

ATTILA DERZSÉNYI¹**Analysis of the Efficiency of the Hungarian Defence Forces'
Food Procurements for 2015****A Supply Service Research****A Magyar Honvédség élelmiszer beszerzés hatékonyságának
vizsgálata 2015****Szolgáltató kutatás****Abstract**

The Hungarian Ministry of Defence introduced new rules concerning the food supply of their military units on the basis of public procurement framework agreements in 2014. The new regulations contain some improvements no other military procurement system has ever been used in Hungary. In the inception phase of the procurement process, the central purchasing body of the Hungarian Defence Forces (HDF) carries out negotiations on behalf of the military units and finalises the procurement framework agreements with the supplier enterprises. In accordance with the conditions established in the framework agreement and on the basis of the product basket provided for the stipulated period, the units address their requests to the first ranked tenderer. There is no doubt that the year of introduction will serve useful experiences allowing opportunities for fine tuning of the procurement system.

Abstract

2014-ben a honvédelmi tárca az alakulatok élelmiszer ellátására új típusú rendszert vezetett be, melynek alapját a közbeszerzésben ismert keretmegállapodás képezi. A kialakított eljárás azonban számos olyan újítást tartalmazott, amelyet korábban még máshol sem alkalmaztak. Az eljárás első részében a honvédségi alakulatok nevében a HM központi beszerző szervezete termékcsoportonként és

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régióként folytatta le és több beszállítóval kötött keretmegállapodásokat. Az ebben rögzített feltételek alapján a konkrét megrendelést a honvédségi alakulatok küldik meg az adott időszakra vonatkozó termékkosár alapján az első helyre rangsorolt nyertes beszállítónak. A rendszer bevezetése óta eltelt egy év szükségessé teszi a hatékonyságának felmérését, javaslatok megfogalmazását a hiányosságok kiküszöbölésére.

INTRODUCTION

The catering supply for the military units is one of the main actual priorities for the logistic structure. The flow and the character of this supply activity, to put it simply, the soldiers' everyday alimentation, should be a process to be executed in any circumstances (peace, allied task, special law order).

The proper catering supply for the troops means on the one hand to have the required food quantity on the correct place just in time, on the other hand the quality control during the whole process. The selection of the appropriate delivery enterprise, the determination of contract terms and conditions and the quality assurance requirements shall be performed on the highest, central level, not on the units' one.

For decades the interpretation and application of the Public Procurement Act have meant the main problem. According to the military regulation, starting from 1999² the only body to conduct a public procurement procedure was a nominated central procurement organization (HM BH, HM BBBH, HM FLÜ, HM FHH, and HM VGH)³. Strictly adhering to the financial management and public procurement principles a public procurement was not allowed to commence without a budgetary funds. The military budget for HDF, likewise in the case of the other ministries, had generally been approved by the Parliament at the end of the previous year. Therefore the resource and budget planning shifted to the January-March period. The ministerial approval for the defense department's Annual Procurement Plan (APP) was generally granted in April. The allocated annual catering expenditures must have been used up till the end of the year, but not later than 30 June of the following year.

The actual logistic structure has an enormous influence on the HDF catering supply system. In peacetime the alimentation products are procured by HDF through the civil suppliers and via public procurement procedure. The specific tasks of the HDF demand specific requirements from the suppliers.

² 47/1999 (HK.6) Defense Ministry Order

³ Hungarian Defense Ministry Procurement Office (HM BH), MoD Procurement and Security Investment Bureau (HM BBBH), Ministry of Defense, Development and Logistics Agency (HM FLÜ), Armament and Quartermaster Office of the Hungarian Ministry of Defence (HM FHH), Defence Economic Office Ministry of Defence of Hungary (HM VGH)

THE NEW SUPPLY SYSTEM

In the interest of the military organizations' supply it is necessary to have a good functioning logistic system. The ever-changing market and the military units' varying needs are the main problem of the catering supply chain.

