

2008 Nomination

WASHINGTON STATE DEPARTMENT OF GENERAL ADMINISTRATION OFFICE OF STATE PROCUREMENT



MEASURING STRATEGIC SOURCING SUCCESS (CUSTOMER CONTRACT ADOPTION RATE)

EXECUTIVE SUMMARY

The application of strategic sourcing principles promises meaningful savings but in so doing, the procurement profession is becoming a victim of its own success. Savings not only offers government officials a welcome and easily understood sound bite but it has also emerged as the standard for evaluating the success of a procurement department. Consequently, if procurement continues to sustain savings, it's a matter of time before suppliers will be giving away their goods and services. The reality is that prices are going up but that shouldn't diminish the value of strategic sourcing as the benefits extend far beyond savings. For strategic sourcing to advance, we must look at the total value proposition and select a success measurement strategy that drives the right behavior which is why Washington State migrated to "Contract Adoption" rate as its strategic sourcing success measurement.

It's unlikely that savvy buyers will utilize a contract unless it first and foremost satisfies the core business needs of users and then offers the best value. To the degree that these two key elements are met will determine true success of a contract and ultimately the savings realized. However, savings as the success measurement threatens to throw this winning combination out of balance. That's because what we measure drives results and over emphasizing savings will most assuredly impact the very decisions that affect contract adoption rates and thereby savings.

It wasn't until Washington State began to leverage this simple yet profound truth did the strategic sourcing program begin to gain meaningful momentum. By shifting the focus from savings to maximizing contract adoption rate set in motion an array of operational improvements all with the intention of drawing customer participation and support. The strategic sourcing program plan was renovated with the goal of maximizing participation, collaboration and innovation. Our templates were overhauled along with our procurement policies and procedures. All procurement staff have since been outfitted with a comprehensive desk manual and an accelerated training program has been instituted. Furthermore, an online streaming video was developed to educate the enterprise as to the benefits of leveraging collective buying power and utilizing master contracts. Our contracting website was refreshed to be more intuitive and to provide more meaningful information for customers and vendors alike. An online vendor report card was introduced to streamline the collection of contractor performance feedback. A market intelligence team was formed to bolster data driven contract actions. Most importantly, a spend database was created to monitor customer contract adoption rates as well as assist the state in identify new contracting opportunities. In short, what began as a consultant led initiative has evolved into a robust in-house program that is sure to yield dividends for many years to come.

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MEASURING STRATEGIC SOURCING SUCCESS

CUSTOMER CONTRACT ADOPTION RATE

When government realizes meaningful savings, officials gain a welcome and easily understood sound bite. Unfortunately, overemphasizing savings can adversely influence the decisions and behavior that lead to those very savings and thereby shortchange a strategic sourcing initiative. For example, if a strategic sourcing effort successfully delivers goods for less but falls short in satisfying the core business needs of end-users, it's unlikely that the contract will be widely adopted and thereby undermine savings potential. Moreover, it's not uncommon for budget cuts to be levied in an effort to reel in overprice off-contract purchasing. Accordingly, instead of actively contributing to the success of the program, affected agencies are more likely to greet the initiative with rebellion and contempt. Furthermore, with savings as the success measurement, the categories Procurement pursues is effectively limited to those that promise an economic benefit at the detriment of often competing diversity or sustainability goals. What's more, significant resources and dollars must then be deployed in developing and defending savings reports. Consequently, it's unlikely that agencies will look to Procurement as their trusted business partner for fear of further budget cuts.

Such was the challenge set before the Department of General Administration (GA) when spearheading Washington's strategic sourcing initiative. Although the state ultimately exceeded the \$22 million savings goal, the state realized that a success measurement strategy was needed that drives the right purchasing behavior across the enterprise. Recognizing that savvy purchasers will embrace competitively priced contracts that satisfy end-user needs, Washington chose to abandon the tracking of hard dollar savings in favor of measuring customer contract adoption rates. Consequently, budget cuts are no longer associated to the strategic sourcing program and therefore key customers are much more willing to contribute to the effort and the success of the program. As a result, sourcing teams are much more likely to act as change agents and champion the resulting contracts so as to maximize enterprise-wide savings potential.

The transition to customer contract adoption rate set in motion an array of improvements to our business practices with the intention of drawing customer participation and support. Procurement is now free to apply strategic sourcing principles to categories beyond those that promise hard dollar savings but also to those areas that will assist the state in fulfilling sustainability and diversity goals as well. The strategic sourcing program plan was renovated with the goal of maximizing participation, collaboration and innovation. Procurement templates, policies and procedures were overhauled. Staff were outfitted with a comprehensive desk manual and an accelerated training program has been instituted. An online streaming [video](#) was developed to educate the enterprise as to the benefits of leveraging collective buying power and utilizing master contracts. Our contracting website was refreshed to be more intuitive and to provide more

meaningful information for customers and vendors alike. An online vendor report card was introduced to streamline and a market intelligence team was formed to bolster data driven contract actions. Most importantly, a spend database was created to monitor customer contract adoption rates. In short, what began as a consultant led initiative has evolved into a robust in-house program that is sure to yield dividends for many years to come.

