy of scale assumption underpins the business case for collaboration.

Negative Market Effects

The use of collaborative contracts may negatively affect the market. In some situations, collaborative contracts may be the only way a supplier can win a government job. if they don't succeed, they may be locked out of the public sector for many years.

Using long-term contracts may also stifle Innovation and make it hard for new companies to break into the market if send is particularly concentrated. Collaborative contracts are so critical to suppliers, it also makes it more likely that disappointed bidders will change their procurement decision and process.

The impact of not succeeding in winning these contracts is severe, they will resort to anything to try to win. As a result, this may lead to an increased risk of corruption.

Disconnects

Collaborative buying mainly to a disconnect between the procurement process and function in the actual users of the products or services being purchased. Procurement is distant from the internal customer or the external client.

It is a bit ironic that while the private sector procurement increasingly sees stakeholder management as vital for Success, the public sector seems to be moving in the opposite direction. The more centralized procurement be columns the further it is removed from the end customer.

Loss of Capability

There’s always a danger that collaborative buying can lead to a loss of capability at the organizational level.

It may not matter in terms of typical collaborative purchase areas but it may mean that your front line organization no longer has critical procurement math and therefore will begin to struggle to perform adequately when it comes to buying goods and services that is still has to do on its own.

There will always be things that cannot be purchased with a collaborative approach. You don’t want the collaborative procurement method to hinder procuring these other items.

Contract Management Issues

Since collaborative procurement involves multiple organizations coming together, at some point, these contracts become unmanageable because they are so large and complex.

There are several aspects to consider. It becomes increasingly difficult to derive and agree upon comment specifications.

Then, you have the tendering process itself because of the size of the document, the number of dinners, and the evaluation process. If the collaborative contract is the only option in its spend area, then it becomes an even bigger procurement exercise.

Just because there are some negative factors to consider when it comes to collaborative fine, it doesn't mean this approach is a bad idea.

All it means is that you must carefully think about the process do your best not to over collaborate or over centralized your procurement efforts because that is when the negative may actually begin to outweigh the positives.

The line between good collaboration and bad has to be determined on a case-by-case basis. Something public sector procurement leaders need to be thinking about when it comes to their procurement strategy.

Ultimately, the decision to participate in a collaborative procurement agreement isn't a clear-cut one. What works for one industry or organization may not work well for another.

Using an integrated approach may be the best option for certain products or services your business requires, while the individual approach may be the better option for others.

That's why it's important to consider your industry overall, where your business fits into the current market, and how a collaborative arrangement may improve your overall purchasing power and project delivery before you decide to move forward.

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