According to former applied procurement practice and regulation the procurement of alimentation goods used to be carried out by the central purchasing body of the actual HDF procurement system, under the commission of the procurement initializing units. Certain alimentation goods (i.e. meat, meat product, milk, bread, pastries, mineral water, and soft drink) were separately procured through public procurement procedure. Regarding the fact that the separate total value of these aforementioned alimentation goods exceeded the threshold (cca 54 MHUF) laid down in the Public Procurement Act, the prohibition on the splitting of public procurements have never been subject to a study in this field. For various reasons, like lack of budgetary funds for multiannual contracting or the units' ever-changing needs during the annual budget planning, only the current (budgetary) year's alimentation goods procurement were carried out.

The public procurement procedures could have been carried out by a specific way. After having the units' commissions according to APP the procurement procedures were launched in May-June at the earliest to be carried out - applying a minimum deadline for the submission of tenders and contract moratorium - in 6-8 months.

At the beginning of 2011 after having demands from the units the concerned Defense Ministry Order "for the military units' procurement procedure" was amended⁴, and from 30th July 2011 the competence of the alimentation goods procurement was transferred to the units. After the amendment of the Public Procurement Act on 15th September 2010 its regulations should not had been applied to the procurement of cold foodstuffs and cooking raw materials, fresh and processed vegetables and fruits, milk and dairy products, cereals, bread products, honey, eggs, horticultural plants under the EU public procurement thresholds. For this reason under the EU public procurement thresholds the units were not obliged to conduct a public procurement procedure.

The new Public Procurement Act coming into force on 1st January 2012 basically did not mean new regulation for the alimentation procurement, but the change of the rules of the prohibition on the splitting of public procurements created a new situation. In one of my studies⁵ at the end of 2011 I called for the attention to put an enhanced accent on the prohibition on the splitting of public procurements. From the part of the contracting authority there is a need to examine the total value of the goods in order to determine if the procurement procedure falls within the scope of the Public Procurement Act.

⁴ „The procurement procedure applied for military units” 71/2011 (VI.30) Defense Ministry Order

⁵ Derzsényi Attila: _ÉLELMISZER BESZERZÉS AKTUÁLIS KÉRDÉSEI, HADMÉRNÖK VII:(2) pp. 213-220. (2012)

The statutory interpretation came several months later, meantime the large part of the units exceeded the aforementioned threshold for their cooking ingredients.

In my study⁶ dated back to June 2012 I had already proposed a solution for the units that is less time consuming in order to function the alimentation supply system with full respect of the concerning legal regulations at the same time without increasing their manpower. I called for attention that the new system performance would exclusively be sized up after gathering some experience. The main innovation in the new system:

The framework agreement procedure in the military structure could be divided into two well separated parts:

- a) In the first part the central purchasing body carries out an open, restricted or negotiated procedure (in the name of the units), the result of which is a framework agreement (concluded even with many contractors). The advantage coming from this method is getting the procurement transparency, which is the main and overall depositary of the public interest, in a procedure that begins with the publication of a contract notice and is conducted publicly.
- b) In the second part the procurement could be carried out either through the central purchasing body or by the unit itself either concluding individual short term contracts or just sending a simple purchase order to the contractor.

Looking closely to the framework agreement characteristics the established system may function for years (even up to 4 years) without carrying out any annual procurement procedure. Additionally, all the strategic and unit level requirements for catering are respected.⁷

- In the efficient system performance interest the following conditions were set up by me:
- In the framework agreement's first part all the technical requirements for the alimentation products (especially the food security aspects) in detail; and the division into lots (regions, fields or units)
 - To develop a central purchasing body website to have an updated state of the framework agreement terms and conditions (prices, tenders, applied procedure methods, purchase orders);
 - To review the units' IT system to reach all news and actualities;
 - To determine the entity responsible for giving notification to the central purchasing body on a purchase order initiative;
 - Taking into consideration that the framework agreement's first two parts are subjects to national development ministries approval, the amendment of the relevant rules should be initialized;

⁶ Derzsényi Attila: AZ ÉLELMISZER ELLÁTÁS HATÉKONYSÁGÁNAK ELEMZÉSE, HADMÉRNÖK VII.:(4) pp. 38-49. (2012)

⁷ Note: Till 2015 the dynamic procurement system is not a legal procedure in Hungary

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- For practical reasons it is recommended to train the units' concerned staff how the procurement procedure works;

After the article having been published the Defense Ministry Order on "the procurement procedure applied for military units" has been amended⁸. The amendment obliged the Hungarian Defense Ministry Armament and Quartermaster Office as the central purchasing body to carry out the framework agreement procedure's first part, additionally it gave way for the units to proceed the second part as purchasing entity.

