

The Goal of Syndicated Procurement:

Syndicated procurement provides contractors and project managers at building firms **substantially lower prices on building products**. MPL, a syndicate manager, coordinates the formation of procurement syndicates by combining the purchasing orders of concurrent building projects at different building firms.

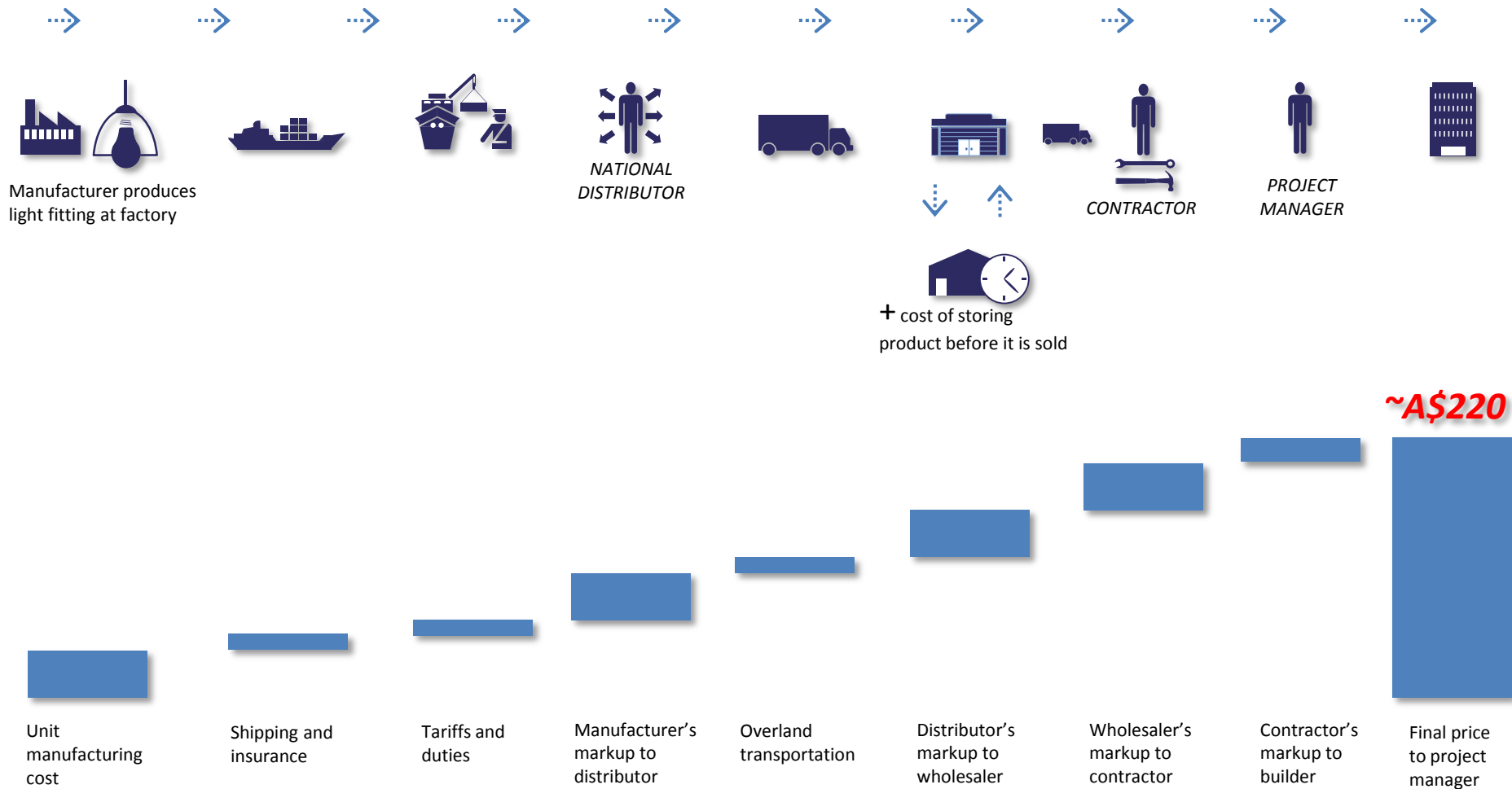
MPL organises each stage of shipment and delivery. Delivery is made to the contractor's (installer's) site in advance, such that the **building products arrive at the building site on the scheduled installation date**.

