Savings, revenue, and streamlined processes highlight the first 18 months of the State of Georgia’s Procurement Transformation Initiative

It has been over a year since Governor Perdue launched the Statewide Procurement Transformation Initiative – an effort expected to last through 2009. With the support of the Procurement Transformation Initiative team and A.T. Kearney, the management consultant partner, State Purchasing has implemented new contracts, renegotiated existing contracts, issued multiple electronic Requests for Proposals, improved procurement policies and procedures, enhanced the training programs, revised the organizational structure, upgraded internal e-procurement software and purchased new applications to support the overall purchasing function.

Among the highlights of the last 18 months are the following:

- **Over $30 million in annual savings have been achieved:** With the concerted efforts of the State’s collaborative cross-functional sourcing teams, the Procurement Transformation Initiative has generated over $30 million in annualized contract savings, and a clearly defined savings target of $135MM in year over year savings and $400MM in cost reductions over the next three years. These savings were achieved through multiple newly awarded or renegotiated contracts for packaged software, personal computers, industrial gases, industrial paint, office and educational furniture, temporary IT labor, office supplies and express mail delivery.

- **Enhanced Policies and Procedures:** Using a data-driven methodology to determine spend patterns and research market forces, the state has been able to consolidate vendor bases, pool commodities and incorporate geographical considerations into contract formation. An improved negotiation process has been implemented that allows the State to negotiate both service level and price resulting in obtaining the best value for the State.

- **Modernized organizational structure:** State Purchasing buyers are organized along purchasing categories rather than purchasing processes. The newly transformed organization includes a unit dedicated to analyzing the State’s purchasing patterns. This has yielded benefits such as improved service level, greater convenience for the customers, and enhanced reporting requirements resulting in more accurate tracking of savings and contract compliance.

- **New eProcurement Software.** The State has purchased various PeopleSoft modules that provide for online catalogs, solicitations and bid submissions, and automated contract management. Implementation planning is underway which will ultimately transform and enhance the State’s procurement organization’s capabilities.

- **Georgia Procurement Training and Certification Program:** A cross-agency Training Review Council has been established to guide the Georgia Procurement Certification Program. Additional training courses and delivery methods are being implemented to enhance the State’s Procurement Training Program. Supplementary courses are being created in cooperation with national professional procurement organizations.

The Department of Administrative Services, which houses the statewide purchasing function, maintains information about the Procurement Transformation Initiative on its web site at [http://statepurchasing.doas.ga.gov/transformation](http://statepurchasing.doas.ga.gov/transformation).

The State of Georgia appreciates this opportunity to present the extraordinary success experienced thus far in our Procurement Transformation initiative with great hopes to further the savings and efficiencies already identified.
## Procurement Transformation Initiative

submitted by
State of Georgia
Department of Administrative Services
June 2007

### Objectives

- Demonstrate the magnitude of the State of Georgia’s Procurement Transformation Initiative
- Clearly identify innovation, transferability, service improvement, and cost reduction

### Overview

- Executive Summary
- Organization
- Strategic Sourcing
- Skills and Training
- Process Improvement
- Technology
- Performance Management
- Benefits

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**The Governor’s Commission for a New Georgia has been the driving force behind the Procurement Transformation Initiative**

The primary objective of the Procurement Transformation Initiative is to (1) perform a thorough spend analysis of the State’s purchasing; (2) implement strategic sourcing; and (3) carry out process improvement initiatives to simultaneously build the State’s capacity to sustain the benefits of this effort into the future.

*Procurement Transformation Initiative Memo, Tommy Hills, Jim Lientz, Lonice Barrett, November 22, 2005*

**The Procurement Task Force, led by private sector representatives, targeted savings of $135MM by FY ’09**
Procurement Transformation Initiative
Organizational Structure

Procurement Transformation Governance Council
Lonice Barrett (Chair), Director, Office of Implementation
Brad Douglas, DOAS Commissioner
Selected Agency, Regent and Private Sector representatives

Project Management
Tim Gibney, DOAS Assistant Commissioner
Joe Stewart, A.T. Kearney Project Manager

Capacity Building
Spend Management and Strategic Sourcing

Change Management/Communications

The Procurement Transformation Initiative followed a comprehensive approach to addressing procurement improvement.

Procurement Transformation Framework

Direction Setting
- Strategy
  - Is procurement strategy aligned with organizational strategy?
  - Does procurement have appropriate internal emphasis?

Organizational Alignment
- Operational Alignment
  - Does organization alignment outside of procurement’s
    - Value Drivers? Proven?

