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Searching for New Savings: The times they are a-changin’

Keynote Speech

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Introduction

[Slide 3 – PICTURE OF BOB DYLAN AND 37 SECOND AUDIO CLIP OF ‘the times they are a-changin’]

The times they are a-changin’....that’s what Bob Dylan wrote in 1963 when he was young...only 22 . And so was I.... His message is just as timely today, especially in government procurement.

In New York State, the times they are a-changin’.... It’s called the Spending and Government Efficiency Commission, SAGE for short. And the changes will be dramatic, long-term, and provide lots and lots of savings. This wave of procurement reform will require expertise...that’s you...some day soon procurement people will be much more highly regarded, (finally, as Rodney Dangerfield used to say, we’ll be getting some respect), procurement people will be frequently asked for advice by senior executives, or even more of you will be senior executives...and then you will be seen as directly helping both your Agency and the State Government achieve its goals...So, I believe that the future is bright and it’s almost here!

Procurement it’s a-changin’ and so is the path for searching for savings...in many agencies, we’ve taken the old path....and done well, we’ve streamlined our processes, implemented computer-based systems, piggy-backed on state contracts...we’ve done it all...(I must add, here, that yes I recognize that some Agencies still have a long way to go)....And the pressure for smaller budgets and reduced spending is increasing. (Starting at the Governor’s Office.) So, we need a new path, a new source of savings....the often feared PARADIGM SHIFT!

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In NY State we’ve progressed from BUYING TO PURCHASING TO PROCUREMENT , and now it’s on to the newest, most general approach - the world of SPEND MANAGEMENT...an expanded view of what we do, an enterprise view, a state-wide view, supporting strategic objectives, supporting innovation and the delivery of program

goals. As demonstrated by large private sector firms, Spend Management is a view capable of delivering huge savings...from new systems, new tools and new powers and responsibilities given to Spend Management Departments and their Staff.

During the next few minutes, I'm going to deal with only two elements which together will define your future...not just the future of OGS (Office of General Services), or Office of the State Comptroller (OSC) or a specific Agency or Municipality, but all of you!!! And the State and your Agency is going to need lots of expertise and lots of procurement smarts. All of you in this room are part of the solution, and will be seen that way...You will no longer be seen as a Gatekeeper – someone delaying that IT project from starting, or the introduction of a new service. You will be universally regarded as a valuable player, with a strategic role and great potential for helping the State achieve its social goals.

In the next little while, I'm going to discuss only two topics:

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First, I'll tell you about searching for savings within an Agency – what has been done and what you can still do.

And then I'm going to tell you that Spend Management is coming to an Agency near you. Today, I'm going to look back at other jurisdictions having gone through a similar top-down, politically-driven process – a search for new savings driving a re-organization of government workings, a streamlined bureaucracy, a fundamental review of the role of departments and agencies. All of these activities leading to the replacement of Procurement by Spend Management at the enterprise level.

I'm going to look at two other jurisdictions and then tell you, or at least speculate, as to what your future will look like....I believe that the future has already happened but not yet in New York State.

So, let's begin...

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Searching for New Savings in Your Agency

Let's talk about how you can identify new savings in Your Agency. Many of you have spent years reforming, simplifying procurement and increasing its value in your agency. Some of you, especially in smaller agencies, have had little time or support for reform...you've been too busy just doing your job. Some of you, however, have managed to introduce major changes leading to significant savings. And some of you have been constrained because your bosses didn't think that procurement reform was a strategic issue.

There are three obvious sources of procurement providing savings in any agency:

1. Pursuing 'best practices'. This includes areas such as e-procurement to replace staff activities by computer-based solutions and the electronic distribution of bid documents and vendor self-registration.
2. Examining and altering specific procurement practices which have been ignored in the past – such as the acquisition of professional services. You can't just award contracts to 'friendlies' regardless of cost, or have 'past business with this Agency' as one of the evaluation factors
3. Innovation – new, at least for your Agency, new techniques, tools, approaches, policies. For example, few Agencies encourage and accept Unsolicited Proposals – even if the results would be immediate and produce substantial savings.