I had got an invitation to formulate all conditions of the new system, which was published as working paper⁹. *The introductory wording of my study stated that starting from 2014 the alimentation procurement for the military units in HDF was carried out within a framework agreement. The framework agreement procedure's first part was conducted by the Defense Ministry's central purchasing body, and the second part was carried out by the units themselves on the base of their own needs. To enhance the cooperation efficiency between the defense organizations, the share of responsibility and task execution has to be examined.*

I would like to emphasize that the defense organizations before the new system came into force were authorized also to carry out procurement procedures as contracting entity with limitations laid down by the Defense Ministry order. So, it means, that the actual procurement system widens the rights of the defense organizations as contracting authorities.

Along the lines of the established principles published in the aforementioned article, a course of preparation actions have taken place during several months within the HDF resulting in a detailed procurement documentation to be approved according to the former rules.¹⁰

After having the official approval the original concept must have been modified. The defense organizations were not in the position to choose between the reopening of competition and direct purchasing. In order to decrease the administrative burden the only approved procedure to apply remained the direct purchasing. Thus there was no possibility either to enforce a price reduction or involve a new item into the procedure.¹¹

In case of reopening of competition the administrative burden for the units increasingly gets heavier. The call for proposal of the concrete demands, their submission, evaluation, approval and the successful bid announcement might use even more than 30-50 days plus the documentation of all procurement activity.

⁸ „the procurement procedure applied for military units” 48/2012 Defense Ministry Order

⁹ Derzsényi Attila: Keretmegállapodásos eljárás alkalmazása a honvédségi ellátásban KATONAI LOGISZTIKA 21:(1) pp. 35-48. (2013)

¹⁰ “for the Central Control and Approval of the Public Procurement” 46/2011. (III. 25.) Gov. Decree (2013)

¹¹ In case of a tender re-launching a similar product could have been involved in the competition to have more price reduction from the suppliers.

In case of direct purchasing after filling a specified excel sheet¹² regarding the product basket, all the contract parameters (supplier, products, unit prices) are already automatically determined.

The framework agreements were conducted on a base of 1+1+1+1 year in order to provide an option either for its annual extension or after the end of the actual framework agreement/contract to have new ones.¹³

The last year behind is enough to assess the experiences and draw the necessary conclusions. To get an objective picture on the system performance efficiency I have made two separate researches. On the one hand regarding the military units I have examined the user's side, on the other hand concerning the suppliers I researched their opinions and standpoints.

This study presents the research made for the suppliers and the result evaluation of the research.

It goes without saying that all of the results of both researches would be compared and presented for the decision makers (to have a fair competition and equality in the future procurement procedures).

All data gathered during the researches would be summarized, so the specific individual aspects will not be displayed respecting the anonymity and mapping the real situation. All of the results presented hereby are the products of the researches and represents the author's individual opinion and observations. Any reference to this study in any other public procurement procedure is not viable without knowing the whole complexity of the researches.

PREPARING THE STUDY

I have chosen the quantity-based research form - the survey-method - in order to accomplish the primary goal to gather the „Big Data” in closed form. Closed form means, that the questions of mine are fixed, and used in the same form in each case.

During the choosing process of the research method and the creation of the surveys, I have paid attention to unique details of companies involved in the HDF's catering supply, which were the followings:

- different participation experience in public procurement procedures,
- different supplying experience to HDF,
- different administrative labour force for preparing the public procurement procedures,
- different - product-specialized or general - suppliers,
- different supplier opportunities due to current framework agreements,

¹² the products and their quantity of a concrete commission

¹³ <http://honvedelmibeszerzes.kormany.hu/>

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- different circle of suppliers of products and regions,
- greater willingness of reply in case of already contracted suppliers,
- sorting out the generalizations of individual answers.