A common practice of strategic sourcing is to effectively force end-users to utilize strategic sourcing contracts by issuing budget cuts relative to projected strategic sourcing savings. Not surprisingly, agencies complain that rewarding participation with a budget cut stifles collaboration and innovation and thereby threatens the success of the effort. Moreover, if savings is the success measurement or if a consulting firm is engaged and compensated based on savings then, selection criteria will likely be weighted toward achieving savings at the expense of quality and service. However, once Washington transitioned away from savings as the success measurement in favor of customer contract adoption rates, these impediments were neutralized and agencies were much more willing to contribute to the success of the program.

To achieve breakthrough results, the enterprise must not only support the initiative but also be motivated to contribute. Enterprise-wide buy-in is best-achieved when Procurement is justifiably viewed as a trusted partner instead of the blame for budget cuts. Affecting an enterprise-wide culture shift is an imperative that requires the successful execution of a sound change management plan. Washington reasoned that other states may also want to affect an enterprise culture shift as well and our research revealed that the audience we most need reach carry a PCard. Therefore, Washington spearheaded the development of a WSCA multi-state 5-minute online streaming [video](#) that not only provides an overview of strategic sourcing principles but also outlines the benefits of a PCard program. The video will then be viewed by PCard holders as part of the card activation process so as to affect the desired enterprise contracting culture shift.

Senior management contends that, every employee wants to be successful at his or her job. It's been our observation that the same holds true for a strategic sourcing team. Once the Enterprise Contracting Team began harnessing this truth, our strategic sourcing program really gained traction. Although the Enterprise Contracting Team continually refines strategic sourcing skills, our program plan now emphasizes collaboration and winning customer confidence and support. To that end, we hire attitude and aptitude along with an affinity for forming a consensus. That's because we know that only when sourcing teams are focused on the challenge set before them and not preoccupied with budget cuts will they produce highly optimized best-value contracts. In such an environment, teams are bound to attain the success and recognition they crave while contract utilization soars as team members champion the results.

The transition to customer contract adoption rate led to the development of a spend database that aggregated the accounts payable data of multiple accounting systems into a single SQL database. Following contract award, the spend database allows us to track accounts payable data to include all vendors that participated in the bid process. If the contract is a success then we should see a decline in sales for unsuccessful bidders. Alternatively, a boost in unsuccessful bidder sales will prompt the contract administrator to investigate and initiate the most appropriate course of action. In short, the spend database provides us with directionally correct information that we never had before and enables us to make much more intelligent contracting decisions.

Procurement is constantly striving to improve operational efficiencies and add value. Most recently, we leveraged our existing contract management database to dynamically build what we

call a “contract portal” which not only summarizes the contract for marketing purposes but also includes links to a variety of other useful information about the contract ([Link to sample](#)). For example, an online “best buy” [form](#) was created so that customers can provide us with market intelligence in understanding any off-contract spending. Additionally, an online [contractor performance reporting tool](#) was created to help us better manage our contractors. Moreover, all of this information is then captured in the spend database and associated to the related contract. In turn, the spend database makes available to the contract administrator a summary report which includes: vendor reported contract usage by quarter by agency, accounts payable spend by contractor by agency as well as unsuccessful bidders sales by agency, best buy summary reports and all vendor report card feedback for the contract.

It’s a privilege to work for a progressive organization that tenaciously pursues sound stewardship principles and is never satisfied with perpetuating the status quo. This was best-exemplified when GA spearheaded the state’s strategic sourcing initiative. In so doing, we learned that although the discipline itself is tried and true, it fell short in adequately addressing the art of successfully managing the political landscape. To aid in the change management process, GA developed a communication project plan. A communication team was formed and regularly meets to ensure all appropriate audiences to include the highest level in state government are updated as appropriate. The communication team formulates the message we want to convey and then we decide who will receive the communication, what method will be used, the frequency, when it will be communicated and who will be responsible for completing the task. There is no easy way to affect change but a sound communication plan and discipline is a critical component in winning customer support and boosting customer contract adoption rates.

Although measuring customer contract adoption rate drives the desired behavior, it doesn’t satisfy concerns that best pricing has been achieved. Therefore, to defuse competitive pricing concerns, Procurement now post on our contracting website the number of bids received reasoning that the more bids received, the more assurance that best pricing has been achieved. Moreover, this measurement encourages buyers to craft bids to maximize competition. It also alerts potential bidders of areas where more competition is needed and we also factor this information in our decision to extend or rebid a contract. Publicizing the number of bids received is just one more example of the leadership decisions GA has implemented that not only augments customer contract adoption rates but also strengthens Washington’s purchasing practices as a whole.