Now these three approach, pursuing best practices, examining specific high visibility procurement practices, and innovation don't apply to each of you... But I expect that at least two of these three approaches could benefit your Agency and produce new savings.

Let's look at each....

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Searching for New Savings in Your Agency
Pursuing 'Best Practices' Such As E-procurement

Let's spend a little time examining the most common sources of savings in procurement – best practices. While practices vary radically across agencies and jurisdictions, there is agreement on a set of best practices. It's the National Purchasing Institute's Model of Excellence. The excellence model is based on many factors including innovation, use of technology, senior management support, professionalization of staff...

Now, as we all know, excellence is not 'least cost'. It's a combination of (a) fair, open and transparent procurement (b) effective strategies, policies, procedures and techniques and (c) efficiencies. If you wanted the most efficient selection process, just sole source every purchase. The acquisition process cost is virtually zero. And if you want the most efficient (cheapest) cost for an item, just use 'least cost'. But that may not be very good if, for example, the 'least cost' software has the highest life cycle costs, or the highest training costs, or the highest risk of failure. So, when we search for savings, there are constraints imposed by being (a) fair, open and transparent (b) effective and (c) efficient.

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The National Purchasing Institute has developed and sponsored the Achievement of Excellence in Procurement award. This award represents the only nationally accepted definition of procurement excellence based on input from most major procurement professional organizations- some 12 in number including the National Institute of Governmental Purchasing and the National Association of State Procurement Officers...

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Almost all of the requirements for this award are also pre-requisites for finding savings...for example...ecommerce is one of their measures and includes vendor self-registration, a source of savings.

The factors assessed in evaluating an organization's 'excellence' have been arrived at by making acceptable trade offs in terms of fair, open, transparent and efficiency and effectiveness.

The winners of this award, hundreds of them, are found among cities, states and other government agencies...This year's list included the States of Alaska, Georgia, NM, Utah, and VA. One day soon, we might add New York to this list.

An examination of their 19 excellence factors provides some insights into areas where savings can be realized, how savings can be realized and the tradeoffs based on effectiveness and efficiency.

I don't want to drag you through the 19 factors which are available on line – however, NPI's award of excellence does have some interesting implications:

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Factor #4 deals with maintaining a continuous improvement program with surveys of both internal and external customers, customer training and vendor training, all of which reduce costs, complaints, and inquiries as well as identifying sources of improvement in terms of both effectiveness and efficiency.

Factor # 6 Location, location, location.... deals not with where your office is located but with the power of the procurement function –whether it reports at a high level in the agency or is buried deep deep down in finance. The higher the level, the more clout procurement has – the greater its ability to implement innovations, new sources of savings and new techniques to improve effectiveness.

Factor #9 – The use of a P-card system to reduce transaction costs from nominally \$150 to \$15 but more importantly the implementation of a system with streamlined approval processes which permit the realization of these savings.

There are other factors in their 19 elements related to excellence that promote efficiencies such as participation in a co-op purchasing agency

Your Agency should have dealt with each of these factors in its pursuit of both excellence and savings. I believe that you will find savings by pursuing the NPI model of excellence. So as a minimum in ‘searching for new savings’ every Agency should use this NPI scale - and many of you have done just that...

Searching for New Savings in Your Agency

Examining Long Standing Practices– Such as the Acquisition of Professional Services

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You can also find new savings by examining and revising current long-standing practices and approaches to ‘high spend’ items such as professional services.

While I don’t have a lot of time to drill-down into this approach, let me provide you some examples of what can be done. Let’s look at how some organizations have approached professional services. – because, in many agencies, this is a both a high spend area and an area that can be politically sensitive....every senior manager wants to hire a law firm that he or she trusts, not the one that got the highest score on qualifications, price, track record and types of services provided. Every senior information technology executive wants to hire the systems group that he or she has confidence in, not the group selected by a committee as representing ‘best value’. The same with your staff Engineer. He or she has confidence in firms and people they know.

