

Centralized procurement agent practices in large Chinese enterprise groups

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Abstract: Centralized procurement is now the development trend of procurement management of large enterprise groups at home and abroad. State Grid Materials Co, Ltd has accumulated rich experience of providing agent services to many international tendering projects including those using the World Bank and the Asian Development Bank loans. It has developed a standardized centralized procurement procedure from its execution of State Grid Corporation of China's centralized procurement, and has successfully made use of information technology to incorporate the whole procurement procedure into an e-bidding system (or an e-commerce platform), thus ensuring a standardized and transparent centralized procurement with higher efficiency and benefits.

Key words: centralized procurement, agent

It is my great pleasure to attend the Asian Development Bank Forum and to make this keynote speech. Now, I would like to share with you our centralized procurement agent practices in large Chinese enterprise groups.

I. General introduction

Against the economic globalization and with a rapid development of the Chinese economy, more and more Chinese large enterprise groups are learning from their international counterparts and have adopted a centralized procurement model based on the supply chain management theory to manage their internal procurement, aiming at standardizing the management, improving the efficiency and reducing the cost. This kind of procurement helps the enterprise groups to conduct effective control and management to their subsidiaries and branches. According to the Transaction Cost Theory, centralized procurement can reduce the transaction cost of the tenderer and the bidder, so it becomes the development trend of procurement management of large domestic and international enterprise groups. And it is an effective method to realize business objectives.

Compared with decentralized procurement, the centralized procurement has these following characteristics:

First of all, it covers many projects with a rich variety of products and a large sum of money. Let's take the centralized procurement of State Grid Corporation of China (hereinafter

referred as SGCC) as an example. SGCC organizes 6 to 8 batches of large-scale centralized procurements every year, and each batch covers the power grid materials demands of more than 30 provincial power grid companies, containing all the equipments and materials required for the construction of more than 300 transmission and transformation projects, including more than 100,000 kinds of products. In 2012 on average, each large-scale batch contains 1500 packages and 20,000 offers, and the total capital amounts to over 10 billion RMB Yuan.

Second, it involves the participation of a large number of suppliers and thus has big influence on the industry. So far, there are more than 10,000 suppliers participating in SGCC's centralized procurements. Because SGCC's centralized procurement occupies a large proportion of the sales of transmission and transformation equipment manufacturing enterprises, to a certain extent, its centralized procurement has improved the competitiveness of this industry by stimulating consolidation and survival of the fittest, and therefore enhances a sound development.

Third, it commissions a professional agent, and mainly through national competitive bidding to carry out the procurement.

In 2005, SGCC decided to choose centralized procurement as its main development trend of purchasing management. In view of the above characteristics of the centralized procurement, SGCC was not able to carry out this work only by relying on itself. So it turned to a professional tendering agent to undertake this task in accordance with the standardized procedure.

State Grid Materials Co, Ltd (the former State Grid International Tendering Company Ltd., and hereinafter referred as SGM) has served as the centralized procurement agent of SGCC since 2005. It was the very first professional tendering agent in the electric power industry of China. SGM has served as international tendering agent for dozens of extra large scale thermal, hydra, wind power and transmission projects with loans from the World Bank and Asian Development Bank. It has also successfully provided tendering agent services to thousands of electric power projects, covering technology consultancy, equipment and material procurement, and civil engineering.

II. Centralized procurement agent practices

1. Develop a good centralized procurement strategy to improve benefits

Building up on tendering agent experience of international projects using loans from the World Bank and Asian Development Bank, SGM has developed a centralized procurement strategy system, including materials segmentation strategy, diversified procurement strategy based on the classification of products, optimized evaluation method based on competitive bidding, and procurement using a life cycle cost concept.

Thanks to the centralized procurement, SGCC has successfully reduced its purchasing cost and effectively saved its power grid construction investment. As the procurement scale gets larger, the scope of centralized procurement also gets bigger, which grows from the main equipment and materials of Extra High Voltage transmission projects at the beginning to those of all kinds of programs, including from Ultra High Voltage transmission projects to distribution projects, and meters, office supplies and computers at the present. The procurement amount of each large-scale batch also increases from the initial one billion RMB Yuan to more than 10 RMB billion Yuan now, covering the needs of hundreds of substations.

2. Standardize the centralized procurement procedure to ensure openness, fairness and justice

Taking into account of the characteristics of centralized procurement, SGM develops a set of operation procedure covering tendering preparation, invitation for bids, preparation of bids, submission of bids, bid opening, evaluation, award of contract and contract signing. The invitation for bid, all the amendments and clarifications to the bidding documents, minutes of pre-bid meetings and result of evaluation shall be publicized. The downward floating rate of the benchmark price would be extracted and announced on the bid opening ceremony. The rejection information letter would be automatically developed by the e-commerce platform based on the result, and the bidders could check online their own reason of being rejected.

The use of a standardized procurement procedure represents that we pay high attention to quality and advanced technologies. It also provides a fair, transparent and equal transaction platform to all bidders. It creates a fair market in the transmission and transformation market, bringing not only high quality products to the safe and stable operation of the power grid, but also significantly resistance to corruption.

