

## **Submission for 2007 Cronin Award for Procurement Excellence**



### **State of Minnesota Minnesota's Spend Analysis System**

Procurement Agency: State of Minnesota, Department of Administration, Materials Management Division

Date of Implementation: July 2006

Originator: [Kent Allin](#) – Division Director

## Table of Contents

Executive Summary .....	1
Award Nomination Description .....	2

### **ATTACHMENTS**

A. Governors Executive Order.....	5
B. Minnesota's Drive to Strategic Sourcing Excellence PowerPoint Presentation....	7
C. Drive to Excellence Newsletter .....	21
D. Federal Computer Weekly Article – Published 12/15/05 .....	23
E. TrueSource Press Release.....	26
F. Governing Magazine Article – Published January 2006 .....	29
G. Reference Letter from Abbott .....	32
H. TrueSource Product Sheet.....	34

## **Executive Summary: Minnesota's Spend Analysis System**

The State of Minnesota spends millions of dollars on personal computers, but consolidated information on what varieties and configurations, from which suppliers, in what quantities and at what prices was virtually non-existent. The same could be said for the thousands of other goods and services totaling well over one billion dollars in state purchases annually. Not any more.

Minnesota's new Spend Analysis system is an intranet-based comprehensive database of purchasing experience. The State's previously disparate data collection and reporting systems had mismatched standards for organizing information and did not allow for advanced analysis.

**The purpose of the Spend Analysis system is to extract, cleanse, classify, enrich and integrate different data from existing systems in order to pursue strategic procurement opportunities and targeted savings in key commodity and service areas.**

This web-based system integrates, classifies and enhances spending information based on internationally recognized standards. It enriches state data with third party vendor-related details such as parent/subsidiary relationships between businesses, as well as diversity program information. It provides an easy-to-use portal to this consolidated information and the tools to analyze it. Spend Analysis has been implemented for Minnesota state agency purchases as well as for the 44-state Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP).

**Innovation:** Spend analysis systems have been implemented successfully in the private sector, but we believe Minnesota is the first state to do so with respect to its public sector purchasing. This state-wide (and in the case of MMCAP, 44-state-wide) and multi-agency public sector implementation proved to be complex and time-consuming. Judged on the scale or magnitude of effort, this was an enormous undertaking and required the diligence and perseverance of both state and contractor personnel.

**Transferability:** Minnesota is already sharing Spend Analysis benefits with 44 other states in MMCAP. Beyond that, our effort will be replicable in any other state with the leadership support and resources to undertake a comparable initiative. In fact, Minnesota's contract specifically allows other states with joint purchasing authority to utilize it as their competitively awarded procurement vehicle.

**Service improvement:** The Spend Analysis project is overseen by a multi-agency steering committee of stakeholders. Clearly, easier access to better data leads to improved procurement decision-making. The general public has also directly benefited as we have used Spend Analysis to accurately respond to public information requests which would previously have been unanswerable.

**Cost reduction:** Although not solely attributable to Spend Analysis, Minnesota's various data-driven strategic sourcing initiatives have saved the state in excess of \$100 million. Spend Analysis data have been utilized for initiatives involving computers, cell phones, office supplies, and IT professional services among others.

In conclusion, Minnesota's Spend Analysis system has opened a door to an unprecedented quantity and quality of relevant sourcing data. Our challenge is to utilize it creatively and effectively to drive even further efficiencies and savings in what we buy. Minnesota's citizens deserve the best data-driven sourcing decisions. With this tool, that is what we are able to provide.

### **Why was Minnesota initially interested in a Spend Analysis system?**

The State of Minnesota spends millions of dollars on personal computers, but consolidated information on what varieties and configurations, from which suppliers, in what quantities and at what prices was virtually non-existent. The same could be said for the thousands of other goods and services totaling well over one billion dollars in state purchases annually. Not any more.

In April 2005, Minnesota Governor Tim Pawlenty issued an Executive Order creating a vision for strategic sourcing (Attachment A). It outlines a number of opportunities to improve state purchasing practices. One common driver for all of the opportunities was the need for dramatically improved data regarding what the state is buying and the vendors from whom we are making those purchases. The state's automated accounting and procurement systems were selected in 1992 and went live in 1995. No upgrade or replacement will be possible before 2010 at the earliest, given legislative funding cycles. Information available from existing systems was frustratingly fragmented and simply did not provide the level of detail we needed for key strategies such as setting commodity standards, reducing multiple award contracts, negotiating volume-based discounts, and monitoring agencies' off-contract spending.

