



ISM Services Group



May 2011

visit us at www.ismservicesgroup.com

2004 & 2010 Groups & Forums
EXCELLENCE AWARD

Chairperson

Fred Ledbetter, C.P.M.

Fred.Ledbetter@lifenethealth.org

Vice Chairperson

Ellen Berry, CPSM, C.P.M.

Ellen.berry@kcpl.com

Finance

Paul Howard, C.P.M.

pshoward@terracon.com

Marketing

Jim Haining, CPSM, CPSD,
C.P.M., A.P.P.

jhaining@gmail.com

Marketing

Cynthia A. Alexander, C.P.M.

cyalexander@ontrac.com

Education

Vik Goel

goel@frib.msu.edu

Education

Marika Lindstrom

marika.lindstrom@gmail.com

Technology

Andrea Grable, C.P.M.

agrable@optonline.net

University Relations

Chris Flum, C.P.M.

christopher.flum@harman.com

University Relations

Marty Bell, C.P.M., A.P.P.

mbell@amfam.com

Membership

Tom Ribardo, C.P.M.

tomribardo@aol.com

Communications

Kelly Longgrear, C.P.M.

Kelly.Longgrear@kcpl.com

2004 - 2010 Groups & Forums
CERTIFICATE
OF EXCELLENCE

Dear Purchasing Professional,

On behalf of the ISM Services Group, I would like to WELCOME you to ISM's 96th Annual International Supply Management Conference & Educational Exhibit.

Our Spring Newsletter is released at this event so that information about Services procurement is highlighted for all attendees. In the newsletter you will find several areas of interest including:

- An invitation to the ISM Services Group's Spring Meeting and Reception (Tuesday, May 17th)
- A list of selected presentations that are offered at the ISM International Conference (Attendees are encouraged to attend these services related topics).
- Information about the 12th Annual ISM Services Conference to be held in Phoenix, Arizona (register for a drawing to win a complimentary ISM Services conference registration at the Spring Meeting & Reception)
- The winners of last year's scholarships and an explanation of how the ISM Services Group interacts with universities to increase educational opportunities and encourage learning through services related curriculum.
- Also included is an article provided by a long time supporter of the ISM Services Group, Mark Trowbridge. Check the article for a special offer from his company.

Thank you for reading this newsletter and I trust that you will find something of interest that will help you improve your career. Feel free to contact myself or any of the other members of the Services Group's Leadership Council or contact our Volunteer Committee at getinvolved@ismservicesgroup.com. Remember...your comments and suggestions are important for guiding future improvements.

You will also be able to find more information about the ISM Services Group or how to become a member by visiting our website at www.ismservicesgroup.com

DON'T FORGET...Make plans now to join me and other members of the ISM Services Group at our next conference...scheduled for December 1-2, 2011 in Phoenix, AZ. This will be our 12th Annual ISM Services Conference.

Until then, enjoy the Orlando conference and take care...Fred

Join us at the 96th Annual International Supply Management Conference Services Group Reception on Tuesday evening, May 17th, at 6:00 p.m. in the Gaylord Palms SUN #5-6 room (ballroom level)

Mark your calendar for the upcoming 12th Annual ISM Services Conference on December 1-2, 2011 at the Pointe Hilton Tapatio Cliffs Resort in Phoenix, AZ

The ISM Services Group is dedicated to procurement professionals who work for service based organizations or are responsible for sourcing and contracting for services within their organization.

Featured Article: "Myths About Consortium Buying"

By Mark Trowbridge, CPSM, C.P.M.

Great benefits can be attained by synergistically leveraging combined volumes with other buying entities. This practice is referred to as "Consortium" or "Co-operative" procurement. Consortiums can be led by participant members, or by a third-party who spearheads the consortium. These entities can also be known as a Group Purchasing Organizations (GPOs).

GPO relationships are utilized across many economic sectors to a degree. They are used very frequently by energy sector utilities, health care firms, manufacturers (especially for their "indirect" spends), and governmental entities. Many service sector companies utilize consortiums for spend categories like personnel benefits, technology, contingent staffing, technology, travel services, etc.

To a degree, some procurement outsourcing firms and technology providers also act as consortiums by leveraging the combined spending of all their customers to provide lower prices with key suppliers.