Value Delivery Processes
- Sourcing
  - Are the appropriate people involved in sourcing?
  - Are the proper sourcing process & tools used and deployed?

Supplier Relationship Management
- Does a formal supplier evaluation system exist?
- Are supplier relationships proactively or reactively managed?

Operating Process Management
- Are day-to-day activities primarily transactional?
- How is compliance managed and enforced?

Supporting Infrastructure
- Performance Management
  - Are performance measures linked to strategy?

Knowledge/Information Management
- Is data quality and integrity at appropriate levels?
- Does a contract database exist?

Human Resource Management
- Do procurement personnel possess the appropriate skills?
- Is training available to ensure skills are developed?

Key Issues Considered
- Are risk and opportunity management processes in place?
- Are procurement processes aligned with core business?
- Are procurement processes driven by customer needs?
- Does the procurement organization work in a team?
- Are there incentives for excellence?

Notes: 1) A.T. Kearney framework adopted by the National Association of Purchasing Managers and the Institute for Supply Management

Procurement Transformation Timeline

October 2006
February 2006
April 2006
August 2007
September 2008

Phase I
- Assessment & Recommendation
  - Organization
  - Skills & Training
  - Process
  - Performance Management
  - IT Infrastructure

Phase II
- Implementation

We are Here

State of Georgia becomes one of the Best Managed States with an extremely efficient and effective procurement organization.
State Purchasing implemented numerous initiatives based on the Transformation’s recommendations

**Key Initiatives**
- Strategic Sourcing
- Category Management
- Vendor Vehicle
- Sourcing Cycle
- Uniform Solicitation
- Procurement Code Management
- Training Review Council
- Training curricula guidelines and roadmap
- State Certification program
- New employee on-boarding
- Strategic Sourcing
- Negotiation Guidelines
- Total Cost
- Vendor Market Analysis
- RFQ/RFP Process Improvement
- Update of Procurement Code and policies
- Employee Development
- People Development
- Recruiting assessment tools and procedures

**State Purchasing implemented numerous initiatives based on the Transformation’s recommendations**

The team has built the foundation for sustainable improvements.

**The State redesigned their purchasing organizational structure to improve service and operational delivery**

Asst. Commissioner State Purchasing

Director: Strategic Sourcing

Director: Customer Advocacy

Director: Knowledge Center

Good and Supplies

IT/Telecom

Special Projects

Process Improvement

Procurement Applications

Procurement

- Conduct category management, strategic sourcing and supplier development for categories managed by State Purchasing
- Provide guidance to category teams that reside within agencies
- Manage procurement of goods/services that have no established category teams
- Provide support activities to category teams and special projects
- Support procurement applications
- Manage procurement training
- Assist agencies in improving process
- Manage communications to enhance agency/vendor relations

**The new organization redesign enables best practice procurement processes and incorporates key design elements**

**Best Practice Processes**

**Key Design Elements**

- Category-Focused Structure
- Strategic Sourcing Center
- Agency Alignment and Linkage
- Optimized Support Structures
- People Development

- Value-Driven Procurement
- Category Management: Manage through product categories to leverage value of supply base
- Strategic Sourcing: Approach sourcing strategically to ensure best practices are followed through the organization
- Supplier Management and Development: Manage and develop suppliers to create new opportunities
- Supply Fulfillment: Efficiently execute procurement transactions
Organizational relationships and interactions have been realigned to enable efficient knowledge sharing, alignment and support.

Illustrative Organizational Structure

Enhancements

Agency Alignment
- Encourage knowledge sharing between agencies and state purchasing
- Act as "voice of customer"
- Ensure alignment between state purchasing and agencies to fulfill supply requests

Optimized Support and People Development
- Build and manage data systems
- Facilitate use of most appropriate technologies
- Provide training and manage personnel development
- Conduct audits and ensure compliance
- Manage Accounts Payable and interfaces to Finance and Legal departments

The State implemented a 7-Step Strategic Sourcing methodology to create more value through purchasing

Spend Management and Strategic Sourcing enabled the State to achieve significant value

- **Spend Management Value Created**
  - Georgia clearly understood what is bought, from whom, in what volume and at what price – identifying over $3.8 trillion in sourceable spend
  - Prioritized list of strategic sourcing initiatives that yield the best value
  - Applied innovative procurement techniques to enable the State to leverage and consolidate purchasing power to achieve lower prices