But change it is a-comin'....even to professional services contracts... here's how five different organizations examined and changed their long-standing practices.

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1. While looking for a management consulting firm, the Procurement Officer removed all vendor references from proposals and evaluation documents. So the Evaluation was 'blind' and this caused some interesting comparisons never done before. The Evaluators eyes were certainly opened about the 'old favorites' and those new-comers.

2. While looking for law firms who could provide a wide range of services, the Procurement Officer held a reverse auction!! They posted the requirements on a Reverse Auction site and their specifications for a broad range of legal services and skills. Try it – the legal marketplace is highly competitive. Even among the specialty firms. Firms capable of providing the specified services, then competed by lowering prices until the closing time. Imagine – prestigious law firms competing publicly!

3. Try performance based-pricing.... We pay construction companies for early completion of that critical bridge or road... why not pay management consultants studying 'savings' based on the savings actually realized? Or legal firms for winning??

4. Try performance analysis – looking at how your organization actually deals with a specific professional service engagement. An organization looked at its communication costs...for media stuff – announcements or press releases in magazines and newspapers, mailings to citizens, etc...discovered that 15% of the budget was consumed by rush and last minute changes....so...they focused on project management and obtained an automated workflow management tool to reduce the number of change orders and the overall cost of their projects.

5. And finally, Outsourcing – Lots of organizations take a non-essential part of their business and outsource it. For example, the City of San Jose recently decided it couldn't afford its own janitors. So the city's budget called for dropping its custodial staff and hiring outside contractors to clean city hall and the airport, saving about \$4 million

over the life of the contract. And in BC (British Columbia), where I live, the utility, the electricity generator and distributor, outsourced its billing function to one of many major corporations dedicated to outsourcing on a world-wide basis.

So, in this day and age, all procurement practices are subject to scrutiny and may be sources of new savings.

Examine Sole Sourcing. Is it necessary? Is it abused?

Examine RFPs. Do you always use Best and Final Offers? Can the process be improved?

Examine Contract Management. Do you separate Contract Management from Project Management? Do contracts limit the amount of spend? Do you have professional Contract Managers? Do you review performance before making the final payment?

There are great opportunities for new savings presented in an examination of long-standing procurement practices.

Searching for New Savings in Your Agency

Innovation – New, at Least for Your Agency, Techniques, Tools, Approaches, and Policies....

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And finally, the third set of activities that you can introduce in your agency to find new savings is innovation...trying something new that hasn't been tried in your agency, but has been found effective somewhere else...

Now many of the agencies, municipalities and other government entities know all this. And many of you have implemented much of this. But there are lots of other actions that can be taken that will promote this model of excellence and attain savings..... Many of these are known to the procurement community but few have been implemented on a wide-scale basis

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Reverse Auctions – tried and use by many agencies. And there are private sector web sites that provide this service. All you do is hire the web site, post your requirements and inform your favorite vendors...then it all happens automatically...

Formalized Spend Analysis – there are software packages and services that perform spend analysis. However, the difficulty isn't in doing the analysis, it's in coding the data so that you can identify different types of spend and the supporting information. I'll talk more about this in the next section when I talk about the State of Georgia's transformation of its procurement function.

Outsourcing of Specific Services – Lots of activities get outsourced these days...from janitorial services to data input, from legal research to billing. Any non-essential element of government is capable of being outsourced. And it's a new world-wide industry...

Specialized Groups to perform (i) high risk, high value procurements or to deal with specific types of complex procurements

Use of Fairness Officers to protect high visibility highly politicized projects. These are typically outsiders, highly respected consultants, experienced and brought in to reassure an increasingly skeptical public that the procurement was fair, open and transparent.

Public Private Partnerships - Entering into contractual agreements with private sector firms, typically for capital works.

Unsolicited Proposals – having a policy which encourages and rewards innovation from the private sector by permitting contracts to be issued with no or little competition.