On May 23, 2005, the Minnesota Department of Administration Materials Management Division (MMD) released a Request for Proposal (RFP) for a Spend Analysis system. Following the evaluation of proposals and negotiations, MMD awarded a contract to TrueSource on August 1. (TrueSource has since been acquired by Procuri.)

### **What exactly is a Spend Analysis system?**

Spend Analysis (sometimes labeled Spend Intelligence) is an intranet-based comprehensive database of purchasing experience. It enables purchasing-related knowledge sharing and analytical reporting. Spend Analysis is now available to all MMD purchasing functions to give them new data and capabilities which provide order of magnitude improvements on data from existing systems.

The State's previously disparate data collection and reporting systems had mismatched standards for organizing information and did not allow for advanced analysis. **The purpose of the Spend Analysis system is to extract, cleanse, classify, enrich and integrate different data from existing systems in order to pursue strategic procurement opportunities and targeted savings in key commodity and service areas.**

This web-based system integrates, classifies and enhances spending information based on internationally recognized standards (UNSPSC, SIC and NAICS codes). It enriches state data with third party (Austin Tetra) vendor-related details such as parent/subsidiary relationships between businesses, as well as diversity program information.

Spend Analysis did not replace our existing automated purchasing systems, nor is it an alternative to a future ERP implementation. Our Spend Analysis system collects information from all purchasing-related systems as well as from other third-party information resources. It provides an easy-to-use portal to this consolidated information and the tools to analyze it. It also provides a means for purchasing professionals to share experience and insights – information that is not usually found within a system's database. The state can use this integrated purchasing intelligence to analyze the “who, what, when, where and how” of its purchases so that they can be managed strategically.

## **How is the new Spend Analysis system benefiting Minnesota?**

Minnesota's Drive to Excellence strategic sourcing initiative has been highly successful. This multi-faceted program demonstrated benefits through well-defined interagency roles and relationships, extensive collaboration across agencies, agreement on commodity standards, intensified negotiations, enterprise-wide contracts, and adoption of "best practices" in statutes, policy and practice. (Attachment B) Data are a key to success in most of these areas and the Spend Analysis system has provided an unprecedented level of detailed information to support these procurement initiatives.

We have embarked on a systematic implementation plan that continues to gain staff support and expand the use of the tool over time. It is definitely a learning process and a cultural change, as we embrace data-driven decision-making – when, in the past, we have operated without meaningful data. Selected acquisitions staff members in the central procurement office (those expressing the most interest and motivation) received system training in August 2006 following completion of the implementation process. Some of those trained rely primarily on the approximately 70 pre-designed reports in the system. Others are more innovative and develop customized inquiries and reports. Several users are becoming highly proficient and assist their peers as needed. Hands-on use of the tool has not yet been extended to other state agencies, but their procurement staff members have been oriented to the new data source and can request Spend Analysis system information for their own use.

Our systematic approach to program management has proven useful in linking the analysis and execution phases for key initiatives such as office supplies and cell phones. We are able to identify the contract and off-contract suppliers in one or more SIC codes, employ long-range planning and reporting modules to monitor all related payment activity, and alert agency customers when unauthorized off-contract ("maverick") spend is detected.

The Minnesota Multi-state Contracting Alliance for Pharmacy (MMCAP) has also implemented a separate data set within the Spend Analysis system. MMCAP is a voluntary group purchasing organization operated by the State of Minnesota that serves government-authorized healthcare facilities. The goal of MMCAP is to combine purchasing power so its member organizations receive the best prices available for pharmaceuticals, hospital supplies, and related products.

Using the same data engine and separate data extraction routines, we are able to report on the pharmaceutical spend for 44 states and the cities of Chicago and Los Angeles. With security implemented to separate the purchases by state, we can review the spend by individual states and as a whole. By incorporating AHFS (American Hospital Formulary Service) codes into the MMCAP data, pharmaceutical products can also be rolled up into like grouping for further analysis. MMCAP is currently reviewing the data and finalizing the extracts and rules with the intent of releasing access to the MMCAP Advisory Board this fall. Full release to state participants would take place upon recommendation of the Advisory Board and would allow unprecedented hands-on access to data and analytical tools regarding the individual states' own pharmaceutical purchases through MMCAP.

