

A photograph of a modern, brightly lit hallway with glass railings and a blue overlay. The hallway is long and narrow, with a light-colored floor and white walls. The ceiling is high and features a grid of recessed lighting. The glass railings are on the left side, and the hallway leads to a set of double doors at the end. A blue rectangular overlay is positioned in the upper left quadrant of the image, containing white text.

BENEFIT BANK CALCULATING BENEFIT

UNIVERSITY
OF
CALIFORNIA

Total UC Benefit: **Mission**

University of California Mission:

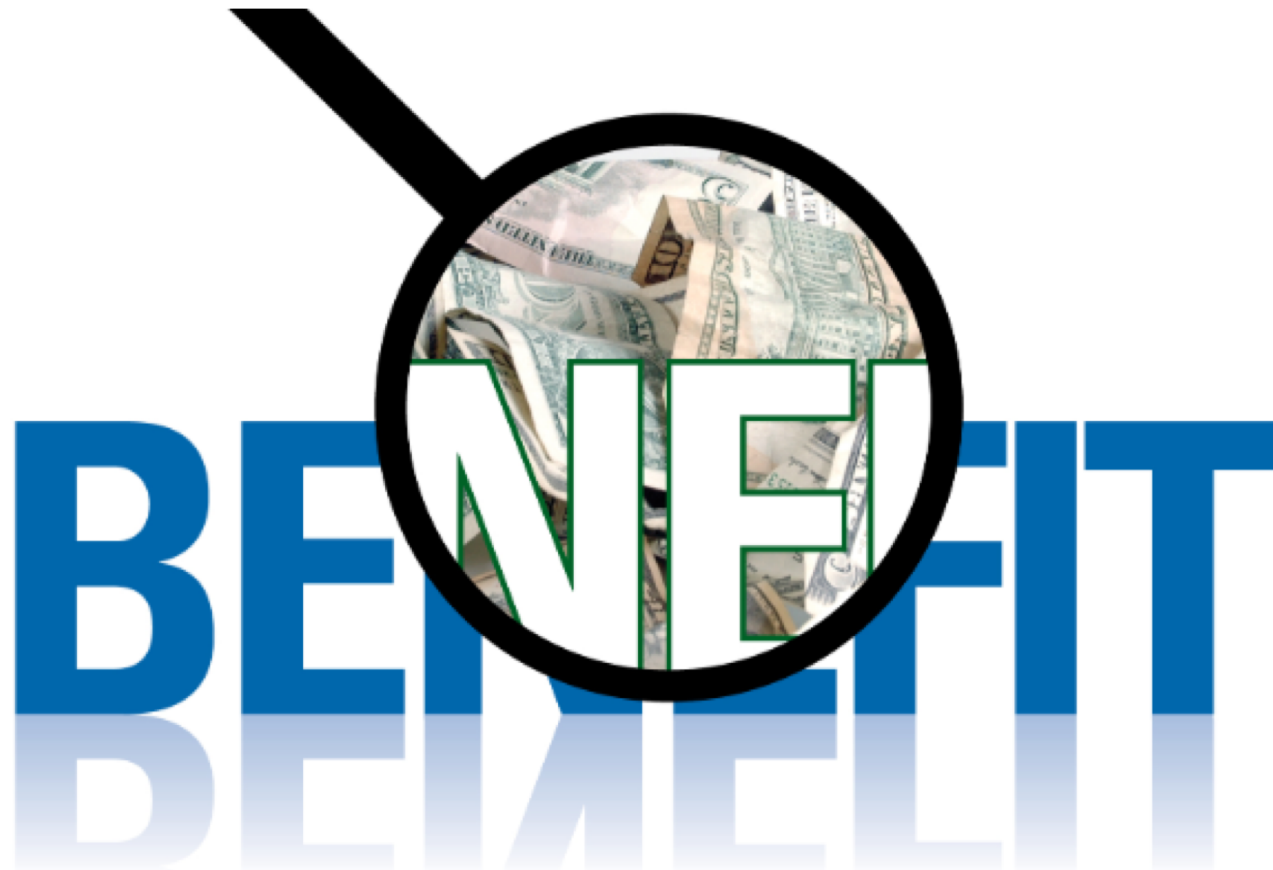
- To expand opportunities for teaching, research and public service
- **Delivering savings and efficient procurement services** across the UC system is a strategy to support the mission.



