Cost Management

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Successful Procurement Optimization Starts Here

Six Steps for Higher Education Institutions to Achieve Effective Cost Management

As disruption and financial pressure continue to grow exponentially at colleges and universities, there also comes tremendous opportunity for procurement organizations to achieve significant efficiency improvements and savings through more effective sourcing and supply chain strategies. Given the turbulent landscape in higher education, this opportunity has never been more necessary or attainable. School mergers and closures are both on the rise, and for smaller schools, the outlook doesn’t seem to be improving. Larger schools have serious issues also as they reprioritize and compete for the future.

Consider these statistics from a recent report released by Moody’s Investor Service:

- Public institutions in the US have a total of $125 billion in outstanding debt, while private colleges and universities are looking at about $85 billion.
- Closures among four-year public and private not-for-profit colleges in the US will likely triple by 2017, while mergers will more than double.
- The majority of small colleges in the US will be unable to achieve sustained revenue growth above 2% per year.
- Intensified global competition will drive ongoing investment in academic and research facilities. The need to build and maintain attractive and safe accommodations to recruit students and faculty will require ongoing capital funding.

When faced with these economic challenges, it’s clear that an emphasis on effective cost management is critical to an institution’s prolonged sustainability. And while there’s an obvious correlation between supply chain efficiency and financial sustainability, it’s not an easy road. In order for organizations to perform optimally, institutions need to be operating at a high level. In some cases, complete transformation of their processes at a fundamental level is required. Here are six areas that are essential to achieving procurement optimization on campus.

Information/Insight/Intelligence

The first and most important step in developing a best-in-class procurement organization is to improve the process of collecting, refining, analyzing, and utilizing the data. Data drives everything.

When you have data, you know what you’re buying, how much you’re buying, who you’re buying it from, the overall supply chain cost, and that of individual components. From there, you can develop a formal strategy to determine your priorities and major opportunities for improvement. In many cases, higher education institutions simply don’t know how to get this kind...
of spend data, and they don’t know who to get it from. Spend analytics is a mystery to many of these folks, and that’s understandable.

An effective spend analytics program can help institutions better understand and leverage their spend information to deliver significant savings. In addition, institutions are also provided with the information necessary to identify cooperative purchasing opportunities, benchmark contract performance, and really maximize the financial resources available. It all begins with quality data. Like I said…data drives everything.

Strategy/Policy

Institutions must have a defined policy/plan to ensure that they are not only strategic in their sourcing efforts, but that the policy is being adopted cross-functionally across the entire organization. The best way to really understand the role of procurement in a changing strategic environment is to take a look at the president’s plan for the institution and determine how procurement contributes to the pursuit of those goals and objectives. In other words, make sure that procurement’s mission and strategy is in alignment with the institution’s strategic plan.

People and culture

Today, a sophisticated procurement organization requires highly-skilled and specialized professionals. It’s important to review staff expertise levels and conduct a skill-level assessment to identify gaps or overlaps in these resources. This includes taking a good look at where people are positioned in the organization and determining if their position matches their skillset. There’s got to be a significant culture change that stresses the importance of performance and results. It’s also important to clearly articulate the direction the institution is headed in, and ensure that everyone is aware of the role they play in getting there. It’s crucial that these individuals feel included and empowered.

Process and organization

Organizational redesign is really the determination of where you’re at and where you’re going. Institutions must ensure they have the structure, skills and staffing to move the organization in the right direction. Historically, we’ve found that when you look at an existing business process, anywhere from 20-25% of the process steps and the decision points are no longer valid and/or necessary. In many cases, people don’t even know why they’re doing certain tasks. This represents an incredible opportunity for increased efficiencies and improvements. All things must be aligned so that people, process, and technology are optimized toward efficiency.

Technology

Another key to best-in-class performance is use of the right technology. A thorough assessment of this area is extremely important. The goal of this assessment is to gain an understanding of the technology you currently have, identify gaps in that technology, and determine the best solutions to fill those gaps effectively. Things to consider include p-card utilization, P2P automation, and e-commerce initiatives. An effective e-procurement system can significantly improve process efficiencies by eliminating paperwork, expediting contract fulfillment, and controlling compliance.

Monitoring and controls

Institutions must be able to monitor and measure these efforts in order to determine ROI. This includes tracking, analyzing, and reporting on performance up and down the organization, as well as up and down its business processes. Tools like performance metrics, key performance indicators (KPI’s), and balanced score cards help measure performance against goals, and this information can be used to report all progress and key accomplishments, as well as to identify organizational deficiencies, and suggest recommendations for improvement to senior leadership. These recommendations are invaluable in helping procurement support the university’s strategic sourcing efforts and contributing to the overall success of the institution.

Tom Fitzgerald is CEO of E&I Cooperative Services, the largest member-owned, not-for-profit purchasing cooperative serving the needs of education. Under Tom’s leadership, E&I has significantly diversified its portfolio of contracts, applied “best-of-breed” methodologies to its sourcing process, and expanded its services by providing critical consultative services to its nearly 4,000+ members. Tom can be reached at tfitzgerald@eandi.org.