As this summary reveals, many process improvements have been implemented with the intent of drawing customers to our master contracts and all the adoption rate reports thus far have shown either steady growth is being achieved or that we’ve already exceeded our target goals. Consequently, agencies are embracing these contracts and our process improvements. Moreover, the state can be assured that best value is being achieved and savings potential is being maximized.

Savings only represents one element of the value proposition that Procurement offers. The transition to measuring contract adoption rates has resulted in many positive changes in the way procurement conducts business and interacts with customers and vendors alike. As a consequent, customers look to Procurement as their trusted business advisor, best value is being achieved and savings maximized not to mention goals relating to business diversity and sustainability.

It works like this. Historical sale prices and quantities of repetitively purchased goods are extended and totaled. Using the same quantities, new contract prices also are extended and totaled. The percent difference between the two represents the WASP, which then is applied to follow-on sales to estimate the savings realized. Plus or minus a few percentage points, a WASP offers a superior alternative to analyzing every line item of every invoice of every sale to accurately report savings. Nonetheless, using WASP only yields a statistical projection—making it difficult to validate and defend the hard-dollar savings reports.

It's important to recognize that the benefits of strategic sourcing extend beyond achieving hard-dollar savings. Strategic sourcing also promises to yield a host of efficiencies and economies that can be difficult to quantify but are meaningful just the same.

For example, a strategically sourced contract may result in a dramatic reduction of administrative overhead by streamlining transaction processes. Best-of-class terms and conditions may boost on-time deliveries and thereby minimize the cost associated with project delays. Minimizing the array of similar products being purchased by leveraging standardizations also may reduce the expense of maintaining a spare-parts inventory while reducing customer training and support cost as well. It is unlikely that such efficiencies and economies would ever materialize without the input, innovation and participation of highly energized and synergistic sourcing teams.

Culture shift is critical

To achieve breakthrough results means that the enterprise not only must support the initiative but also must be motivated to contribute—instead of just being rewarded with a budget cut. Enterprisewide buy-in is best achieved when the procurement department is viewed (justifiably) as a trusted partner instead of the scapegoat for budget cuts. Effecting an enterprisewide culture shift is an imperative that requires the successful execution of a sound change management plan, especially if budget cuts are associated with the effort.

It's been my privilege to work for a progressive organization that tenaciously pursues sound stewardship principles and that is never satisfied with perpetuating the status quo. This was best exemplified when our agency (the Washington state Department of General Administration) spearheaded the state's strategic sourcing initiative. In so doing, we learned that although the discipline itself is tried and true, it doesn't adequately address the art of successfully managing the political landscape with regard to change management.

Not long ago, every employee wanted to be successful in his or her job. It's been my observation that the same holds true for a strategic sourcing team. Once the Enterprise Contracting Team began harnessing this simple yet profound truth, our strategic sourcing initiative...

with an affinity for forming a consensus within a group.

We've discovered that only when sourcing teams are not preoccupied with budget cuts will they be best positioned to produce highly optimized best-value contracts. In such an environment, teams attain the success that they crave while contract utilization soars as these influential team members champion the resulting contracts throughout the enterprise.

This realization prompted Washington state to rethink the way that strategic sourcing success is measured.

Use adoption rate as your repellent

The term "adoption rate" is used to describe the degree by which a contract has been embraced across the enterprise. Total "contract sales" divided by total "category sales" equals percent "adoption rate." It's important to note that measuring adoption rate by no means minimizes an emphasis on achieving savings.

A WASP still is used and regularly updated to project aggregated enterprise savings, and analysis is conducted to quantify and document other economies and efficiencies. Various strategies are deployed as a result of ongoing feedback, analysis and research to reel in off-contract purchasing and strengthen contract appeal. Measuring overall adoption rate also is more cost-effective than producing the detailed savings reports that division heads demand and often dispute.

For a contract to be well-received, it must offer, first and foremost, the quality goods and services that satisfy the needs of contract users. Then, through the application of strategic sourcing techniques, the contract will achieve best value. Such a combination will translate into optimum contract utilization and thereby improved savings.

Alternatively, if customers elect to not use the contract, then perhaps it missed the mark on one or more of these fronts, prompting an appropriate response. Accordingly, de-emphasizing savings and measuring contract adoption rate not only promises to maximize collaboration, contribution and utilization but also savings.

Few will deny that leveraging collective buying power through the application of strategic sourcing principles promises many rewards, including savings. The reward of realizing meaningful savings is the foundation on which a strategic sourcing program is built, and a WASP offers a statistically sound tool for providing management with the savings reports that they require. However, although there is no remedy to budget cuts, associating them with strategic sourcing efforts makes little sense if the effect negatively impacts the goal of achieving savings. Therefore, if management is mulling the idea of a strategic sourcing initiative that includes budget cuts, consider...

...a WASP, consider applying adoption rate as your repellent. Otherwise, you might get stung. □

customer confidence and
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can be reached at skrueger@ga.wa.gov.

SIZES collaboration and winning c
support. To that end, we hire att