The HDF currently has suppliers in 9 catering products in regions or units, these are the followings:

- Vegetables and fruits: 5 suppliers in 8 areas
- Frozen products: 6 suppliers in 3+1 areas
- Confectionery products: 5 suppliers in 13 areas
- Butcher's meat: 5 suppliers in 3 areas
- Beverages and natural water: 3 suppliers in 3 areas
- Milk and dairy products: 3 suppliers in 3 areas
- Poultry meat and products: 3 suppliers in 3 areas
- Bread and bakery products: 8 suppliers in 7 areas

The areas are determined according to the HDF's unique needs, moreover the suppliers are different in each areas. The majority of suppliers provide more than one product.

According to the latter information, I worked out both open and closed questions. Mainly I worked out closed questions when I edited the surveys, in which the answer opportunities were either limited or fixed (e.g.: Fixed numbers, fixed measure, yes-no answers). In the case of the open questions everyone was free to answer, there were neither limited nor fixed answers.

The survey had 3 main topics to investigate:

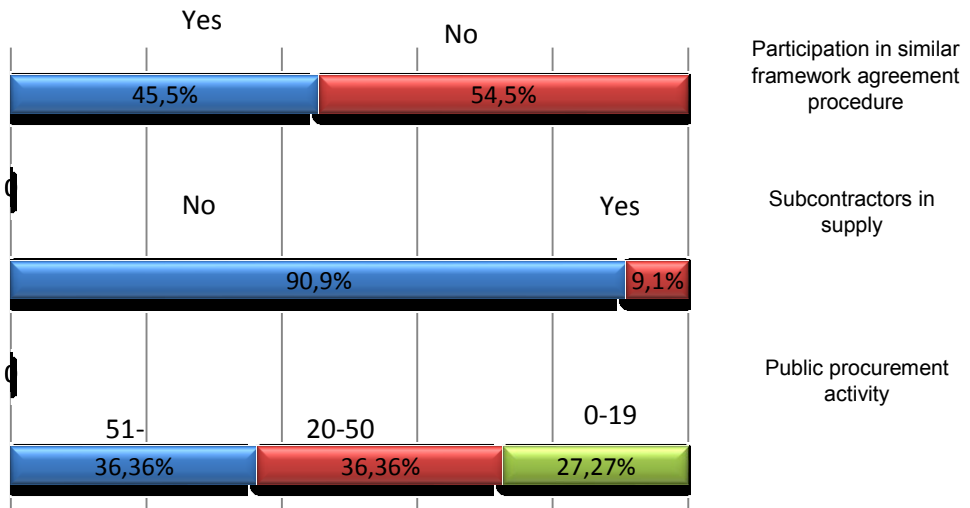
- The general activity of the company in public procurements in the latest 3 years
- The objective, unbiased reviews on public procurements aiming to establish a HDF framework agreement
- Questions about the last year's experiences, thus the efficiency of the procurement system

1.) In the beginning of the survey I asked questions suitable to help the people warm up for the inconvenient situation of being asked to give private information. These questions were easy to answer and required almost no thinking

- How many public procurement procedures, which subject was catering supply, did you take part in the last 3 years (from 2012 to 2014)? (not only in accordance with HDF)
- In general, can you provide the catering supply independently, or do you need to involve sub-contractors?
- Have you ever applied for public procurement procedure aiming to establish a framework agreement?

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Graph N.1: Competence surveying
(Source: own editing)

Based on the competence surveying of objects of the research, we can observe the fact, that one-third of the respondents actively took part in public procurements of Hungary, and the other one-third apply on a less regular basis. 91% is capable of providing the logistical tasks for the whole supply procedure, thus there is no need for subcontractors.

In addition to framework agreement procedures the half of the respondents declared their participation in the past. Considering the data gathered from the database of the Public Procurement Authority we can see, that the Contacting Authorities' framework agreements in catering supplies in the recent years are tend to apply this kind of procedures for catering procurement more frequently¹⁴. (Note: It would worth an other research to examine the HDF's role in the spreading of the framework agreements in public procurement procedures).

¹⁴ The number of the starters of framework agreement procedures is less, each organization with the request for quotation started more than one procedures. Thus the Defence Economic Office Ministry of Defence of Hungary (HM VGH) is the starter of the most procedures with the count of 9.