- **Strategic Sourcing Value Created**
  - Enhanced collaboration between State Purchasing, Agencies and Universities
  - Completed over 40 Strategic Sourcing initiatives in 18 months
  - Strategic sourcing initiatives will enable the State to achieve their annual target savings of $135 million with $30+ million in annual savings contracted to date
  - State’s newly implemented contracts include:
    - Enhanced reporting requirements
    - Improved service levels
    - P-card usage
    - Rebates and administration fees
    - Aligned warranties
    - Improved Statewide contract marketing and resulting compliance

Utilizing New Tools

- Online ("e") RFPs
- Negotiations

Profile Of Sourcing Group

Sourcing Strategy For Sourcing Category

Supplier Portfolio Evaluation

Competitive Supplier Selection

Operational Integration With Suppliers

Utilizing New Tools

Notes: 1) A.T. Kearney framework adopted by the National Association of Purchasing Managers and the Society for Supply Management
Wave 1 Strategic Sourcing events and the associated renegotiated contracts will yield over $30 million in annualized savings

<table>
<thead>
<tr>
<th>Category</th>
<th>Addressable Spend (MM)</th>
<th>Validated Savings (MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaged Software</td>
<td>$18</td>
<td>$1.2</td>
</tr>
<tr>
<td>IT Hardware (PCs)</td>
<td>$30</td>
<td>$30.1</td>
</tr>
<tr>
<td>IT Staffing &amp; VMS</td>
<td>$20</td>
<td>$4.9</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>$70</td>
<td>$3.1</td>
</tr>
<tr>
<td>Express Mail</td>
<td>$7</td>
<td>$1.6</td>
</tr>
<tr>
<td>MRO (various)</td>
<td>$16+</td>
<td>$1.2</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>$30</td>
<td>$6.9</td>
</tr>
<tr>
<td>Travel Svc – City Pairs</td>
<td>$10+</td>
<td>$2.2</td>
</tr>
<tr>
<td>Car Rental – In State &amp; CHMP</td>
<td>$2.2</td>
<td>$2.2</td>
</tr>
<tr>
<td>IT Hardware (Servers)</td>
<td>$11.8</td>
<td>$8.8</td>
</tr>
<tr>
<td>Document Solutions</td>
<td>$4.0</td>
<td>$1.8</td>
</tr>
<tr>
<td>Total</td>
<td>$205+</td>
<td>$20+</td>
</tr>
</tbody>
</table>

Validated Savings ($MM)

Additional Statewide contacts are being finalized and are expected to deliver an additional $15MM in annual savings

<table>
<thead>
<tr>
<th>Category</th>
<th>Addressable Spend (MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Management</td>
<td>$10+</td>
</tr>
<tr>
<td>Medical &amp; Lab Equip</td>
<td>$30</td>
</tr>
<tr>
<td>Temp Staffing (Admin)</td>
<td>$13.5</td>
</tr>
<tr>
<td>Paper Products</td>
<td>$4.2</td>
</tr>
<tr>
<td>Industrial Supplies</td>
<td>$10+</td>
</tr>
<tr>
<td>400 Mhz</td>
<td>$6.0</td>
</tr>
<tr>
<td>Mailing Equipment</td>
<td>$4.0</td>
</tr>
<tr>
<td>Tractors, Mowers, ATVs</td>
<td>$8.0</td>
</tr>
<tr>
<td>Corrections Commissaries</td>
<td>$16.0</td>
</tr>
</tbody>
</table>

Addressable Spend (MM)

These contracts are anticipated to yield additional service benefits and efficiencies

<table>
<thead>
<tr>
<th>Category</th>
<th>Consolidated Supplier Base</th>
<th>Enhanced Reporting/Invoicing</th>
<th>Convenience</th>
<th>Improved Service Levels</th>
<th>P-card Usage</th>
<th>Additional Commissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Supplies</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Travel Svc - City Pairs</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Express Mail</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>IT Hardware (PCs)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>IT Software</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>IT Staffing &amp; VMS</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>MRO</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Notes: (1) Additional discounts, warranties, no cancellation fees
The State identified the training needs and corresponding courses required for all levels of the purchasing organization:

### Training Need

- Project and People Management
- Contract Administration & Management
- Strategic Sourcing & Negotiation
- Knowledge of RFP process, development of specifications and legal aspects

### Representative Courses

- Leadership
- Project Management
- Supplier Relationship Management
- Performance Management
- Contract Administration and Management
- Introduction to Strategic Sourcing
- Negotiations
- RFP Development and Evaluation
- Writing Specifications
- Contract Writing/Implementation
- Fundamentals of Purchasing
- Legal Aspects