The problem: How project managers usually procure building products, and why it costs so much.

Syndicated Procurement: How combined purchasing dramatically lowers cost of building products.

Frequently Asked Questions

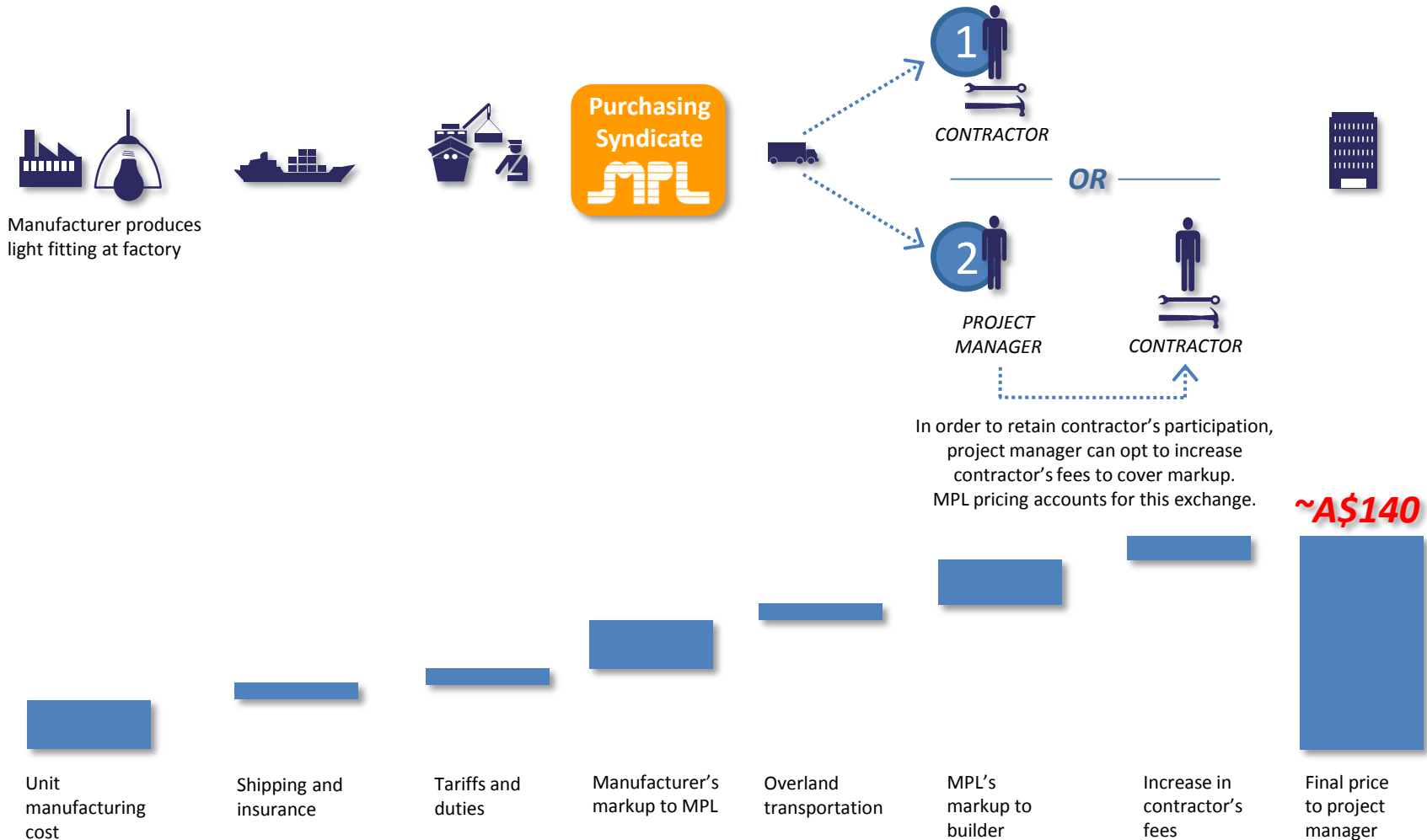
*How project manager's usually procure building products—
Many points of **markup**, time lost with products in transport and storage,
and **high price to project manager**.*



Note: This represents a simplified, generic scenario, not data from an actual case. Final prices to project managers, however, are actual data. This example is for a German recessed T5 light fitting.