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2014	2013	2012
13	17	1

*Graph N.2: The number of invitations of framework agreement tenders
(Source: own editing)*

2.) The second main topic of the research was the objective, unbiased experiences and reviews on the public procurement procedures in the HDF.

During the research of the preparation of the HDF's framework agreements, I defined two goals:

- Find out the difficulties of the tenderers deriving from the HDF's unique specifications
- Find out that the specifications of the HDF's supply system were obvious or not during the request for quotation

For more than the half of the respondents the conditions of the framework agreements were obvious, but for some it was confusing or it became understandable after the second or the third reading. Interesting fact that, the confused half of the tenderers had taken part in public procurement procedures connected to framework agreements before.

The following topics meant difficulties, based on the answers:

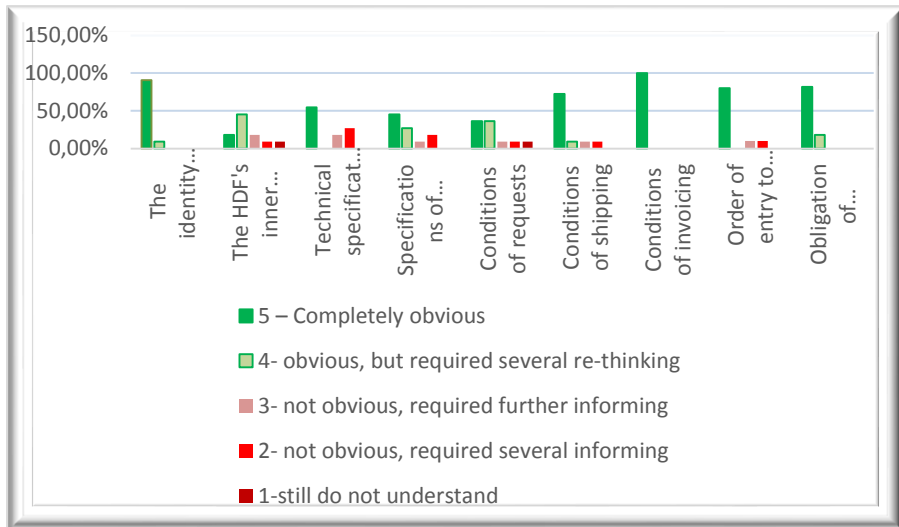
- NCAGE code
- Disposal declaration of specialized professionals
- Declaration of entering
- Rendering the product specification data sheet for each product
- The solution for compulsory transporting to barracks located far from each other
- Certification for food quality management apart from HACCP

Preparing the above mentioned documents did not mean extra costs for the three quarter of the respondents, but it meant extra administration for the remaining quarter (in addition to the extra cost of the administrative workers).

The clarities of the phrases and the compositions of the request for quotation were surveyed in the following way:

The answers were points 1 to 5 (5 – Completely obvious, 4- obvious, but required several re-thinking, 3- not obvious, required further informing, 2- not obvious, required several informing, 1-still do not understand)

According to the original conception, the central purchasing body processes in the name of the corps, as Contracting Authorities. This means that the units of the HDF are 'quasi' independent during the first and the second part of the procedure. For the respondents this specification was obvious.



*Graph N.3: The availability of documentation of request for quotation
(Source: own editing)*

During the evaluation I indicated the categories 5 to 4 as obvious, categories 3 to 2 as not obvious and category 1 as completely unintelligible. According to the graph above it is clear, that the critical elements of the documentation of request for quotation imply the HDF's inner regulations, the quality criteria and the terms and conditions of the contract.

It is important to emphasize the fact, that - in spite of the practical experiences - the HDF's inner regulations and the terms and conditions of the contract are still not obvious for some suppliers. It is also important in the determination of the causality to look what kind of replies were processed in the surveying of latest period's practical experiences detailed in the next part of the research.

3.) During the most important part of the surveying, according to my opinion, I measured the cooperation between the HDF's units and suppliers.