MMD recently advocated for and gained passage of Minnesota statutory changes that become effective in July 2007 which will further institutionalize the concept of data-driven procurement. Specifically, the newly-enacted legislation requires the central procurement agency to "ensure the optimal use of strategic sourcing techniques." "Strategic sourcing" is now defined by Minnesota law to include "spend analysis."

Availability of Spend Analysis data is already impacting the legislature's policy agenda in Minnesota. It has been used to analyze the impact of proposed "pay equity" legislation on Minnesota businesses. It helped motivate a coalition of advocates for disabled employees to sponsor legislation that would allow them to collectively respond to state procurement opportunities. MMD effectively shut down a self-

serving legislative initiative on behalf of several business owners when Spend Analysis data showed that they were misrepresenting what the state had been buying from their competitors.

With a charge to expand state use of enterprise-wide professional/technical contracts, Spend Analysis is being used to identify key opportunities to combine consulting contracts. Currently, we are researching past spend, categorizing areas of service and analyzing geographic needs related to occupational health services. System data are also currently in use to facilitate negotiations between the University of Minnesota and executive branch agencies regarding contract terms and conditions that will be accepted across the enterprise.

We anticipate ever-expanding use of the tool. Over the next year, additional acquisitions staff in the central procurement office will be trained. A set of standard reports will be developed that staff will utilize with respect to each of their enterprise contract initiatives.

### **How does the Spend Analysis system meet Cronin Award criteria?**

**Innovation:** Spend analysis systems have been implemented successfully in the private sector, but we believe Minnesota is the first state to do so with respect to its public sector purchasing. Our vendor would concede that a state-wide (and in the case of MMCAP, 44-state-wide) and multi-agency public sector implementation proved to be more complex and time-consuming than anticipated. For example, the non-MMCAP side of the system has collected and cleansed data involving more than 1,600,000 annual payments and 205,000 suppliers. Classification of this data required the development of more than 7,700 rules. Judged on the scale or magnitude of effort, this was an enormous undertaking and required diligence and perseverance of both state and contractor personnel.

**Transferability:** Minnesota is already sharing Spend Analysis benefits with 44 other states in MMCAP. Beyond that, our effort will be replicable in any other state with the leadership support and resources to undertake a comparable initiative. In fact, Minnesota's contract with TrueSource (now Procuri) specifically allows other states with joint purchasing authority to utilize it as their competitively awarded procurement vehicle.

**Service improvement:** The Spend Analysis project, like all initiatives under Governor Pawlenty's enterprise-wide Drive to Excellence reform agenda, is overseen by a multi-agency steering committee of stakeholders. Clearly, easier access to better data leads to improved procurement decision-making. The thrust of all of our Drive to Excellence sourcing efforts has been "smarter," more strategic, procurement. Although not solely attributable to Spend Analysis, the documented Drive successes over the past two years demonstrate a strong record of service improvements. The general public has also directly benefited as we have used Spend Analysis to accurately respond to public information requests which would previously have been unanswerable.

**Cost reduction:** The various data-driven Drive sourcing initiatives have saved the state in excess of \$100 million. (See attached slides for further details.) Spend Analysis data have been utilized for strategic sourcing initiatives involving computers, cell phones, office supplies, and IT professional services among others. In one recent example of cost reduction directly linked to the Spend Analysis system, a contract vendor agreed to absorb a pending increase in the state's contract fee after seeing the system's ability to police any off-contract purchasing.

In conclusion, Minnesota's Spend Analysis system has opened a door to an unprecedented quantity and quality of relevant sourcing data. Our challenge is to utilize it creatively and effectively to drive even further efficiencies and savings in what we buy. Minnesota's citizens deserve the best data-driven sourcing decisions. With this tool, that is what we are able to provide.