Total UC Benefit: Definition

Definition:

- Total UC Benefit is defined as the total annual benefit generated **by procurement actions**



Overall Program Guidelines & Best Practices

Program Guidelines

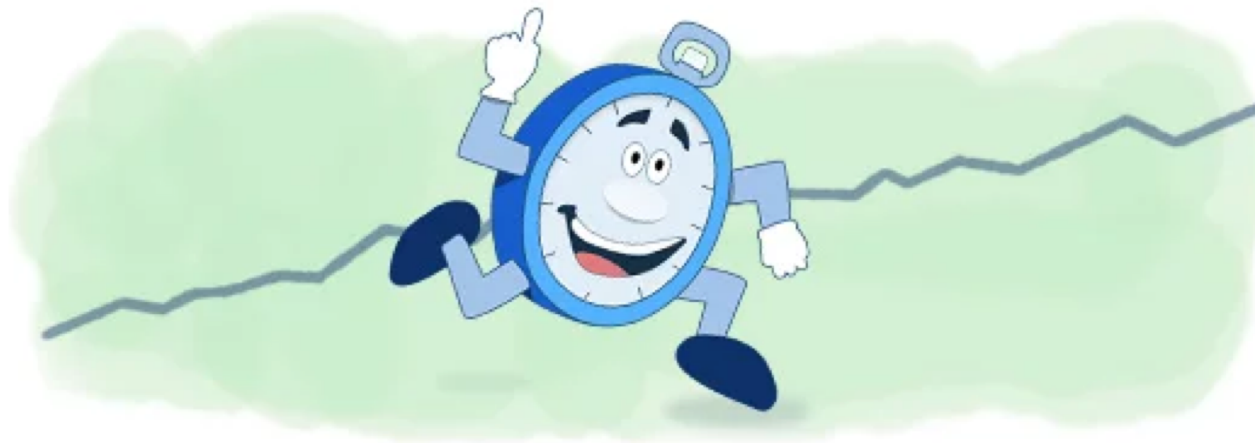
- Measure and report your contributions
- Be conservative in your measures
- One procurement activity can result in more than one kind of Benefit
- We're here to help