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Building Innovation into Processes – having agency-wide policies that permit innovation in programs and services leading to contracts.

BAFO – always using Best and Final Offers to ensure that every winning proposal obtains at least 90% of the available points.

Bid Review Committees – Using a committee to ensure that critical, potentially litigious procurement decisions are reviewed by Agency-staff not originally involved in the transaction.

Use of Third Party Software – Oracle or SAP often costs \$1 million or more per module...and often, only 50% of the functionality is actually used. Consider using other vendor's proprietary third party software. This non-Oracle non-SAP software costs NOT \$1 million per module but rather in the \$100,000 to \$250,000 range! And these savings could be even greater with open source software.

Searching for New Savings in Your Agency

Why can't we do more at the agency level?

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With all of these ideas, models, best practices, innovations and examples, why can't we do more at the agency level? It's simple...there are critical barriers, not easily overcome...

- Lack of staff, budget and skills to do the work
- Lack of political will
- Lack of support of senior management

And, there is another systemic barrier, a cultural barrier: many Agencies are risk adverse; therefore innovation is truly discouraged.

But all that is a-changin'.

The Future Has Happened Already.

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Traditionally, procurement has been the poor undervalued child...the one that got praise not for its achievements but for being well mannered or respectful...In short, procurement is undervalued , it's the underachiever...the store manager not the child who became the rich entrepreneur.

In many organizations procurement, with acknowledgement to Rodney Dangerfield, I don't get no respect. Procurement often reports way down in the finance department, its valuable role is often not quite understood by the senior executives and politicians, its often viewed by others, especially IT or construction, as 'holding up our projects' and

'taking too long – imagine procurement having only 3 weeks or more to finalize a multi-million dollar project that's been two years in planning!!!

In many jurisdictions and in many agencies, I'm pleased to report that **that** is now interesting history....a new day has arrived...for some the new day was ten years ago, for others not quite yet...

Here's the transforming event!! I'm certain you will recognize it here in NY State.

Governments are under extreme pressure to delivery improved services to their citizens, while at the same time reducing both staff and budgets. It's happened in Washington, in California. It's happened in Canada and it's happened in the United Kingdom. Lack of money for critical programs, bankruptcy, and the fear of having to raise taxes in difficult times has focused attention of the politicians on Procurement.

Once a government concludes that it must take a serious crack at solving this problem, it quickly recognizes (by talking to high priced consultants) that Procurement is a key to the re-engineering of government and finding massive savings..... So, once the senior management or political leaders understand this, they typically launch a special committee which then brings in recommendations which, in turn, are often superbly capable of delivering huge, huge savings but require management talent and political will to implement. Often, change is difficult, requires money and time, procurement smarts and expertise on change management, as well as the agreement and support of a wide wide group of stakeholders....

So, this committee does its job and then the fun begins. Major changes in policy, in organizational structure, in job descriptions, in roles and in the value of Procurement...which I will now call Spend Management. This is the paradigm shift...the store manager has now become the founder of a new business ...

The pattern is strikingly similar across jurisdictions.

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New York is no exception... In January of this year, Governor Cuomo in his State of the State address announced that he would preside over the radical redesign of State governmental structures and operations:

“We must transform the State of New York from a government of dysfunction, gridlock and corruption to a government of performance, integrity, and pride . . . This is not about budget trimming or cutting, it’s about looking at how we can fix government and make it work for the people. Together we must take the significant steps needed to reinvent, reorganize and redesign government to restore credibility and rebuild our economy ...”

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This, in turn, led to creating the Spending and Government Efficiency (Sage) Commission..... and the Sage Commission means Spend Management is coming....

“**WHEREAS**, it is of compelling public importance that New York State undertake a redesign of its inefficient and outdated state government structure and operations by doing a comprehensive review of every agency of state government and recommending structural and operational changes in the government;”

Spend Management is a-comin’.

The results of this sort of political imperative, once it gets translated by the consultants and professionals, always include a new paradigm for Procurement – SPEND MANAGEMENT.

