

State's Strategy Promotes Savings, MWBE Participation

By Katherine K. Frisch, Editor

Upon taking office in 2003, Pennsylvania Governor Edward G. Rendell learned that he had inherited a \$2 billion structural deficit. One of his campaign promises was to look for every opportunity to generate significant savings for the state's taxpayers. He was adamant that the amount be reduced as much as possible through cuts in the administrative side of state government, rather than the service or program side.

Very early on, procurement was identified as an area with a significant opportunity for savings.

Pennsylvania spends about \$3 billion per year on goods and services, making it one of the biggest buyers among state governments, but the entity had yet to use its buying power to its advantage.

"Instead, the procurement philosophy of Rendell's predecessor was literally called 'Share the Wealth,'" says David P. Yarkin, former Deputy Secretary for Procurement, Department of General Services (DGS), Commonwealth of Pennsylvania. "The idea being that the state spends quite a bit of money and we should spread it out among as many sellers as possible."

The intent was to use procurement as a vehicle for economic development. The Share the Wealth model was highly decentralized, with every agency of state government buying on its own and often duplicating efforts on commodities such as office supplies. In 2003, Pennsylvania purchased office supplies from 2,000 different suppliers.

According to Yarkin, "What ended up happening was that the state had hundreds of suppliers of office supplies who were getting \$100 worth of business a year—not enough to make a difference from any economic development standpoint."

In the area of PCs, the state bought from the four major OEMs, but not as one government. This was accomplished through a multi-award contract with 200 suppliers.

The rates were basically ceiling rates. It was left up to the agencies to try to negotiate those rates down.

"Even though we may have 10 agencies that bought PCs from IBM, we never got the pricing as if we were a big buyer," says Yarkin.

State Looks to Strategic Sourcing

As Rendell was transitioning into office, he looked at best practices from other states and the private sector. It became clear to the governor that strategic sourcing was the way to go. Getting the best value possible and maximizing the state's buying power by aggregating the demand of all agencies was made a priority.

"We realized quickly that we couldn't do it ourselves, and we looked to bring in some outside help," says Yarkin.

Five firms submitted proposals to the state's RFP for a strategic sourcing solution. According to Yarkin, Accenture had the best proposal and the best team.

"They really impressed us with their confidence in their ability to generate significant savings and their belief that you can save money while at the same time increasing your minority- and women-owned business (MWBE) participation rates," says Yarkin.

Once contracted, Accenture spent eight weeks going through the state's data, including five accounts payable systems and thousands of invoices.

"At the end of the eight-week period, they told us how much we spent on each goods and services category and what our priorities should be in terms of strategic sourcing," say Yarkin.

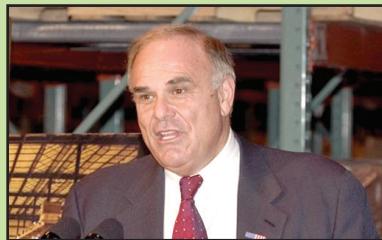
During the first phase, the state chose to focus on 10 commodities and services, including software, vehicles, asphalt, office supplies, furniture, computer maintenance, copiers, PCs, servers and storage, networking gear and peripherals, cleaning suppliers, and food.

"We wanted to tackle those areas that would generate the biggest savings," says Yarkin. "We wanted to get some quick wins under our belts and put some big numbers up on the board, build confidence among our buyers, and show the skeptics that it could work."

Interagency Teams Overcome Challenges

For each of the 10 commodities, the state set up a commodity team led by a buyer from DGS. The teams were made up of end users from all of the agencies and supported by Accenture.

"Of critical importance to us was



Pennsylvania Governor Edward Rendell (top); David Yarkin, former Deputy Secretary for Procurement, Department of General Services (DGS), Commonwealth of Pennsylvania and President, Government Sourcing Solutions (lower right); Ray Thompson, President, SupplySource, Inc. (lower left).

knowledge transfer,” says Yarkin. “We wanted to be sure that when Accenture left, the DGS buyers knew sourcing well enough that they could do it on their own.”

To further ensure that the mandatory contracts would be used, it was critical to gather requirements from all user agencies. It took 10 months to strategically source most commodities.

“We built our requirements around our agencies’ needs,” says Yarkin. “But, at the end of the day, if there is a need that can’t be met by a contract, we don’t try to fit a square peg into a round hole.”

As the state progressed on the commodities contracts, an opportunity presented itself to generate a quick and easy win.

The Commonwealth of Massachusetts had just strategically sourced commercial, off-the-shelf software. Accenture reviewed the contracts awarded other states and concluded that the Massachusetts contract was the best available.

“Rather than having Pennsylvania go through the long, arduous effort to try to get the best contract, we felt that piggybacking on the Massachusetts contract was in the best interest of the state,” says Yarkin.

The piggybacking decision saves Pennsylvania \$4 million per year.

Strategically sourcing the remaining commodities took hundreds of hours. Getting the agencies to agree on common standards was one of the more challenging components of the initiative. Two particularly difficult commodities to standardize were PCs and food.

In the past, the Department of Corrections and Department of Public Health, under which state hospitals fall, tried to come up with some common standards on food but could never agree on similar quality levels.