Overall Program Guidelines & Best Practices

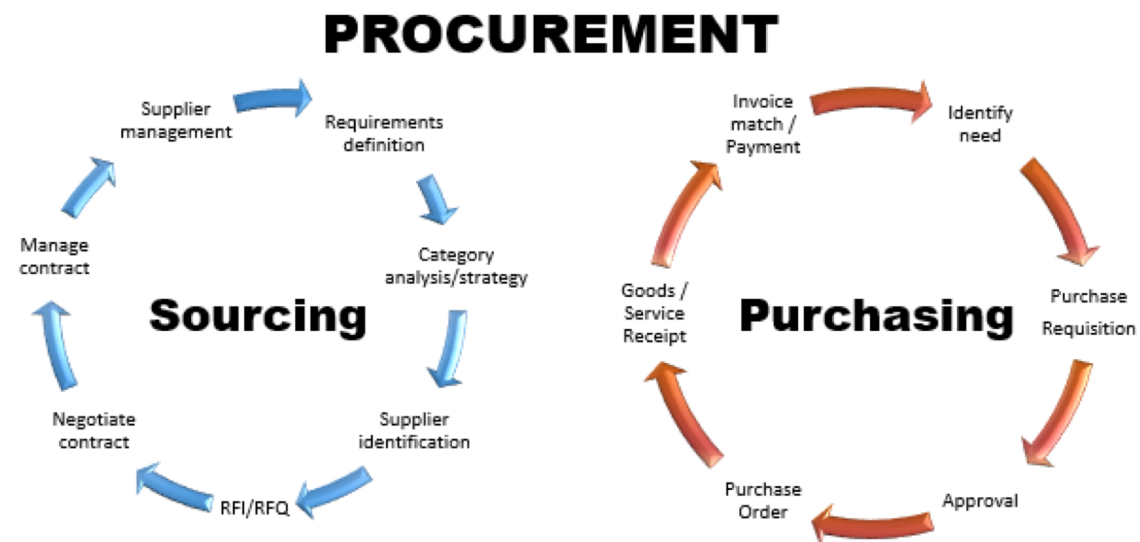
Best Practices

- Report your Benefits as you achieve them
- Provide sufficient documentation to support your contributions
 - Leverage the project/transaction documentation
 - Benefits are audited; provide enough documentation for the auditors to understand what happened



Scope of Eligible Activities

- Active involvement by Procurement/Sourcing
 - Benefit is a measurement of Procurement/Sourcing activity
 - Other departments/functions may generate benefit to the campus or UC, but Benefit Bank only measures activity by Procurement/Sourcing
- Transactional Events
 - Meant to capture one-time Benefits
- Advanced/Sourcing Events
 - Meant to capture on-going Benefits





