Understanding e-Contract Bundling

By Richard J. Hernández, CPCM
December 2002

INTRODUCTION. Contract bundling occurs when two or more separate contracts are combined. Contract bundling is now extending to Internet based purchases resulting in e-bundling.

This practice of e-bundling is having a major impact on diversity suppliers who sell to major buying organizations.

BACKGROUND. Contract bundling is done for a variety of reasons by corporations and government agencies. The most common reasons are to save money by combining contracts, generate economies of scale, improve supplier accountability, and help reduce buyer & contract administration workload.

There are three different types of bundling:

1. <u>Horizontal</u>. Combine like contracts in a particular area. (Example: One Provider of IT Services at Multiple Locations)
2. <u>Vertical</u>. Combine contracts in a particular area. (Example: One Provider for All Levels of Information Technology Services at a Single Location)
3. <u>Combined</u>. Contracts and bundled horizontally and vertically. (Example: Single IT Hardware & Services Provider to Multiple Locations)

There are three major drawbacks to bundling. First, small inefficiencies in contracts tend to grow when they are combined with other contracts. Second, bundling creates a major barrier for small businesses. For example, a recent article in *The Washington Times* noted the total federal procurement dollars (approximately $200 billion annually) awarded to small businesses has decreased from 35 percent in fiscal year 1991 to 15 percent in fiscal year 2001. A trend that is still continuing.

DIFFERENCES. E-bundling is a more complex form of conventional contract bundling. It is giving rise to a process called strategic sourcing, which is re-engineering of purchasing from a transaction-orientated process, (i.e., three bids and a buy) to an integrated supply chain management process.

Strategic sourcing stresses integrated procurement planning, sourcing, and management. Cross-functional sourcing teams are used to select suppliers for key products and services who determine the optimal supply chain structure that provides the lowest total cost of ownership.

CONTRACT BUNDLING

	Conventional	e-Bundling
Scope	Contract and/or commodity specific.	Primarily commodity area specific.
Technology	Can still use existing technology to service clients.	Suppliers must be e-commerce enabled in order to sell to buying organizations.
Cost	Can be hard to quantity cost savings.	Internet based transactions typically reduce transaction costs by 10 percent.
Supply Chain Management	Introduces increased size and scope requirements, e.g., additional bonding requirements.	Designed to reduce layers in the supply chain, e.g., eliminate middlemen such as distributions, resellers, etc. Promotes the use of "strategic suppliers".

SUMMARY. E-bundling creates a new set of barriers for small, minority- and women-owned businesses. Understanding these differences can be the difference between success and failure. To survive in this new environment need new strategies such as:

- Differentiation / Niche Strategy
- Virtual Corporations
- Alliances & Joint Ventures
- Mentoring (Supplier Development)
- Target Emerging Markets

M/WBEs must work to become strategic suppliers to ensure their long-term survival in the Internet era.

FOR ADDITIONAL INFORMATION. Please contact the author at:

Richard J. Hernández, CPCM
E-MBE.net
P.O. Box 617995
Chicago, IL 60661
312-404-2224
rhernandez@e-mbe.net
www.e-mbe.net