

How smarter purchasing can improve public-sector performance

Well-established best practices can generate billions of dollars of savings that can be better used elsewhere—without affecting services.

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The more goods and services an organization buys, the easier it is to waste money and mismanage resources. Its purchasing functions get more complex, and it buys more things from more suppliers with varying prices, terms, and conditions, eating up management time and money that could be better used elsewhere. That's why big companies have long recognized the importance of honing their purchasing and supply-management functions.

But the public sector? Not so much. Public-sector organizations around the world purchase more than \$9.5 trillion worth of goods and services annually,¹ which equals around 13 percent of global GDP.² Yet our recent analysis of more than 700 procurement efforts across industries and geographies found that the public sector—including everything from schools to utilities to infrastructure, as well as general government—has among the highest potential savings of any sector (exhibit).

The value could be substantial, freeing up resources for other priorities. Worldwide, we estimate that the public sector could reduce its current purchasing bill by 15 percent, or nearly \$1.5 trillion, if its organizations were to adopt best-practice procurement disciplines. These include, for example, consolidating purchasing for common goods and services, standardizing requirements, and encouraging competition among suppliers. Take Italy's national procurement-improvement initiative, for example. Where government purchasing was once spread across more than 30,000 contract authorities, each making small-scale purchases with widely varying prices and contract terms across multiple categories, now just 30 central authorities oversee purchasing in key categories countrywide. The program saved Italy \$3.6 billion in its first full year, in 2015.

Online tools can also increase competition and reduce administrative burdens. The UK government's G-Cloud, for example, is an electronic marketplace where any of the country's 400-plus public-sector organizations can procure more than

26,000 digital services from nearly 3,000 suppliers—and it's faster and cheaper than entering into individual contracts.³ Similarly, a European government uses an online auction process that has led to savings of more than 30 percent on office supplies.⁴

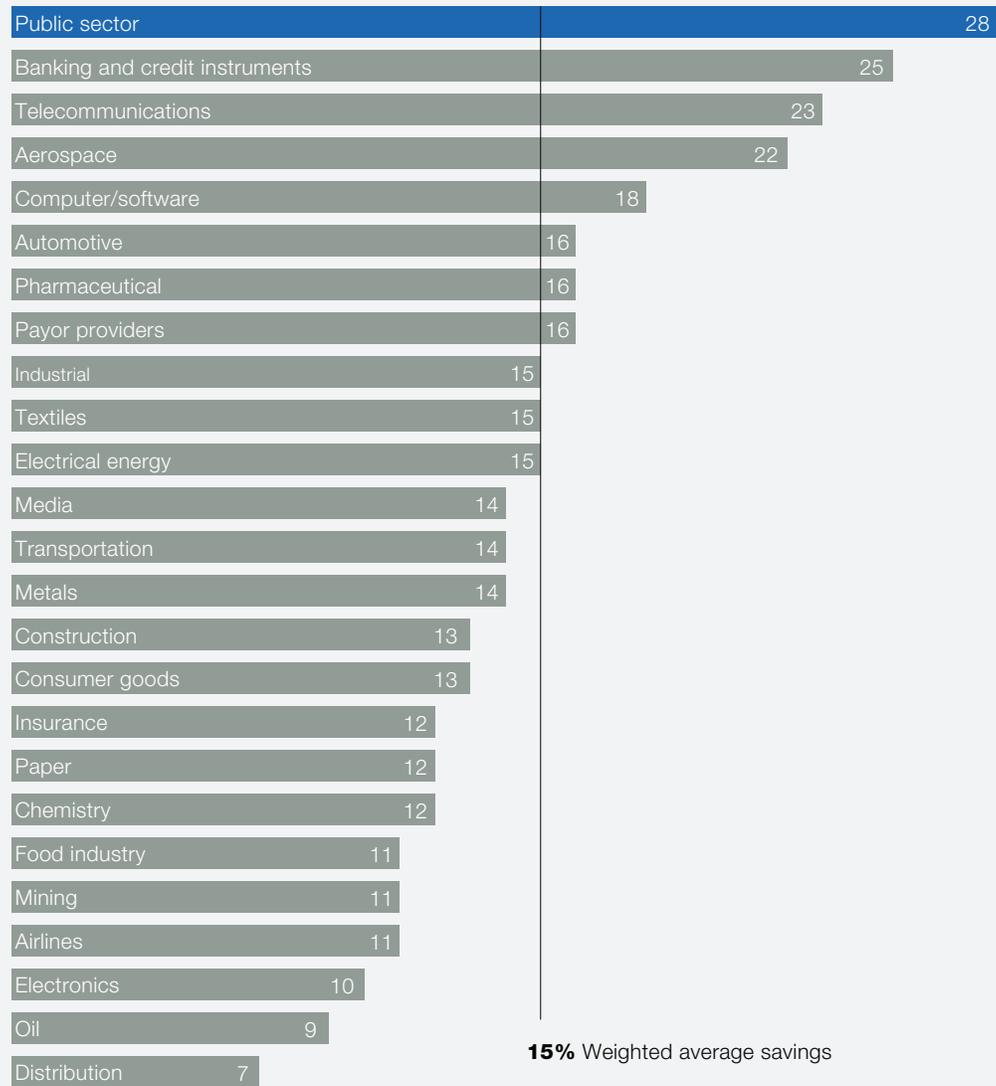
Although lowering purchase prices is the most visible opportunity in procurement, our analysis found that lower unit costs typically represent less than half of the potential impact of better procurement. The opportunity in demand management is at least as large. That includes eliminating unnecessary purchases and downgrading purchase specifications (where it can be done without affecting service quality or resilience). For instance, one US agency saved nearly \$100 million in IT costs partly by eliminating unnecessary software licenses and enforcing existing rules on who was issued which electronic devices. Separately, one large public-sector agency in a European country reduced its use of hired cars by two-thirds, from 300,000 to 98,000 car days a year, by better managing the use of its own fleet of vehicles.