SYNDICATED PROCUREMENT—

Fewer markups, no point of sale and related expenses, no time and money lost on storage and overland transportation; therefore **much lower prices to project managers and contractors**.



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Example: Syndicated Procurement Program for recessed light fittings.

- A project manager is responsible for a six-storey office building with 8,000 m² of office space.
- 8,000 m² of office space calls for around 900 recessed light fittings. The project manager will usually pay around A\$220 per luminaire, when purchased from the contractor. For this project, the 900 lights cost A\$198,000.
- Through the volume order of the syndicated purchase, the cost of each luminaire is lowered from A\$220 to A\$137. The project manager saves A\$74,700 on the cost of the lights.

Those A\$74,700 are **pure profit**, not just revenues. They go straight to the bottom line.

Project managers occasionally purchase directly from the manufacturer in order to lower costs. What are the advantages of Syndicated Procurement vs. direct purchasing? :

1

Higher **Volume** means **much lower prices**

Most commercial building projects in Australia call for less than 1,000 light fittings. So when purchased on a per-project basis, direct purchasing does not yield significant volume price discounts. On the other hand, Syndicated Procurement places orders upwards of 5,000 light fittings at once, at which point manufacturers significantly lower their prices.

2

Logistics and **Delivery** are managed by the syndicate manager

Most project managers prefer to not have to manage their own logistics and delivery for building products. MPL manages all the logistics and delivery, including shipping, customs, offloading, land delivery, insurance, and short-term warehousing (goods are usually warehoused for three weeks as a time buffer, just in case of delay).

3

No Strategic Alliances means **freedom** of action

When building firms purchase direct from the manufacturer, in order to obtain any significant discount, they are usually obligated to enter into a long-term strategic alliance. Hence, if the market moves, the builder is locked-in. Through MPL, the builder's commitment is only one project at a time, and has no long-term obligation.

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Where are the luminaires manufactured?

MPL procures top quality luminaires suitable for A-grade buildings. Most MPL-procured luminaires are made in **Germany**, some are made in Italy or in the Czech Republic. We also have suppliers throughout Europe for special client requests (Spain, Portugal, Turkey, Poland, Russia, Serbia, Bulgaria). Our LEDs are typically from the USA, which is currently the most advanced LED market.

Luminaire **ballasts** are from **Osram** and **Tridonic** (or from **Philips** upon client request).

Are the luminaires certified for use in Australia?

Yes. MPL-procured luminaires follow the same strict Australian standards as any luminaire found in A-grade Australian buildings. Recessed luminaires, for instance, follow Australia/New Zealand certification **AS/NZS-60598** (for the luminaire) and **AS/NZS-61347** (for the ballast), as the European code (e.g. **ENEC-60598**) is identical and derived from the same source, the IEC code.

Do I have to order at a specific time in order to benefit from the reduced syndicate price?

No, you can place your order whenever you are ready, you don't have to wait for a syndicate to be formed. MPL is continuously working with its clients to group together orders, but the price to the client is guaranteed up front, regardless of whether the order is syndicated or not. The delivery date is also set up front, at the time of the order.

I have a requirement for a specific type of luminaire—do I have to get the same light as the others in the syndicate in order to benefit from the reduced syndicate price?

No, **your order** is for the **exact model, specification and requirement** you need, whether High Bay or LED, recessed or pendant or surface mounted, louvre or diffuser, high or medium Light Output Ratio, 2-, 3-, or 4-lamp, square or rectangular, downlight, IP-protected, dimmable or not, energy-saving, indoor or outdoor. Syndication is made with a basket of luminaire models, not just one, so you can get exactly the luminaire you need.

Are the luminaires insured against loss and damage during transport?

Yes, the luminaires are insured for their full value for the entire journey.