Benefit Bank Refresher Training

CALCULATING THE BENEFIT

Determining Benefit: Overview

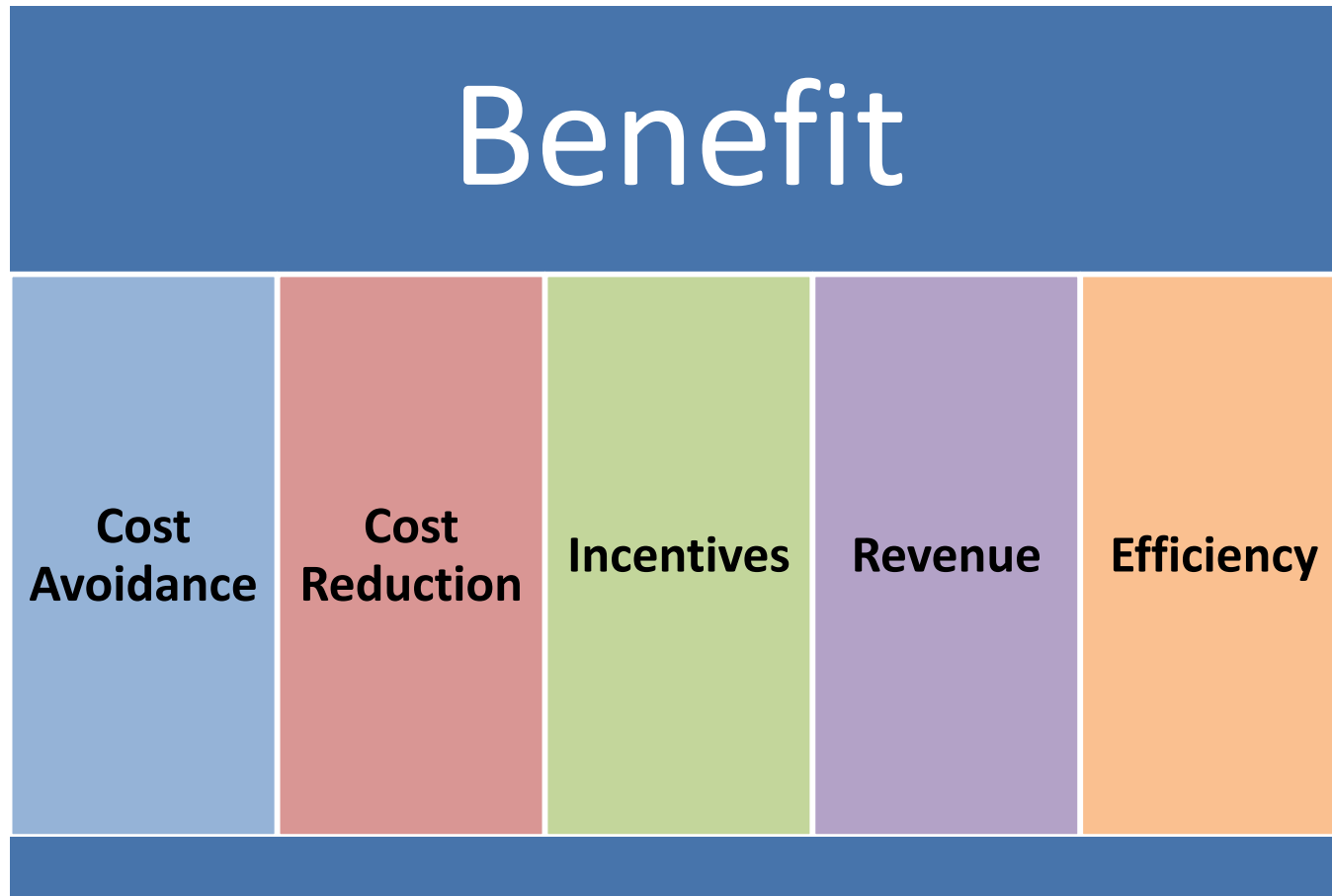


Change in Cost:

$$(\text{Baseline Amount} - \text{Negotiated Cost}) = \text{Change in Cost}$$



Types of Total UC Benefit



Cost Avoidance Benefit

Definition:

Benefit achieved when procurement action results in **avoidance of additional cost** (i.e., maintenance fees, requested price increases, or other ancillary costs).



Examples:

- ❖ Software supplier quotes 10% per year for maintenance that you negotiate to 5%; the value of the 5% reduction is a Cost Avoidance Benefit.
- ❖ A supplier typically charges \$10 per order for shipping that you negotiate down to \$5 per order; the \$5 per order savings is a Cost Avoidance Benefit.

Cost Reduction Benefit

Definition:

Benefit achieved when procurement action results in a **total cost that is lower than baseline cost**, and the baseline cost calculation is supported by documented historical price (i.e., previous contract, historical costs, or imputed historical cost).



Examples:

- ❖ We have been paying \$150 per tire for replacement bus tires, you negotiate a reduction to \$125 per tire; the \$25 savings is a Cost Reduction Benefit.
- ❖ You negotiate a \$20 per hour reduction for consulting services with a supplier; the \$20 reduction is a Cost Reduction Benefit.

Incentive Benefit

Definition:

Benefit achieved when procurement action results in a **new gross incentive** (based on volume, compliance/utilization, transaction size, electronic payment, e-commerce, signing bonus, GPO, management fees, etc.).



Examples:

- ❖ Procurement negotiates a volume-tier discount when purchases from the supplier exceed \$100,000; the value of the discount is an Incentive Benefit.
- ❖ Procurement negotiates a 3% discount when the average transaction with the specific supplier exceeds \$100 per order; the value of the 3% discount is an Incentive Benefit.

Revenue Benefit

Definition:

Benefit achieved when procurement action results in **new revenue generating projects.**



Examples:

- ❖ A new pouring rights agreement negotiated by procurement results in increased revenue for the campus.
- ❖ A new car share agreement provides revenue to the campus in exchange for reserved parking for the cars.

Efficiency Benefit

Definition:

Benefit achieved when procurement actions result in **increased technology, process, and/or organizational efficiency.**



Examples:

- ❖ A streamlined process initiated by Procurement reduces the time required to complete and approve a Purchase Order.
- ❖ A vendor agreement includes managing UC inventory at no additional cost, freeing up procurement staff time to focus on other activities.