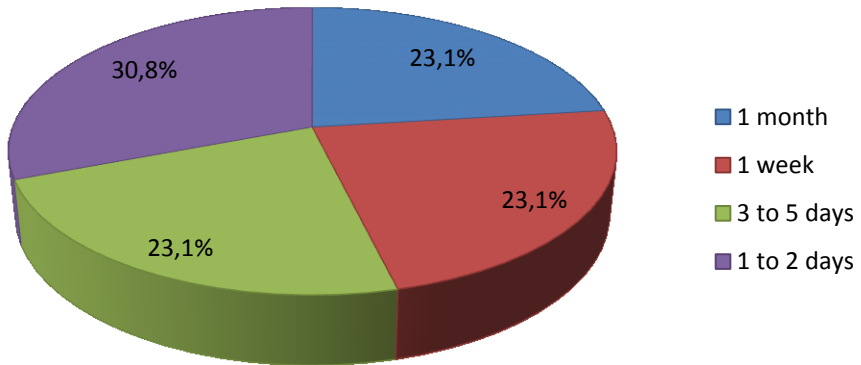
According to the contracts of the framework agreements the HDF's units send their requests to the suppliers in a monthly basis. The constant changes in the demands of the HDF make the deadlines hard to keep. According to the inner regulations, the employees can cancel their personal catering services 2 days before, moreover in a case of a cancellation of a military exercise the catering must be carried out in the barracks (this means important quantity increase in the cooking procedure).

The suppliers are not exclusive suppliers of the HDF, thus they plan the routes for the operation of optimal, cost-saving logistical system.

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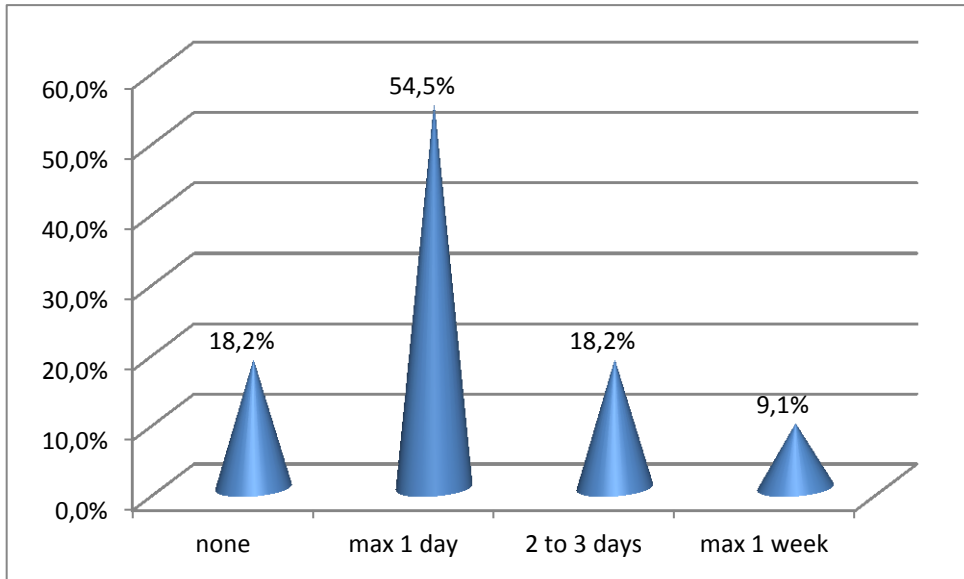
According to the replies, the requests are different by units and products. Nevertheless it is typical, that the suppliers get the requests 1 to 5 days earlier. The share of just in time shipping (1-2 days) is significant.



*Graph N.4: Suppliers by shipping time
(Source: own editing)*

In spite of these facts the replies for the question in which I asked about the punctuality of the requests are remarkable. More than 85% thinks, that it is in time, even in the case of those, who previously said, that the process of the request is not obvious.