“We were able to get both groups to agree on fairly common standards and go out to market together with approximately 20 prisons and 20 hospitals, as well as five veteran’s homes,” say Yarkin. “Today, the state has a contract that saves the taxpayers about \$14 million per year.”

State Makes Commitment to MWBEs

When Rendell took office, the MWBE participation rate was just two percent, which for a state as broad and diverse as Pennsylvania was a number that needed improvement. The governor set a goal of 10 percent by the end of his first term.

One of the ways the state was able to increase MWBE participation was to use Requests for Proposal (RFP) rather than competitive, sealed bids. Yarkin found that using Requests for Quotes (RFQ) and Invitations for Bid (IFB) generally focused on low price and negated the state commitment to MWBEs.

In the RFP documents, suppliers were given points for their MWBE participation rates. Yarkin spoke at every pre-proposal conference, stressing that submitted proposals must be consistent with the governor’s interest in raising participation. Vendors were shown the ranking of criteria but not the actual points.

“The MWBE was a significant enough amount that it actually turned a number of procurements where costs and technical specifications were fairly comparable,” says Yarkin.

There were a number of subcontracting opportunities, but the state’s

RFP process also helped MWBEs win awards as prime contractors.

The state’s office furniture contract is one example. SupplySource, Inc., a minority-owned dealer of Herman Miller products based in Williamsport, PA, bid as a prime

contractor and was awarded the contract from a pool of seven companies.

“We had had a lot of experience with the State of Pennsylvania, and Herman Miller had enough confidence in us that they accepted the guidance that we gave them as to what kind of pricing the state would need,” says Ray Thompson, President, SupplySource. “We chose to target federal government pricing.”

According to Yarkin, it was critically important that agencies had a high comfort level in knowing that the chosen suppliers were capable of delivering. At the time that the state informed vendors that it was developing a strategic sourcing approach to furniture, SupplySource had been selling to the state for 10 years under a preexisting multi-award contract.

Even with escape clauses, SupplySource stood to win an annual \$10 million contract that was long enough (three to five years) to recover the cost of developing the state’s Web site and readjust to the workflow of the contract.

“My biggest worry had been government’s tendency to deal with lowest cost without dealing with best value,” says Thompson. “When it became evident that they were really trying to do this right, we started to become a little bit more philosophical.”

Prior to the strategic contract, one-third of SupplySource’s business was with Pennsylvania—a roughly 20 percent share of the state’s office furniture purchases.

“Obviously, it would’ve affected our business very negatively if we had lost,” says Thompson. “We would still be here, but we would be one-third smaller.”

SupplySource presented a 79-page service proposal.

“Our first bid was the best that we could do,” says Thompson. “I’ve been told, though I can’t confirm it, that we would’ve won it even if we had not been a minority company.”

The perception that large companies are winning strategic contracts is true in some cases, but Yarkin recommends creativity and incentives as a way for large companies to further the state’s commitment to MWBEs.



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“Of those commodities that were strategically sourced, we were able to get to more than a 25 percent participation rate,” says Yarkin.

Yarkin cites the state’s IT staff augmentation contract as an example. The state had nearly 50 different suppliers of temporary IT staffing services. Strategic efforts reduced the number of suppliers to one.

The contract was awarded to Computer Aid, a medium-sized company based in Allentown, PA.

“They submitted a very competitive proposal that will save the taxpayers of Pennsylvania \$19 million a year,” says Yarkin. “What was very compelling about their proposal was that they committed to have 49.5 percent of the dollars from the contract flow to MWBEs.”

Computer Aid, a managed service provider, achieves the percentage by relying on a network of MWBE subcontractors to provide staff resources.

When an agency requests IT staff-

ing, Computer Aid sends the job description to the MWBEs within its network. They have 12 hours to send in resumes before the request is sent network-wide.

“That head start is really the key to placing more of the MWBE companies’ resources,” says Yarkin.

Shared Services, Centralized Savings

“As we completed the first cycle of contracts, it was clear that we were going to exceed \$100 million in savings,” says Yarkin.

With the probability of even greater savings, the Shared Services Center (run by DGS) was created to centralize the procurement function.

“We felt the need to bring more resources into the SSC that would allow us to continue to aggregate demand of multiple agencies and build buyer expertise in individual industries,” says Yarkin.

With 10 commodities contracts in place, SSC plans to move on to more

complicated procurements, such as lawn care. Gathering data for 10,000 vertical structures, defining agency requirements, developing standards for service levels, and going to market as one government will keep SSC busy for quite some time.

The state’s strategic sourcing initiative has saved Pennsylvania \$140.7 million annually as of June 2005. Based on this success, Yarkin suggests: “Go boldly into strategic sourcing. Whether you are a governor or a mayor of a large city with significant spend, you have an obligation to your constituents to get them the best deal possible.” □

Editor’s Note: David P. Yarkin, former Deputy Secretary for Procurement, Department of General Services (DGS), Commonwealth of Pennsylvania, recently left the state to launch his own business, Government Sourcing Solutions. Contact Mr. Yarkin via e-mail: david@govsourcing.com.

For more information about SupplySource, Inc., visit: www.govinfo.biz/5195-270.