As our firm has worked with leading enterprises, we've frequently encountered consortium arrangements. We've often been able to achieve savings for clients by helping to debunk several "myths" held about consortium arrangements. Just about any procurement professional worth their salt has also beaten consortium prices their employer was utilizing. This article will discuss several of the "myths" about consortiums.

On a long-distance airline flight, I happened to be seated next to the EVP of Sales for one of the largest global pharmaceutical firms which sells to many large consortiums. He and I had an engaging conversation, and he confirmed my conceptions about the following "myths" that are held today:

Consortium Myth #1 – Prices offered by a supplier to a consortium always represent the combined volume of consortium member purchases. In truth, suppliers quote consortium pricing at levels slightly lower than the level justified for the *average consortium member alone*. This is because suppliers need to have an acceptable profit margin for all sales to a particular consortium. Suppliers who operate in "consortium rich" industries may even standardize the price levels offered to various consortium groups (irrespective of each one's volume).

Consortium Myth #2 – All members of a consortium receive more beneficial pricing than they can qualify for individually. Actually, larger members of a consortium may be able to directly negotiate better prices & terms with suppliers based upon the lower cost of doing business with them. Some consortiums are even beginning to negotiate "tiered" pricing levels on behalf of their members to reflect different prices for members having different individual volumes. An eye-opening study was conducted several years ago by the US Government's General Accounting Office (GAO) on consortiums in one of the key economic sectors where they are most prevalent – health care. The study found that "*Group purchasing organizations did not always obtain better prices for member hospitals*". You can imagine the attention that study received...

Consortium Myth #3 – All of a buyer's volume should be focused through consortium relationships. Actually, the optimal mixture may be to have direct provider relationships for a buying firm's highest-volume products and services, coupled with consortium pricing for lower volume acquisitions.

Consortium Myth #4 – Visible pricing represents all transactional value. Actually, in many consortiums it is not unusual for the consortium sponsor to be receiving a "commission", back-end "refund", "transaction fee", or "revenue share" from the enrolled suppliers (typically 2% – 3%, but sometimes more). This can be in addition to membership fees paid by the member firms. Member companies should be aware of all transactional costs before they enter into a consortium. We recommend that a direct question be asked of the consortium representatives, "Do you receive any revenue from suppliers?" All pricing factors should be fully visible to member organizations so they can understand the total cost model.

Consortium Myth #5 – Not for Profit consortiums offer the best value. Although many consortiums are not-for-profit organizations, don't assume those will have lower overhead than their for-profit competitors. It's important to understand that just because an organization doesn't pay shareholders, its executives and employees may still be benefitting from extremely-generous compensation structures. As with any procurement decision, make sure you understand the Total Cost of Ownership.

Consortium Myth #6 - Lower unit prices represent lowest total cost. Actually, members should always be aware that although a consortium has negotiated discounted prices with key suppliers, those suppliers do not always represent the best value. Revenue factors discussed in "Myth #4" above can influence the selection of consortium suppliers. To ensure you receive the best total value, GPO members should continually educate themselves about other suppliers not represented in their consortium. Moreover, pricing on identical products or services can vary between different suppliers selling to the same consortium.

(continued on next page)

(continued from previous page)

Consortium groups represent a strong value for many buyers. Their benefits are especially available to small & medium sized buyers, or large firms needing niche supplier support. Care should be taken in selecting a consortium, though, and in leveraging volume with the other members. Be willing to strategically check the marketplace and enter into direct relationships when warranted.

A great draw for some GPOs is the procurement technology tool they offer to their members. It becomes very easy to place orders for products or services through the GPO's technology tool rather than having to place an order directly with a separate supplier...but don't let this ease lull you into placing all volume with any GPO.

If you do utilize a consortium group for some procurement needs, don't blindly select the GPO without competition. Larger organizations often use more than one GPO relationship to leverage prices. And consider performing a Strategic Sourcing event as the best means of selecting any consortium relationship.

Consortiums can provide members with solid benefits. They should not, however, be trusted with all category expenditures. Smart buyers incorporate consortiums as part of their larger sourcing strategy. Maximum savings can be achieved by leveraging key opportunities, while relying upon consortium discounts for non-core expenditures where your organization does not have strong marketplace leverage.

