

## The New Alchemy of Nonprofit Purchasing: Transforming Expenses into Savings with Technology

There's not a nonprofit executive director in the world who relishes informing his or her board about major operational expenditures. When programs that fulfill the nonprofit organization's mission are still not adequately funded and demands for services continue to grow, trying to justify new computers or a new HVAC maintenance contract becomes even more difficult. Yet faithfulness to the mission, operational transparency and full disclosure to board and donors are bedrock values for all nonprofit organizations.

The reality for nonprofit operations, however, is a very clear and troubling equation: every \$1 spent on pencils, Post-It® Notes, computer keyboards or printing by a nonprofit equals \$11 that must be earned via fundraising.

The conundrum produces a challenging question: can nonprofits – perennially understaffed and short on budget – cut their operational purchasing costs by employing the economies of scale and efficiencies the corporate world enjoys? Can they realize enough savings to have a substantive impact on funds channeled into organizational mission?

The Georgia Center for Nonprofits (GCN) decided it was a problem demanding a solution and took up the challenge.

### Studying problems in nonprofit purchasing

The first step – research – turned up an interesting fact: there were no studies available regarding purchasing activities and practices in the nonprofit sector. As it began to investigate and organize results, GCN found a number of interesting trends:

- Procurement at nonprofits consumes as much as 70% of annual funding.
- The majority of purchases are made with no strategic contracts in place geared toward savings
- Smaller nonprofits lack the purchasing volume to leverage discounts.
- There is an overall lack of expertise about strategic sourcing and lack of available staff to handle any concentrated procurement effort.
- According to a survey by *Purchasing Magazine*, purchasing managers spend more than one third of their time on paperwork.
- “Maverick” spending (spending outside of approved systems) drives up total costs because few nonprofits have a contracted discount with a supplier -- even fewer have a way to track how many employees adhere to that contract.

The most stunning fact? A 2005 study by the Aberdeen Group entitled *Strategic Sourcing in the Mid-Market Benchmark* found that “inadequate sourcing competencies” are costing mid-size firms more than *\$134 billion in lost supply savings opportunities every year*.

This initial information led GCN to conduct a year-long study. Completed in November 2006, the study analyzed the one-year spending patterns of six Atlanta-area nonprofits. Researchers then examined the potential impact of an e-procurement system with built-in contracted discounts. The study found that, overall, users could expect to save an average of 20 percent on their biggest areas of expense—office supplies, printing, and maintenance repair and operations. The nonprofits in the study could have saved a combined \$1.6 million in one year.

### **An Opportunity to Change Behaviors. . . and Generate Business**

These insights into non-profit purchasing patterns led GCN to conclude there was a big opportunity for changing business behaviors at nonprofit organizations for the benefit of missions. More than this, the study confirmed that penetrating the nonprofit purchasing market could also be a big business opportunity for vendors and suppliers.

Across the United States, job growth in the nonprofit sector is strong, even outpacing the overall economy, says a study from Johns Hopkins Center for Studies of a Civil Society. With more than 1,400 nonprofits in the state of Georgia alone, there is the potential to leverage their combined \$19 billion in spending power. Smart vendors would see the nonprofit sector as a strong source of business and would be likely to provide better deals under the right conditions in order to have access.

Potential savings on the nonprofits’ side are equally dramatic. As the GCN research showed, nonprofits lack the clout to negotiate the discounts regularly doled out to big businesses, such as below-market pricing on big ticket items like computers and security systems.

Putting regular systems and contracts in place that encourage deals favorable to nonprofits based on economies of scale would yield significant savings on everyday necessities like office supplies and package delivery. Even one of the “killer” spending categories for nonprofits - meeting and event catering - could be better controlled through an e-procurement outsourcing system consisting of specially

#### **Goal: Total Cost Management**

Saving money via smarter purchasing entails more than just getting better deals on items purchased. It requires a thorough understanding of **total cost management** - the combination of increased operational efficiency from “smarter” systems along with the economies of scale created through aggregation of numerous contracts on an industry-wide basis.

negotiated contracts. Imagine a \$47 dollar per-person catered luncheon, coming down by as much as 20% thanks to contracts negotiated using the combined purchasing power of hundreds and thousands of nonprofit organizations.

### **Better Stewardship Plows Savings Back Into the Mission**

For executives committed to best business practices, systems that improve efficiency while reducing costs are in line with good stewardship of limited resources. Similarly, nonprofit boards of directors are equally concerned with smart stewardship that leads to fulfillment of their oversight commitments.

Could a comprehensive e-procurement system with tight spending controls and the ability to generate savings over time become tangible proof to foundations and other donors that a nonprofit at all levels of staff and board leadership are not only watching the bottom line but even *exceeding* fiduciary responsibilities? These are crucial questions – for operations, for donor relations and even for vital *GuideStar* and *Charity Navigator* ratings that impact an organization's credibility.

### **The Solution?**

The many questions raised and answered, along with the results of the spending study generated by GCN, prompted a unique collaboration. As GCN scanned the marketplace, it found that IBM Business Consulting Services, the recognized industry leader in e-procurement technology, already had a proven system in the for-profit sector that yields significant price reductions and more efficient purchasing operations. Could it work for nonprofits?