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Here’s what it looks like in Georgia. This is their spend management concept. Basically a spend cube with 3 dimensions: the type of spend, across the various agencies, by supplier. All the rest is detail. This is the first statistical system fully equipped to examine the purchases of Georgia’s 86 agencies and 35 academic institutions, Spend Management Analytics helps the state identify maverick spending and statewide contract opportunities. The spend cube combines data typically tracked by three

disparate accounting systems and analyzes the data from virtually every imaginable angle—buyer, supplier, category or cost. Thanks to this transformational tool, the State of Georgia reaps the financial benefits of having more than \$3.5 billion in spend under management.

Spend Management is meant to represent a holistic view of the activities involved in the "source-to-settle" process across the entire organization. This process includes spend analysis, sourcing, procurement, receiving, payment settlement and management of accounts payable and general ledger accounts. Now this paradigm is not new...it's been used by the private sector, by large corporations with many operating divisions, for years. It's only new in the public sector.

Spend management is:

- An enterprise wide view of procurement
- Standardized systems and tools to support analysis across all state entities
- A centralized authority for all aspects of procurement, all the processes
- E-commerce on an enterprise level
- Programs for continuous improvement and innovation

Success in Spend Management is:

- Dependent on high levels of expertise in change management, procurement processes and systems
- Dependent, for its success, on high levels of political support over a protracted period of time.

Let's now examine how two public organizations have dealt with Spend Management. Let's see the studies, the recommendations and the results....Let's look, first at the United Kingdom and then the State of Georgia.

Spend Management in the United Kingdom

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First from the U.K., two items which I believe sound like the future in New York State.

In May of 2010, there was a general election. The new government needed to reduce its spending by billions of pounds.

Just before Election Day, Peter Smith issued a discussion paper called "The Perfect Storm". Peter Smith is an acknowledged, highly credentialed, respected industry leader who wanted to provide his perspective on the government spending crisis.

I expect that the procurement reform flowing from your SAGE Commission will overlap significantly with Peter's White Paper.

Peter stated that " *Public Procurement will have to do more with less, which will need some dramatically different ways of doing things*". He then went on to discuss his key recommendations for procurement reform. Here they are:

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- Transform "Procurement" into "Spend Management".

This is critical. This is the Paradigm Shift which makes it all possible.

Peter said that *'the only way in which the required savings can be delivered will be through relentless attention to the whole spend management process.... and (we must) re-brand public 'procurement' as 'spend management'*.

- Impose a Stopping Gate.

Spend Management starts with Demand Management. Stop things being purchased. Do this at the micro level. For example, reduce travel by video conferences; stop many existing major projects if they are not feasible, not warranted or too costly. Kill projects off at birth, in spite of politicians need to start new major projects.

- Stop Buying the Best.

Manage specifications. Identify not the 'perfect specification' but the 'minimum acceptable level required'. Put more emphasis on lifecycle costs.

Peter said that "...weight total lifetime cost as at least 60% of the overall weighting in the evaluation. This seemingly trivial step would actually send a strong message to supply markets and lead to lower priced goods and services being chosen in many cases."

- Collaborate with other agencies.

Combine demand and leverage your power.

There should be greater clarity and explanation of strategies for specific spend areas across Government. . . .(collaboration) must be based on organisations committing spend to the contract in advance of the approach to market.

- Merge Procurement Units

It's hard to be effective and efficient when, for example, there are only 3 people in procurement and the spend is less than 50 million or so.

". . . many procurement departments in public organizations are of sub-optimal size in

terms of both operational effectiveness and market leverage. Forming larger units would be sensible and beneficial . . . Our experience is that organizations need a spend of over £100 million and at least 20 professional staff in order to obtain critical mass in terms of capability and leverage.”

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- Manage Contracts Better.

How does a professional services contract, to implement a new computer application, escalate from \$500K to \$1million. It's simple. Award a \$500K contract with ambiguous specifications and poor contract management. The change orders will quickly get you to \$1 million.