## ATTACHMENT A

### PROVIDING DIRECTION TO STATE DEPARTMENTS

#### REGARDING STRATEGIC SOURCING

I, TIM PAWLENTY, GOVERNOR OF THE STATE OF MINNESOTA, by virtue of the authority vested in me by the Constitution and applicable statutes, do hereby issue this executive order:

WHEREAS, as Governor, it is important that I provide clear direction to commissioners and state departments to take important steps, consistent with applicable law, to implement strategies that will make the provision of governmental services more efficient and cost-effective; and

WHEREAS, the Drive to Excellence Reform Initiative provides the State of Minnesota with a unique opportunity to fundamentally change the operation of state government; and

WHEREAS, the Drive to Excellence and the strategic plan set forth in the Transformation Roadmap outline methods for state government to provide faster, more reliable, and cost-effective services to Minnesota's citizens and businesses; and

WHEREAS, state departments and services need to be viewed as an integrated whole and as an enterprise, working together to support Minnesota as one organization with overall goals and objectives; and

WHEREAS, state government annually purchases over \$1 billion dollars worth of goods and services; and

WHEREAS, Minnesota, as well as other states and private sector organizations, has taken steps to reduce spending on goods and services through the use of strategic sourcing methods including product standardization, contract consolidation, multiple jurisdiction purchasing alliances, reverse auctions, lifecycle costing, and other techniques; and

WHEREAS, Minnesota has the opportunity to further reduce spending through a more comprehensive and coordinated use of strategic sourcing methods; and

WHEREAS, materials developed through the Drive to Excellence document the improved effectiveness and efficiency that can be gained from an enterprise orientation to the provision of government services;

NOW, THEREFORE, I hereby order and direct state departments to support implementation activities of the Drive to Excellence Reform Initiative by taking the following specific actions:

1. Consistent with the Commissioner of Administration's responsibilities and authority under Minnesota Statutes Chapters 16B, 16C, and 16E, the Commissioner will, in consultation with other state departments, develop and implement policies, procedures, and/or standards ensuring the optimal use of strategic sourcing techniques.
2. In developing these policies and procedures, the Commissioner of Administration will consider the requirements of Minnesota's procurement laws and seek to amend legislation, as appropriate.
3. All other commissioners, state departments, and employees of the executive branch will work with the Commissioner of Administration to develop and implement strategic sourcing techniques:
  - a. At the request of the Commissioner, departments will appoint representatives who can commit resources and speak with the authority of the department as participants in development of policies, procedures, and standards;
  - b. As directed by the Commissioner, departments may be required to accept delegated authority to procure goods and services intended for the exclusive use of the department receiving the delegation;
  - c. As directed by the Commissioner, departments may be required to relinquish delegated authority to procure goods and services identified to be applicable to the enterprise;
  - d. As directed by the Commissioner, departments will provide resources and assist with the achievement of strategic sourcing objectives; and
  - e. Future professional/technical service contracts that represent an opportunity for the enterprise approach will be developed with the cooperation of affected departments and the Commissioner.

4. All vendor selection evaluations conducted under Minnesota's "best value" statutes must consider price to be of significant importance, as prescribed by the Commissioner, unless otherwise provided by law.

5. The Commissioner of Administration, in conjunction with other state departments as appropriate, will develop plans and policies to achieve the following specific objectives:

a. Refine vision, roles, and responsibilities for central procurement staff and department staff to include a Chief Procurement Officer, Supply Chain Management Group, User Groups, Category Management Teams, and Source Experts;

b. Validate non-enterprise or department-level purchasing within departments as appropriate;

c. Define a process to set standards for enterprise-wide procurement of goods and services, with an initial emphasis on IT-related commodities and office supplies, and subsequent attention directed to other high-potential categories;

d. Define an exception approval process for purchases inconsistent with established state standards;

e. Reduce and sustain a reduction in the number of state contracts and the number of vendors with whom the state does business;

f. Use reorganization orders, statutory changes, and other agreements consistent with the law to achieve the goals of this order; and

g. Ensure compliance with statutes, best practices, and high ethical standards.

6. All commissioners and state departments will utilize the state's enterprise-wide contracts.

7. On or before December 15, 2005, and annually thereafter, the Commissioner of Administration will summarize and report to the Governor regarding the results of this initiative, including information regarding:

a. The number and nature of enterprise-wide contracts awarded by the state;

b. Savings attributable to enterprise-wide contracts and other strategic sourcing strategies; and

c. Any conclusions or recommendations regarding Minnesota's success with strategic sourcing and further system improvements.

Pursuant to Minnesota Statutes 2004, section 4.035, subdivision 2, this Executive Order will be effective fifteen (15) days after publication in the State Register and filing with the Secretary of State and will remain in effect in accordance with Minnesota Statutes 2004, section 4.035, subdivision 3.