GCN proposed a collaboration: combine IBM's technological prowess with GCN's intimate knowledge of nonprofit operations in order to build a comprehensive solution that would help nonprofits achieve total spend management for all aspects of purchasing.

IBM is the largest provider of on-demand supplier relationship solutions and the 2001 winner of Purchasing Magazine's *Medal of Excellence* and the 2002 MIT Sloan School Award for Business Transformation.

But with few nonprofits being able to afford the costs of such a system (for-profit sector procurement systems with comparable, sourcing, legal contracts, support and maintenance can cost anywhere from \$200,000 to millions), could it be built to be affordable?

### The Result: Nonprofit Marketplace

Nonprofit Marketplace (NPM) is the exciting result of this collaboration. The IBM e-procurement technology embedded in the NPM system offers total cost

The Atlanta Community Food Bank saved **50%** on office supplies, including a **total elimination** of monthly fees for DHL deliveries -- no matter how many transactions they have.

management in addition to hard dollar savings. Virtually every “red flag” identified in the GCN nonprofit spending study is addressed. Time savings alone are tremendous. Employees are freed up from investigating potential vendors or managing tedious accounting

functions such as coding items to grant sources. The system has very strong audit controls. With NPM, it’s always clear what is being spent, who is spending it and who is authorizing it. Paperwork practically disappears. “Maverick” spending is reduced or eliminated with contract-based purchasing.

The fully customizable NPM system allows for flexible workflow, approval flow, coding and recording, and full compliance with vendor contracts so discounts are preserved. Purchases are recorded at the time of purchase rather than upon invoice, vastly improving accountability. Purchase orders can be processed in minutes, not days or weeks. The system is fully accessible via the Internet, which means that organizations with chapters in multiple locations do not have administrative burdens of installing and maintaining software in numerous offices.

### Successful Pilot Test = Proof of Savings

This past year, prominent Georgia nonprofits -- ranging in size from \$5M to \$50M -- piloted this e-procurement system. During the test, targeted categories included office supplies, maintenance, repair and operating supplies, cell phones, computing hardware/software, printing services and shipping.

One of the first Georgia nonprofits to pilot the Nonprofit Marketplace e-procurement system was Boys and Girls Clubs of Atlanta (BGCA). Previously, each of their 22 metro Atlanta sites handled its own purchasing. It was, according to Nona Galbreath, financial analyst for BGCA, “a crazy, out of control system” with no consistent approvals, no contracts, and no economies of scale. After just one year of using NPM, the picture is very different.

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*Mike Flood, VP, Operations*

“Now all purchasing is centralized through my office and finally there is control over the purchasing process. Quantities are monitored, approvals are standardized, and our staff is thrilled to be liberated from purchasing and invoicing paperwork,” said Galbreath. “Believe it or not, consolidating 22 sites into one central purchasing system has been painless. The NPM system was easy to learn. It’s all menued, so for me, it’s just about following the instructions.”

Atlanta’s premiere performing and visual arts nonprofit, the Woodruff Arts Center, is equally enthusiastic about NPM, and hopes to realize over \$250,000 in savings each year. Woodruff’s vice president of operations Mike Flood is a man who counts every penny. “At Woodruff we operate multiple food venues on our campus, so something as small as finding a cheaper vendor for plastic spoons and forks and saving a few cents, translates into healthy savings,” he explained.

Flood also likes the way the NPM software provides reports across all categories so he can see where his dollar spend is going. And he’s found that the human support at GCN makes a difference. “If we identify an area where we are spending heavily and want to investigate a change, our account executive works with us to find the right vendor,” he said.

The Atlanta Community Food Bank (ACFB), another early adopter of the NPM system, has already posted a 50% savings in year one on office supplies. They’re sold on the system, having negotiated a total elimination of monthly fees for DHL deliveries -- no matter how many monthly transactions they have.

Nancy Flippen, CFO and Director of Support Services for the Atlanta Community Food Bank, is excited and looking forward to tapping NPM’s even greater potential. Her nonprofit operates a fleet of delivery vehicles, including giant tractor trailers. She dreams of securing vehicle maintenance contracts through NPM. “The savings could be huge,” she said. With so many nonprofits ranging from The Kidney Foundation to the Salvation Army heavily involved in donation pickup and materials delivery, the national roll-out of NPM can certainly make it happen sooner.

By using NPM, a minimum 10% savings on material costs is assured. Deeper discounts are typical, and will accrue as more nonprofits join the program and increase collective bargaining power. Even more dramatic are the potential savings on procurement administrative costs – as much as 50% in some cases. Using NPM over time, it is not an exaggeration to say that six figure procurement cost-savings are possible.

Technology and business experts also are forecasting a bright future. *Market Alert*, a publication of Boston-based Aberdeen Group, is bullish on Nonprofit Marketplace. They wrote that; “the GCN program could provide a model for

procurement success. The model is particularly applicable for small and mid-size companies that lack the spending power and sourcing and procurement skills, resources and infrastructure. These procurement transformation approaches should prove attractive to private-sector firms...”

**Take the Next Step – Find Out How To Save**

For an online demonstration of Nonprofit Marketplace, or details on out how your nonprofit can save money and maintain tighter business controls with outsourced, aggregate purchasing, please contact the Georgia Center for Nonprofits - 678-916-3000 / 800-959-5015 (outside Atlanta).

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