

It's Official:

Public Procurement Is Good For You!

A New Report Challenges Sellers To See The Positive Side of EU Public Procurement



By Ray Collis & John O Gorman

A detailed review of Public Procurement across the EU has determined that the often criticised rules on procurement are actually good for you. According to a new report that is true regardless of whether you are a seller, or a buyer!

The headline message is that EU public procurement generates annual savings of approx. 5% - or some 20 billion Euro of the 420 billion Euro of the public spending it covers.

This good news comes courtesy of a report, titled '*Estimating The Benefits From The Procurement Directives*', produced in the wake of a Green Paper on updating public procurement rules. In order to save you time reading a couple of hundred pages, we have created a summary for sellers.

EU Procurement - 'The Good News'

So, what has the Commission got to say about its impact on public buying in Europe? Well, let's start with the 'good news'. After that we will look at the other side of the story, finishing up with some statistics that profile the EU procurement market space.

Like any report this one is open to interpretation and no more so than in terms of selecting the highlights. Here is our take – you can decide if its 'good news' for sellers, or not:

1. Big Savings! The headline figure is worth repeating - EU procurement saves 20 billion or 5% annually. For the buyer simply publishing a contract notice results in a saving of 1.2%, while using an open, or restricted procedure generates an extra 2.5%. *That is a lot of seller margin!*

2. Open for business! The EU public procurement market has been opened up in more ways than one. Indeed, 52% of what gets spent is open to tender by any supplier, without any prequalification (the average value of contracts in these open processes is 2.1 million). The rest are limited access:

- 25% involves the application of prequalification criteria to restrict invitations to only those suitably qualified (the average contract value in these restricted processes is 8.2 million).
- 19% involve a negotiated procedure where a purchaser selects one or more potential bidders with whom to negotiate the terms of the contract
- 4% involves competitive dialogue with potential bidders, to develop one or more suitable solutions for its requirements and on which chosen bidders will be invited to tender (rising to 9% in 2010, with a 4 million avg. contract value)

While open tenders account for half of the value of EU public procurement spend, this makes public buyers out to be more discriminating than they really are. In volume terms open tenders actually account for almost three out of every four purchases.

3. Hurray for the regulations! Public procurement regulations (and the principles behind them) seem to enjoy strong public support:

- It has reduced corruption and favouritism – only 20% disagree
- Foreign companies should have access to local markets - only 14% disagree

The report hints **sellers are warming to procurement procedures**, although the figures show a long way to go:

- Only 40% of companies say that public procurement is more **transparent** than private purchasing.
- Only 34% say that public procurement is **fairer** than private purchasing.

4. Because I want to! Buyers are embracing the rules - applying the rules even when they don't have to. Indeed, that accounts for 20% of all the contracts published in TED (Tenders Electronic Daily), or a massive 70% of all works contracts. *Most sellers will point to this as evidence that buyers like to hide behind the rules.*

5. Buyers want MEAT! 70% of all contract notices (and nearly 80% in terms of value) use the **most economically advantageous tender** criteria (MEAT) rather than lowest price. *On paper at least that is what sellers want to hear.*

The Other Side Of The Story

Based on reading the report it could be argued that EU public procurement has had less success in other areas:

1. Spoiled for choice? One in five tenders receives only one bid, with the overall average being 5.4 bids. *Maybe the market down turn has not resulted in the bid frenzy that many sellers suspect. Or perhaps the time period of the data (2006-2009) does not paint the full picture.*

2. Size matters! Micro enterprises, although they account for the bulk of employment, won only 6% of procurement spent. SMEs won a further 28%. *The saying 'nobody ever got fired for buying from IBM!' would seem appropriate when it comes to public procurement EU style.*

3. Staying at home! Import penetration in the public sector is low (just under 4% of total contracts awarded 2006-09 by value) with further 13% for bids through foreign affiliates / subsidiaries) and 13% again for wholesaling of imported goods. *Interestingly, surveys put not knowing the market, or the language as the top reasons for not participating in foreign public tenders.*

4. The death of distance! Proximity to the buyer would appear to confer an advantage in public tenders with the average distance in kilometres for the winner of between 102 and 232 km depending on the category involved. *Are sellers right to suspect that the local seller has an advantage?*

5. The Tortoise & The Hare: It takes on average 108 days (approx. 3.6 months) from the dispatch of an invitation to tender to an award, but there is a whopping 180 days (6 months) in the difference between the fastest and slowest. *Little wonder sales cycles have got longer!*

6. The Bottom of the class! In terms of the time and cost involved in running a procedure the worst public buyers take 3 times as long, and are 3 times more expensive than the best. Public sector buyers in the UK take approximately twice, and those in Italy four times; as many days to implement procurement process as their league leading colleagues in Luxemburg. *All sellers know that some buyers are more frustrating than others!*

7. No Stamp Required! Surprisingly electronic tendering has been slow to take off. Almost nine out of ten proposals submitted are sent the old fashioned way. *This is sure to change with over 230 active e-procurement platforms and portals, with an average of 3,500 contracting authorities and 11,000 suppliers registered on each. The emergence of a pan-European procurement platform is something that must be welcome.*

8. Got the time? 38 days of effort is what each process requires, including both the time invested by authorities and by the winning firm. Doing the maths that is the equivalent of 26,000 FTE (full time employees/equivalents). *What is more interesting is the difference between the top and the bottom performing countries - approximately 71 person-days!*



9. Here is your bill! Procurement costs range between 18% and 29%, that puts the cost of buying 125,000 worth of goods on services is between 22k and 36k (at the lowest threshold in the directives). The overall average is calculated at 28,000, with 21,000 borne by the bidders – that is approx. 4,000 per bidder. *Many sellers would be quite happy with a .03% cost of sale (if only it were calculated that way!)*

Some Interesting Statistics

The public sector accounts for around 20% of the EU economy – an annual market valued at 2 trillion. Some 420 billion, or approx 20% of that figure, is covered by the EU directives.

Here are some other interesting statistics (most of which relate to 2009) that build the profile of EU public procurement:

- 150,000 invitations to tender issues (approx. 1.3 proposals every minute for every working day)
- 35,000 different bodies/authorities involved
- 25,000 framework agreements (accounting for one seventh of value and up 400% between 2006 and 2009)
- €400,000 = the median value of contract award notices published on TED was just below
- €85,000 = typical value of the individual lot, or contract
- 27% of the contract award notices contained two or more awards



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