# **Minnesota's Drive to Strategic Sourcing Excellence**

**Minnesota Department of Administration  
Materials Management Division**

# Overview

- Minnesota's Drive to Excellence
- Key DTE sourcing strategies
  - Executive order
  - Legislation
  - State-managed initiative
  - Standards
  - Minimum weight for price
  - Negotiations
  - Spend intelligence system
- Sourcing success stories
- Sourcing setbacks, challenges

# The Drive to Excellence

- Why now?
  - Governor Pawlenty's commitment to reform
  - Changing demographics of workforce
  - Need to work across organizational boundaries
- Deloitte Consulting engagement
- “Transformational” enterprise-wide opportunities
- March 2005 “Roadmap”
- DTE governance





# Executive Order 04-07

- Issued April 2005
- Powerful statement of Governor's new expectations for executive branch
- Highlights:
  - Shifts in central procurement and agency roles
  - Commodity standardization
  - Heightened emphasis on cost
  - Mandatory use of enterprise contracts, including professional/technical contracts



# DTE Sourcing Initiative

Goal: A new organizational approach to gain leverage for all state purchases:



- \$1 billion-plus spent annually on commodities, services
- 543 employees in 80 percent of Executive Branch agencies
- \$89 million labor cost
- 25,000 vendors
- 1,500 master contracts

# DTE Sourcing Initiative

- Consolidate buying power, expertise
- Streamline purchasing processes
- Focus on business-related service, function



# Legislation

- Codifies key concepts of Exec Order 04-07
- Assures commitment to principles beyond Pawlenty administration
- After two attempts, approved by 2007 Legislature with broad bi-partisan support





# State-managed initiative

- No resources for consultant services
- Multi-agency steering team
- State Chief Procurement Officer chairs
- Ad hoc multi-agency teams
  - 21 Sourcing workgroups
  - 338 employees
- Office of Enterprise Technology partnership
- Result=Genuine buy-in for employees





# Standards

- Old: Get customers whatever they want
- New: Work with customers to get them what they need
- Recognizes one size doesn't fit all
  - Examples: Multiple manufacturers meet standards for desktop computers; 10 approved office chairs
  - Exception approval processes always available
- More than 400 low-value-added contracts eliminated in central office
- Estimated total savings: \$110M/5 years



# Minimum weight for price

- Old: Determination of “best value” must only ‘consider’ cost
- New: Cost weighted at least 30% of all evaluation factors; 40% in some cases
- Analysis of past practices projected substantial savings with new policy
- Zero exception requests since implementation in August '05
- Savings to date=\$418,000

# Negotiations

- Old: Frequently accepted price offer
- New: Failing to negotiate with RFP responders=lost opportunity
- Added staff position
- Negotiated commodity/general service contract price reductions=\$13.3M
- Negotiated professional service contract price reductions=\$877,000



# Spend Intelligence System

- Existing data deficiencies/aging ERP system
- First state to implement system
- Consolidates purchasing, supplier data from disparate information sources
- Vastly improves analysis and reporting
- Newly-available data:
  - Informs standard-setting and negotiation processes
  - Controls off-contract spending





# Sourcing success stories

- Collaboration of multi-agency teams
- Commodity standards and contracts:
  - Desktop and laptop computers and monitors
  - Office supplies and furniture
  - Cell phones and service plans
  - Routers and switches
  - Servers and storage devices
- 108 reverse auctions=\$5.6M savings
- Non-state entities benefit



# Setbacks/Challenges

- Difficulty of accurately computing savings
- Agency fears of “capturing” savings
- Lack of new dedicated resources
- Balancing needs of mandatory contract users versus optional users
- Concerns of reduced business opportunities for MN-based companies



*ATTACHMENT C*  
*Drive to Excellence*  
*Newsletter*

Minnesota's stellar reputation as a vigilant manager of the public's money is getting a healthy boost through the wonders of information technology.

Governing magazine's 2005 Grading the States survey ranked Minnesota among the top five states in the nation for money management. A particular strength, the report pointed out, is the state's purchasing and contracting system. Minnesota is now taking that up a notch with "spend intelligence."