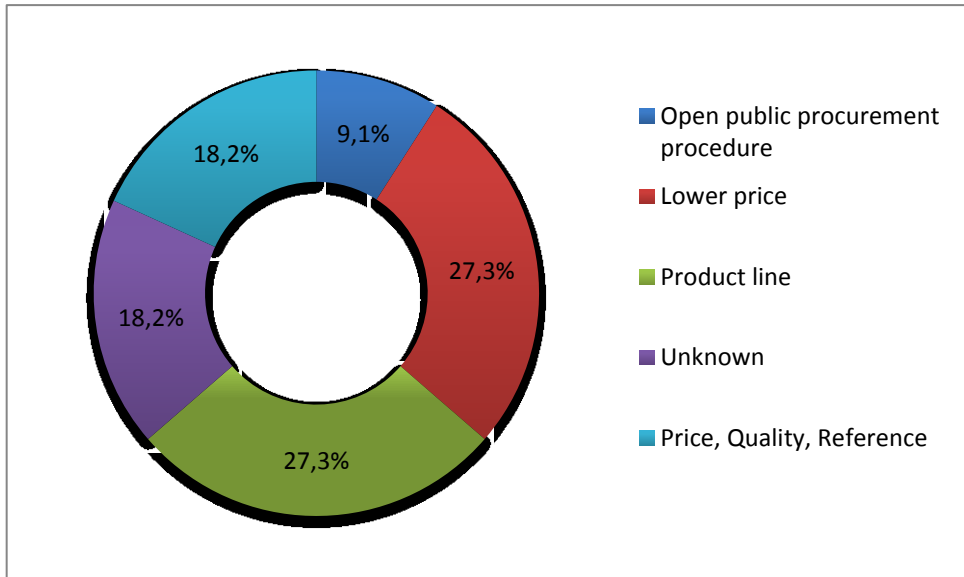
Regarding the confirmations of the requests, the majority of suppliers confirm them within a day, but there are cases, where this step is skipped.



*Graph N.5: The confirmation of requests
(Source: own editing)*

Generally speaking, we can say, that the suppliers are satisfied with the activity of the HDF's units (with a 100% positive responses). In addition the satisfaction is 90% regarding the handover procedure, the length in time of entry procedure was marked as problematic. Based on similar results, the suppliers are capable to provide the special supplies in similar circumstances. Basically, the system was created in order to provide these special demands.

Based on the documentation of request for quotation, the signed contracts and the exact product line, the HDF's units carry over the ranking of the suppliers, thus they can send the order to the most eligible supplier. I measured the suppliers' opinion on the point of views of the selection system for framework agreements. I received various replies.



*Graph N.6: The suppliers' opinion on the selection of the suppliers
(Source: own editing)*

Less than one-third of respondents know the method of product line-based evaluation. The most surprising fact was 18% stated that they do not even know the procedure of the request and selection.

I have provided an opportunity to the respondents to explain their further observations and opinions on the new system, which were not represented in the survey. The remarkable notices of the suppliers were the followings:

Apart from minor barracks, the requests for quotation for bakery products should be gathered by barracks in order to provide opportunity for more bakeries to apply. Unfortunately the current practice gives no chance for bakeries to ship to longer distances, thus this created the situation in 2014 in which sometimes there were only one applicant per part-tender.

There was a large demand for personal consultations over shipping and orders.

It would be important to determine the quantity of the orders in advance (because there are several suppliers, which determines a minimum weight, thus if the order does not reach it, the supplier will not be able to complete the order)

The orders should not have unreasonably low weight or value.

It is necessary to change the product or the packing unit in case of change in units, or the product's availability.

It would be vital to sort out tenderers, which do no actual work; instead they just win the contract, and use only sub-contractors.

SUMMARY

The aim of my research was to measure and analyse the efficiency of the HDF's catering framework agreements with the support of the suppliers. During the survey it have been managed to find out the perceptions of the HDF's procurement system, the quality of the cooperation with the HDF and the risks of occurred issues.

The research focused on the fact, that during the determination of technical requirements more attention should be paid to the logistical capabilities of market operators and the differences among the product lines (date of expiracy, shipping vehicle, min request quantity). The request period should be more exact, and it should be decreased during the release.

According to my point of view it is necessary to foreshow the results of this research to the professionals of the HDF in order to improve the efficient cooperation.

As I wrote in the prologue, the results of this research are compared to other researches made by HDF's units. The units got and extended survey contained the questions mentioned above, thus their opinion could have been valuated.

Considering the fact, that there are no other similar research in the subject, , this research might be an adequate base to improve, and to adjust the framework agreement system.

Keywords: food procurement, framework agreement, military procurement

Kulcsszó: élelmiszer beszerzés, keretmegállapodás, honvédségi beszerzés

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