Mark Trowbridge, CPSM, C.P.M.

www.StrategicProcurementSolutions.com

[MTrowbridge@](mailto:MTrowbridge@StrategicProcurementSolutions.com)

StrategicProcurementSolutions.com



This article was adapted from the Best Practices in Supply Management Journal, a publication distributed bi-monthly to approximately 10,000 procurement professionals. ISM Services group working members may subscribe without charge by emailing Info@StrategicProcurementSolutions.com. Please mention the ISM Services Group in your subject line.

Biographical Statement: Mark Trowbridge is a principal with Strategic Procurement Solutions, LLC, a specialty provider of supply management consulting, training, and staffing services. Prior to co-founding the company in 1999, he led contracts management and sourcing operations in the services (Bank of America), transportation, and manufacturing sectors. In his consulting role, he has been privileged to work with leading Fortune 500 companies and public sector agencies around the globe.

ISM Services Group University Relations

Scholarships: The ISM Services Group has established relationships with several universities that provide supply chain degree programs. As a part of the partnership, ISM Services Group provides annual scholarship opportunities for students at the partner universities. The scholarships are presented to the students at the Services Group Annual Conference in December. The Services Group also helps subsidize travel expenses and conference fees for students and professors attending the conference. The Services Group also assists partner students and universities in other ways:

Internships: ISM Services Group works to link students and potential employers together in internship opportunities.

On-Site Activities: ISM Services Group engages in on-site activities at the partner universities to facilitate the student's educational experience in supply chain management. Targeted activities include:

- * sponsoring/ attending campus events related to Supply Management
- * making presentations (joint or individual) at conferences and to student groups
- * guest lecturing in classrooms
- * establishing booths at Career Fairs
- * recruiting efforts
- * becoming members of Advisory Councils

Mentoring Program: The primary mentoring focus is to establish and support a strong mentorship program that is designed to encourage, promote, and coach junior members of the profession.



Chris Flum, C.P.M., and Marty Bell, C.P.M., A.P.P., co-chair the ISM Services Group University Relations Committee.

Winners of the 2010 ISM Services Group Scholarships

Listed below are the winners of the 2010 University Relations scholarships. An unprecedented sixteen students were honored at the 11th Annual ISM Services Conference in Phoenix, AZ, in December. The following students were named 2010 ISM Services Group Scholarship winners:

Arizona State University

Ana Acosta
 Matthew Leung
 Stephen Sharr
 Debbi Wan

Michigan State University

Jason Tan
 Josh DeBlaay
 Ashley Kincaid

Rutgers University

Jaysai Ghayal
 Mikhail Naumov
 Arnab Sengupta

University of San Diego

Brittany Berg
 Thomas Amarante
 Kaelen McCrane

Western Michigan University

Chelsey Meyer
 Trisha Terns
 Peter Lyngstad



Be sure and check out the following conference presentations:



Session	Title	Time	Presenter
Sunday, May 15, 2011			
AC	Sourcing Complex Spend Categories: How to Extend the Reach of Procurement Into Complex Spend Categories	3:30-4:45 pm	Wayne Evans, C.P.M. Sean Correll
Monday, May 16, 2011			
CC	Removing Barriers: Getting a Seat at the Table for Indirect and Services Spends	10:40-11:40 am	Cynthia Leitson
Tuesday, May 17, 2011			
EB	Strategic Contracting: Best Practices in Leveraging Contract Portfolios	10:20-11:40 am	Robert Dunn, MBA Mark J. Trowbridge, CPSM, C.P.M.
EC	Power Up! Become a Strategic Influence With Your Company's Indirect Procurement Spend	10:20-11:40 am	Mike Inman
FE	Integrating Auctions Into Your Services Sourcing Strategy	3:00-4:00 pm	Whitney A. Taylor
FF	Best Practices in Outsourcing Business Cases, Negotiations and Contracting	3:00-4:00 pm	Marika Lindstrom, Ph. D.
FI	Developing and Effective Scope of Work	3:00-4:00 pm	Jim Haining, MBA, CPSM, C.P.M., A.P.P.
Wednesday, May 18, 2011			
HD	Critical Issues in Services Contracting	7:45-8:45 am	Ernest J. Gabbard, J.D., CPSM, C.P.M.
HF	Hidden Value: Exploring Innovative Sourcing in Indirect Procurement	7:45-8:45 am	Steven L. Budzynski, CPSM, C.P.M.
IG	Service Contracts: Why is Market Rate a Bad Rate?	9:00-10:00 am	Clark Terrill, C.P.M.

Items in blue above are sponsored by ISM Services Group