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**Notes:**
- Designated as Agency or University Purchasing officer, Contract officer, Acquisition manager

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The goal is to enhance the skills and training of purchasing professionals statewide:

- Establishing the State of Georgia Procurement Certification Program
  - Progressive program addressing buying policies and techniques for all levels of purchasing staff
  - Certification program geared to support purchasing professionals throughout their careers
  - Certification includes ongoing education through recertification process

- Timeline
  - Pilot training programs developed for State Purchasing and agency staff
  - Training continuously being refined, updated and rolled out to purchasing staff throughout the state
  - Expanding training delivery methods online (i.e. web-based and self-directed study)

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**Procurement Transformation Technology Project**

- In the process of implementing six PeopleSoft eProcurement modules to meet the State Purchasing’s business requirements:
  - Strategic Sourcing – Enables SPD buyers to create buying events, permits suppliers to respond to procurement actions, and allows Purchasing Agents to analyze supplier responses and make awards.
  - Supplier Rating System – Collects critical data across the enterprise to provide a comprehensive record of every supplier’s performance.
  - eSupplier Connect – A two-way communication tool that enables supplier self-service access to SPD’s public information and enables them to supply information back to the State.
  - eProcurement – Automates employee requisitioning through an easy self-service web-shopping system. This module streamlines employee ordering and lowers procurement costs by reducing transaction overhead and controlling maverick spending.
  - Catalog Management – Provides the SPD with a web-based application to access, transform, and integrate catalog content.

- Developing a Master Plan for the rollout of all eProcurement system functionality to all state agencies and universities.
Initiative: Publish State Purchasing Dashboards

**Key Benefits**

- Focused, high-level dashboard emphasizes department priorities
- Enables higher level of overall customer service to agencies/Universities
- Procurement leadership focused on management level issues
- Measurements supported by detailed dashboards at departmental level
- Automation of measurement processes to extent possible
- Elimination of busy work in non-value added measurements

**Current metrics**

- DOAS currently requests for
- Data currently calculated by DOAS
- Lack of organization in selecting measures

**Considerations**

- Large data sets and planned future integration
- Not all data is available for dashboards
- Larger collection methods

**New metrics and buy-in**

- Systems modifications
- Increased demand for funding activities

**System modifications**

- Increase data capture and automated collection
- Align with goals and objectives
- Ensure data is available for analysis
- Provide collection methods

**Scorecard Date**

- Gary Powell (Laura Shoemaker)
- Contract Expiration Date:
- 2 (1-Year) Renewals
- July 1, 2006

**Contract Administration Template**

- Developed after contract award
- Linked to validation document, contract, and supplemental materials
- Values in length based on value and size
- Act as guide and key information source during contract lifecycle

**Performance Management Dashboard**

- Make operational key vendor relationships reporting KPI & SLA monitoring
- Populated with data from purchasing, accounting, and evaluation of vendor performance
- Completed periodically for reporting and on ad-hoc basis as required

**End User Vendor Performance Survey**

- Category manager creates by category or vendor based on guidelines
- Administrative to key vendors based on contract usage across state
- Automated through online survey tool

**Usage**

- Provides one-page summary of key KPIs
- Links all contract terms and vendor responsibilities in an plan
- Leverages standard for state purchasing management of vendors

**Benefits**

- Used as communication tool for purchasing performance
- Provides one-page summary of overall performance line view
- Details real steps to improve performance

- polls and user feedback rather than relying on self-selected repeat vendors
- Increases visibility of vendor performance
- streamlines the procurement process
Performance Management enhancements focused on three key areas

Performance Management Framework

<table>
<thead>
<tr>
<th>Purchasing Organization Performance</th>
<th>Category Performance</th>
<th>Vendor Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are the key metrics aligned with the goals, objectives, and functions of the department?</td>
<td>Are category management efforts monitored to improve pricing, optimize the supply base, and achieve maximum savings?</td>
<td>Are good measurement tools/processes in place? Is performance monitored from throughout the process? Is continual performance improvement sought?</td>
</tr>
</tbody>
</table>
| Is purchasing effectiveness and accountability managed? | Information Technology and Systems
Enable IT and systems to support the performance management process across agencies and vendors | Organizational Resources
Ensure the organization is aligned to provide for ongoing management performance management |

The State leveraged best practices in public and private sector performance management.