Peter said that *“There is often a significant gap in the skills, resources and mandate for the management of major contracts.*

- Get control of professional services.

I spoke about professional services a few minutes ago. Peter recommended that government introduce *‘cap’ on day rates for professional service providers to public sector organisations, linked to the Prime Minister’s salary. We believe this will equate to around £1250 per day. This will also have the benefit of encouraging work on a payment by results or risk / reward basis.’*

- Slash the cost of procurement

Use some of the methods and innovations already discussed under Agency savings and introduce measurements that truly reflect spend management.

What the New Government Said

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So that's what Peter Smith said at the time of the election. Once the new government was in place, they launched a study, their Spending Review. Five months later, in October, the Government released its findings – a roadmap for spending reform.

One of its objectives was to concentrate its efforts on ...”making efficiencies in IT, procurement and the back office to deliver savings”

These and other UK documents produced as part of their reform initiatives contain ideas and recommendations which will be 'déjà vue' for the SAGE Commission's Report.

Spend Management in Georgia

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Now let's look a little closer to home....The State of Georgia is arguably the leader at state-wide public procurement in the U.S. Let me tell you their story....

In 2003, the Governor established the Commission for a New Georgia to transform Georgia in its management practices. This commission consisted of some of Georgia's top level business and professional people.

The Commission launched a number of Task Groups, 24 in all. Each dealing with a separate area of administration, all focusing on best practices and new technologies. The Procurement Task Force examined how Georgia's 123 state agencies handled procurement of almost \$6 billion a year in supplies, equipment, goods and services. The task force, not unsurprisingly, recommended that Georgia shift to a system of strategic sourcing using 21st century technologies that enable the state to take advantage of its buying clout, broad internet based building and tracking expenditures statewide.

In 2004, the Procurement Task Group published its findings. Not surprisingly it found deficiencies in many areas:

- Procurement was focused on compliance not on cost reduction.

- The Central Procurement group had limited effectiveness.
- There were skills and training gaps for strategic sourcing
- Contract management was spotty
- Performance was not adequately measured.
- Systems were fragmented and antiquated.

It made major recommendations on re-engineering state-wide procurement:

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RECOMMENDATIONS:

- 1 A Single Center-Leading Purchasing Agent
- 2 Redesign core procurement processes
- 3 Substantially strengthen the skill set of procurement teams
- 4 Implement comprehensive performance management
- 5 Develop plan to address fundamental technology gaps
- 6 Undertake necessary legislative changes to modernize policy
- 7 Launch a statewide Procurement Transformation to address change with a sequential, coherent plan.

In implementing these recommendations, the state adopted a statistical system which could examine the purchases of Georgia's 86 agencies and 35 academic institutions, Spend Management Analytics...That's the cube I discussed a few minutes ago.

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Georgia's goal in introducing Spend Management was to save \$100 to \$200 million on a spend of \$5 billion per year; that's a modest 2% to 4%.

Their efforts to do this have been recognized....

1. They got an award from NASPO for their program to control Spend Under Management Initiative which is based on their use, in part of Spend Management Analytics software. The award was the 2010 George Cronin Silver Award for Procurement Excellence.
2. For the last 13 years, Dept. of Administrative Services has received the NPI Achievement of Excellence Award. And they are the only recipient who has done it for this long and this many consecutive years.

Conclusion

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In the last few minutes, I've identified ways in which Agencies can find more savings, initiatives that any single Agency can try. And I've identified Spend Management as the future...a known path, already travelled by others.

So, in New York State, the times they are a-changin'....

Yes, change is here, today, in Albany, at your agency . . .

And the changes will be dramatic, long-term, and provide lots and lots of savings...and this wave of procurement reform will require expertise...that's you...some day soon, procurement people will be much more highly regarded, (getting' some respect), asked for advice by senior executives, or be a senior executive...and be seen as directly helping the Agency and the State achieve its goals...

So, the future is bright and it's almost here!

[Slide29: Play song for about 37 seconds, first verse only]

[Slide30]

Thank you.

