Five Reasons You Should Be Using Cooperative Contracts

And Two Things You May Be Wrong About

by Tom Fitzgerald, CEO, E&I Cooperative Services

Given the financial pressure today's higher ed institutions are facing, collaborative purchasing efforts are more important than ever before. Many institutions don't realize just how much a purchasing cooperative can help with the procurement process. Cooperatives leverage the combined purchasing volume from many different entities, thereby increasing the purchasing power of each individual. Here are five reasons you should consider using cooperative contracts:

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Aggregated Spend = Superior Pricing

The sheer volume and purchasing power stemming from the aggregated spend of hundreds or thousands of colleges and universities creates economies of scale that individual institutions would not be able to achieve on their own. A cooperative is generally able to negotiate lower prices for goods and services than any single member in the collective. Leveraging this aggregate purchasing power allows members to take advantage of superior pricing.

2. Knowledge & Best Practices

We're seeing a shift in the cooperative focus to encompass not only purchasing power, but to also aggregate knowledge, expertise and best practices. A cooperative can tap into the combined knowledge of all its members to identify essential requirements, best practices and most efficient methods to reduce total costs. By bringing together subject matter experts from colleges and universities across the country, it can ensure it is eliciting a broad range of expertise and insight that identifies and sources the optimal solution for its community. This broader base experience lends itself to the development of RFPs for the products and services that are most relevant to the membership.

3. Time Savings/Cost Avoidance

An RFP solicitation and its subsequent administration can be an onerous process involving substantial time and costs for all involved. Today's procurement professionals don't have the time or the resources to research new product categories, source competitive quotes, and benchmark and negotiate pricing. These individuals realize tremendous time savings - and cost avoidance - when a contract development process has already been conducted by a cooperative.

4. Strategic Value

By eliminating time spent on more labor intensive tasks associated with developing an RFP, staff resources can be reallocated to focus on more strategic projects. This means procurement professionals can concentrate on the more important functions that help advance the institution's mission. Additionally, these folks are provided with more time to develop the important collaborative relationships that are imperative to a successful organization.

5. Rebates/Refunds

A true member-owned cooperative typically returns any net income/profits to its members in the form of patronage refunds, which are based on a member's annual purchases. Many times members also have the opportunity to take advantage of exclusive rebate and incentive programs available through the cooperative's suppliers.

And Two Common Misconceptions...

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Many institutions hold tight to the belief that they can do better on their own – as opposed to utilizing a cooperative's contracts. It's an understandable theory, but what we've found is that when total cost is taken into consideration, this theory is often disproven. Frequently this misconception comes from flawed benchmarking and comparisons. You cannot compare a handful of items and accurately judge the value of the entire package. A fairly complex analysis and benchmarking of qualitative and quantitative factors is necessary in order to make that determination. Additionally, institutions typically do not factor in the opportunity cost of sourcing something on their own versus leveraging work that has already been done by a group purchasing organization.

A cooperative handles every aspect of the contracting process including research, RFP development, and contract management. So there's really no need for an institution to "reinvent the wheel" in a category that the cooperative has already covered. Why allocate time and resources toward doing what has already been done? While it may be true that in some cases, an institution can find a better price on a particular product by going out on their own, this doesn't necessarily equal better savings. The price may be lower, but overall, when you consider the total bundle and resources that go in to identifying, researching, and procuring that item, and when you quantify what that time is worth, the cost can be quite high. Price alone is not always an accurate indicator of what something actually costs.

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Some institutions think that by working with a cooperative, they will no longer have control of their relationships with suppliers. The truth is actually quite the opposite. By working with a cooperative, an institution is not going to relinquish control at all, and in fact, they usually find that suppliers are even more committed to serving them knowing that they have the backing of a large buying cooperative. A cooperative aggregates the purchasing power of its entire membership base. This buying volume provides each member with incredible leverage. This may be particularly valuable to some smaller institutions, but we've seen time and time again examples where even for some of the nation's largest systems, being part of a larger organization has helped them gain resolution where other efforts have failed.

Make no mistake about it, cooperative purchasing is not always the best way to go. Not all products lend themselves to cooperative purchasing, and some things are certainly best bought individually and/or locally. I am certain, however, that cooperative purchasing should be a key part of every college and university's overall purchasing strategy. It offers opportunities for significant efficiency and savings, and allows us to take advantage of one of our community's unique values – cooperation.

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