Statewide purchasing collaboration and service delivery improved through the transformation

Benefits
- $30MM in Annualized Contract Savings
- $135MM Annualized Cost Reduction
- Expanded Audit Capabilities and Identify Risks
- Statewide Solicitation and Procurement
- State Purchasing Division
- Supports
  - Statewide Solicitation and Procurement
  - Agencies and Universities
  - Vendors
  - Strategic Sourcing
    - Category Teams
    - Special Projects
  - Support
    - Knowledge Center
      - Procurement Applications
      - Process Review Council
      - Process Review Council
      - Customer Service
      - Solicitation and Procurement

Statewide Involvement of Purchasing Professionals

- Agency and University Sourcing Group Participation throughout the strategic sourcing solicitation process
- Creation of a Training Review Council
- Creation of a Process Review Council
- Focus groups targeting improvement in marketing approaches
- Pilot agencies for eQuote enhancement testing
- Statewide webinar broadcasts providing updates and soliciting ideas for further improvements
- Presentations made at university purchasing conferences and local purchasing association meetings asking for ideas
More Effective and Efficient Services to Purchasing Professionals and Vendors

**Services Provided to Purchasing Professionals and Vendors**

- Utilization of technology-enhancing procurement methods that facilitate the entire solicitation process
- On-line user’s manuals to clearly explain these new tools
- Presentations made statewide demonstrating the tools utilizing training database and hands-on techniques
- Substantial improvements to website including “What’s New” and contract award announcement sections
- Placement of additional and improved tools for statewide buyers and contract administrators on the State Purchasing website

The team developed and prioritized process improvement initiatives based on ease of implementation and potential benefit

<table>
<thead>
<tr>
<th>Process Improvement Initiative</th>
<th>Ease of Implementation</th>
<th>Potential Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>eQuote Process Improvement</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>RFP/RFQ Process Improvement</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Vendor Registration/Qualification</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Spend Analysis</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Technical Evaluation Criteria</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Negotiation Guidelines</td>
<td>Low</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Immediate initiatives included short term solutions followed by longer term programmatic solutions utilizing to be implemented technology and systems (i.e. eQuote and eBreviate are being utilized until PeopleSoft is implemented).

Lessons learned from the successful implementation of the Procurement Transformation Initiative

**Required Action Needed**

- Executive Sponsorship and Middle Management Support
- Adequate staffing
- Embed consultants with buyers to ensure knowledge transfer
- Provide timely and effective communications
- Keep focused on change management
- Collect spend data from agencies & vendors
- Raise the skill set and knowledge of all purchasing staff
- Accurately track savings and goals
- Ensure accountability
- Share victories
- Build trust & commitment
- Maintain customer service and satisfaction
State of Georgia has become one of the Best Managed States, with an extremely efficient and effective procurement organization

<table>
<thead>
<tr>
<th>Capacity Improvements</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organization:</strong></td>
<td>- More collaborative environment</td>
</tr>
<tr>
<td>- State Purchasing is realigned by</td>
<td>- Millions in Annualized Savings</td>
</tr>
<tr>
<td>category clusters</td>
<td>- Expanded Audit Capabilities</td>
</tr>
<tr>
<td><strong>Skills &amp; Training:</strong></td>
<td>- Accurate Spend Analysis</td>
</tr>
<tr>
<td>- State of Georgia Procurement</td>
<td>- Negotiations for both service and price</td>
</tr>
<tr>
<td>Certification Program</td>
<td>- Expanded opportunities for training</td>
</tr>
<tr>
<td><strong>Process:</strong></td>
<td>- Effective vendor management</td>
</tr>
<tr>
<td>- New procurement techniques and</td>
<td>- Creation of more statewide contract</td>
</tr>
<tr>
<td>policies</td>
<td>- Process time reduced with eRFx</td>
</tr>
<tr>
<td><strong>Technology:</strong></td>
<td>- State Purchasing becoming self-funded</td>
</tr>
<tr>
<td>- Implementation of eTools</td>
<td>- Single performance metrics repository</td>
</tr>
<tr>
<td><strong>Performance Management</strong></td>
<td></td>
</tr>
<tr>
<td>- Dash Board Reporting</td>
<td></td>
</tr>
</tbody>
</table>

The Purchasing Transformation Initiative is described on the State Purchasing website:
http://statepurchasing.doea.georgia.gov/00/channel_title/0,2094,35228373_50551800,00.html

State Purchasing has continuously strived to achieve best in class

- State Purchasing has been awarded the Achievement of Excellence in Procurement for the past nine years
  - We look forward to winning for the tenth year and continuing improvements to better serve its citizens and customers