More sophisticated authorities are even going beyond the purchasing of goods and services. By specifying the outcomes they desire—such as a certain amount of mobility for government officials, a specified improvement in treatment of diabetes patients, or reduced recidivism rates for prisoners—public-sector bodies can often also spur innovation and reduce costs.

The US government, for example, set up a procurement channel called Challenge.gov in 2010.⁵ The portal hosts competitive challenges on behalf of more than 100 federal departments and agencies to improve government services. Participants submit proposals online, and the agencies pay a prize to the winner—while benefiting from all the solutions submitted. To date, Challenge.gov has run more than 740 competitions, welcomed more than 250,000 participants to its challenges, and dispensed more than a quarter of a billion dollars

Exhibit The public sector has the highest potential for procurement savings.

Savings potential from purchasing optimization, % of total procurement expenditure



Source: McKinsey Purchasing and Supply Management database; McKinsey analysis

in prizes. For example, one company was awarded \$50,000 for developing and installing a software solution that allowed personal health records to be downloaded from a system used by nearly 200,000 doctors. And the US Department of Agriculture's Apps for Healthy Kids initiative generated 100 apps from just \$60,000 in government investment. The initiative challenged participants to develop tools and games to encourage kids to eat better and engage in more physical activity.⁶



Better purchasing, demand management, and the use of modern technology can take a big chunk off of public-sector bills. In these times of constrained finances, it is a critical lever that can help avoid cuts in frontline staff or vital services. ■

¹ "Despite progress, transparent and efficient government procurement rules remain a global challenge: WBG report," World Bank, December 5, 2016, worldbank.org.

² *Government at a glance 2017*, Organisation for Economic Co-operation and Development, July 2017, oecd.org; *Benchmarking public procurement 2017*, World Bank Group, December 2016, worldbank.org; McKinsey analysis.

³ "G-Cloud buyers' guide," September 24, 2013, gov.uk; "G-Cloud 9 supplier applications," gov.uk; and *Digital Marketplace*, "G-Cloud 8 supplier statistics," blog entry, August 4, 2016, gov.uk.

⁴ Christian Husted and Nicolas Reinecke, "Improving public-sector purchasing," August 2009, McKinsey.com.

⁵ "Introduction to Challenge.gov," challenge.gov.

⁶ "Apps for Healthy Kids," Devpost, 2010, devpost.com.

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