MPL's insurance covers:

- damage in transit
- theft
- acts of God (storms, earthquakes, etc)
- acts of war (including piracy and terrorism)

Our insurance is provided by **Vero National Marine** and our brokers are **AON Risk Services Australia** in Sydney.

Clients also have the option of not using MPL's insurance program, if they prefer to use their own insurance, or if they prefer to not have insurance at all. (This reduces even further the price of the luminaires, though the client takes on the task of finding his own insurance, or the risk of being uninsured.)

Is the product covered by warranty?

Yes. All luminaires are covered by manufacturer's warranty. Standard coverage is usually 1 year for the luminaire and 5 years for the ballast; clients can take advantage of Osram's 5-year ballast warranty by using Osram lamps with Osram ballasts.

The mechanics of procurement and delivery sounds like a logistical nightmare. How does MPL manage the logistics execution?

Direct procurement often is indeed a logistical nightmare when builders and contractors procure direct—it's one of the reasons they usually don't. Logistics and procurement aren't their usual day-to-day activities—they're a distraction added to the workload of a business busy with other things.

MPL, however, **ONLY** does procurement, logistics and distribution. That means that MPL is in constant communication with the manufacturers, shippers, and local distributors, at every stage, from initial order to final delivery.

Most importantly, MPL engages **third-party logistics** firms, or 3PLs, to perform logistics execution. These firms are completely specialised in logistics and distribution, and MPL only works with the most trusted names in the industry. Our logistics are provided by **DHL, Schenker, CEVA, NYK Logistics, and Expeditors International**. Each of these firms has between 5 and 8 warehouses throughout Australia.

Clients also have the option of not using MPL for its logistics, if they prefer to use their own logistics firm. (This would reduce even further the price of the luminaires.)

How is MPL different from a wholesaler?

MPL is the opposite of a wholesaler. Wholesalers buy in bulk, then wait for customers to show up, but never know in advance how much the customers will want, or when. **Wholesalers have the added cost of storing** the products for longer periods of time, of **transporting** them among several different locations (never knowing exactly where or when the customers will appear), and the cost **of point of sale** and **warehousing** (rent, utilities, security, insurance, staff, maintenance, etc).

On the other hand, a syndicate manager, like **MPL**, knows the exact requirement of the customers before the purchase is made, and therefore **charges the customer very little overhead**. Moreover, MPL buys directly from the manufacturer, while the wholesaler typically buys from a local distributor, which further increases costs. The result is a reduced price of 30% to 45% from the wholesaler's price.

What if something goes wrong with the luminaires and they need to be repaired? If the luminaires weren't purchased from the contractor, won't the project manager have to pay the contractor to repair them?

Yes—if the flaw is with the luminaires and not with the installation, the contractor will have to be paid to do the repair, whereas if the contractor had procured the lights himself, he would have been obliged to make the repairs free of charge. (Every luminaire carries a **warranty**, which also protects the buyer against product defects.)

Project managers should compare:

Cost of Repairs

*typically around
A\$70 to A\$100 per hour*

vs.

Savings through Syndicated Procurement

*for an order of 800 luminaires,
a saving of around A\$50,000
(for example)*

as well as:

Likelihood that Repairs will be Needed

unlikely

vs.

Certainty of Savings through Syndicated Procurement

guaranteed on every project

When is payment made?

Project managers are used to paying 30 or 45-day accounts when purchasing through contractors. When purchasing internationally, however, manufacturers usually expect to be paid once the goods leave the port of origin. In order to maintain their usual 30 to 45-day terms, the building firm can arrange for short-term financing from its bank as part of the letter of credit (letters of credit usually come with short-term financing).

The cost of this short-term financing would equal about 5% of the **savings** on the light fittings.*

Assuming around five months between shipping date and **45 days after delivery, and an annual interest rates of 5%.*

Do all the participants get the same price on the products?

No. 30% discount is the starting point, but it could be much higher. The price depends on the volume of the order, and also other variables such as the distance between the port of entry and the building site and the amount of time required in storage.

Clients receive an additional discount for signing on additional members to the round.

If you are using light fittings in an upcoming building project, please contact Karim Nour for a quotation, scheduling, and logistics details.

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