3. Apply standardization and e-bidding system to greatly improve efficiency

With reference to the World Bank and ADB's procurement guidelines and bidding documents templates, SGM has compiled its own model for bidding documents, invitation for bid, bid evaluation reports, and these files have also been standardized in structural data form, and stored in the e-commerce platform. We can select the standard contract terms on-line as per the procurement category and import the selected contract terms to the relevant template of bidding document, and then write structured electric bidding document on-line. After the award of contract, the e-commerce platform would automatically develop a contract according to the result and in compliance with the contract template. Through the use of online templates, SGM can spend less time in the preparation of bidding documents and contracts.

SGM now applies e-bid opening system to all bid opening ceremonies. After the deadline of bid submission, all bids are automatically decrypted and opened on-line. At present, it only takes 1 hour to open 25,000 bid prices, while in the past it took more than 10 hours to open 8000 bid prices by hand.

4. Save social and natural resources to protect the environment

We sell electronic bidding documents online. All bidders can submit bids in any places via the internet, and check and confirm the result after the bid opening anywhere online. This method helps the bidders to reduce its cost and thus save social resources.

Due to the use of the e-commerce platform, the process of building a paperless tendering has been greatly speeded up and significant environmental benefits has been generated. For example, there are 6 batches of large-scale centralized procurements in SGCC one year, by which, around 110 tons of paper or 2,400 trees can be saved, and the emission of 1,200 tons of carbon can be reduced.

III. Analysis of the advantages of doing centralized procurement through a tendering agent

1. Rich experience.

SGM is the first professional tendering agent in China's electric power industry. It is also the no. 1 agent in the transmission and transformation industry with the largest project scale. So it can give full play to its procurement experience in various international and domestic projects, and provide a more comprehensive and accurate suggestion to the tenderer for his centralized procurement decision-making. This can help the tenderer avoid making big mistakes in his management of quality, schedule and price level setting. A tendering agent owns extensive experiences in dealing with suppliers. He also knows how to supervise the behavior of the suppliers with legal means. Thus, the agent can effectively protect the interests of the tenderer and ensure the quality of the procurement.

2. Professional personnel.

SGM has trained a group of excellent project managers who have not only commercial skills but also technical competence, knows not only the tendering procedure but also the analysis. To be specific, as for the commercial side, our people are familiar with various types of tendering business. They can not only provide comprehensive and accurate understanding of relevant laws and regulations, but also knows how to play with international rules and how to execute regulations of the lending institutions. As for the technical side, they are good at executing all the regulations and requirements, and they can use modern analysis model to analyze all the bidding data. So they may help the tenderer to avoid making mistakes. At the same time, as a medium in the bidding, the agent is good at reaching a balance among the tenderer, the lender and the bidder, so he may help to ensure a smooth procurement.

3. Leading e-bidding system.

A tendering agent has a professional e-bidding system, which incorporated the centralized procurement procedure and made the procurement more efficient, fair and transparent. Since

the year 2006, SGM has been committing to the innovation and practice of electric tendering. Based on its practices over the past years, and in combination of the use of leading packaged software, SGM conducted an upgraded e-commerce platform in 2011. In addition to domestic competitive tendering procurement, the e-commerce platform can also support other procurement methods, like request for quotation, limited competitive bidding and direct contracting. Through this platform, an on-line centralized procurement becomes feasible around the whole country. Besides, the platform has been incorporated into the bidder information system, so it facilitates a seamless integration of some key steps, like the procurement plan, tendering preparation, bid opening and contract signing. This system, which has received national security certification, is standardized and well-managed, and the configuration is flexible. It can also provide professional expert management services. The application of the e-commerce platform has greatly improved the comprehensive effect of centralized procurement. The system provides access to all bidding information, so the procurement is more transparent. It stores and manages a large amount of electronic documents and thus improves the efficiency of the purchasing activities. And it supports off-site bidding, and therefore saves resources and achieves convenience.

4. Standardized procurement procedure.

A standardized procurement procedure is the foundation for the smooth centralized procurement. A tendering agent, in strict accordance with national laws, regulations and policies, with reference to the World Bank and ADB procurement guidelines and norms, adhere to the principles of "receiving orderly, opening transparently and efficiently, evaluating rigorously and carefully ", develops a standardized centralized procedure to ensure that the procurement is open, fair and just.

5. Comprehensive pool of experts.

In accordance with the Law of the People's Republic of China on Tenders and Bids and the relevant provisions, and based on the professional classification criteria developed by evaluation experts in China, SGM establishes a database of experts with five categories, involving 210 major. The pool now has 20,000 experts from around the country, and it can basically meet the demand of various types of procurement. SGM shall strengthen the management of the expert database by reviewing the qualification of the experts and implementing a promotion, demotion and dismissing system, to ensure the professionalism of the evaluation.

IV. Conclusion

As a professional tendering agent, State Grid Materials Co, Ltd keeps advancing its theoretical and practical capability through building an e-commerce platform, standardizing a procurement procedure, utilizing its professional advantage, improving procurement efficiency and accumulating experience. For the past 7 years, it has been a successful agent for SGCC's larger scale centralized procurement. Practice has proved that professional

tendering agent service can make the centralized procurement of a big enterprise group fair, transparent, standardized and efficient, establish a procurement platform for standardized and fair competition, and can bring win-win result to all relevant parties.