"Spend intelligence allows us to better analyze purchases to do better contracting," says Rose Svitak, Minnesota's spend-intelligence guru in the Department of Administration. "It allows us to look at slices of data over time, as an enterprise, to determine where the state can reduce the cost of what it purchases."

In conjunction with the Drive to Excellence Sourcing Project, the Department of Administration's Materials Management Division – which oversees nearly \$1.8 billion in state purchasing each year – in mid-2005 procured the hardware and software for implementing a spend intelligence solution. The web-based system integrates, classifies and enhances spending information based on internationally recognized standards. The state can now use that information to analyze the "who, what, when, where and how" of its purchases.

"We have some real untapped potential here," Svitak said. "With spend intelligence, we can identify goods or services that are in demand and then use that information to drive down costs through volume purchasing or negotiations."

In preparation for a July 2006 rollout, staff from the departments of Administration and Finance went to work tweaking MAPS, the state's accounting and procurement system, so its data would better match the requirements of the spend intelligence system. The next step was an arduous process of coding two years of purchasing data to match the United Nations Standard

Products and Services Code (UNSPSC) and, then, writing the “thousand and thousands” of rules that were necessary for migrating the data to the spend intelligence database.

Today, nearly 86 percent of MAPS information is in the spend intelligence system, while the remainder will be added as it is classified – and as agency purchasers increase their familiarity with the standards. That process will get a boost this month as the spend intelligence system is deployed to agency purchasers and managers, who will be able to view their purchases at a level of detail that previously was impossible. And they’ll be able to export the data into a variety of formats, including Word and Excel documents.

“We now have a clearinghouse for everything that has to do with purchasing,” Svitak said.

“We can run reports about virtually anything to do with state purchases. We can build customizable home pages for purchasers and identify the parentage of vendors. A new feature we are adding will connect us to intelligence about the firms the state does business with. The possibilities for consolidating resources and driving down pricing are just amazing.”



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## Software helps Minnesota spend wisely

### Officials monitor agency purchases statewide

BY Dibya Sarkar

Published on Dec. 5, 2005

Minnesota's procurement officials say new software is helping them better understand what products and services state agencies are buying.

Although it's still in the early phase of implementation, the software will provide greater insight and visibility into statewide spending practices, said Kent Allin, the state's chief procurement officer. For example, it recently provided detailed information about how employees use purchase cards.

"We didn't have this detail of who's spending what, where, and that's millions of dollars" of purchases, said Allin, director of the state's Materials Management Division, which is responsible for state purchasing and contracting activities.

Officials said the software, TrueSource's Spend Intelligence Solution, could yield a 2 percent to 10 percent savings on high-volume purchases. The state spends more than \$1 billion on commodities from 25,000 vendors.

Minnesota implemented its current accounting and procurement system in 1995, and the state hasn't had enough money to revamp or install a new system, Allin said.

Under a gubernatorial initiative called Drive to Excellence, which started this spring, procurement is one of eight opportunities for the state to save money if it can become more efficient and improve service.

State officials sought a solution that could analyze spending. They awarded a five-year, \$835,000 contract to TrueSource, based in Libertyville, Ill., for its intelligent spending software.

"The reason that we believe we can save a lot of money there is, historically, Minnesota agencies had the freedom to purchase whatever they defined as meeting their needs and wants," Allin said. "Although we have statewide contracts for goods and services, they are multiple-award contracts, and agencies can choose from an array of vendors."

Rodney True, president and chief executive officer of TrueSource, said the company's software enables organizations to collect data from the entire organization and across disparate systems. It reclassifies, cleanses and

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consolidates the collected data into groups relative to what an organization wants to understand, True said.

"You can't manage what you don't know," he said.

With more information, an organization can implement more effective contracts enterprisewide. But equally important, he said, continually repeating this automated process provides more insight, tracking and measurement on statewide spending.

"If you think more intelligence for your business is a value, then this is an intelligence on steroids for [spending] and suppliers," True said.

He added that he doesn't know of any other state that has adopted an automated application for managing spending, although the company is in discussions with a half-dozen other states and is also eyeing the federal market.

Minnesota's new approach will enable state officials to develop standards for agencies that previously had the freedom to buy what they wanted, Allin said. Standardization can help the state bundle purchases and negotiate better prices with vendors, he added.

The strategy could reduce the number of vendors that are willing to bid on contracts -- meaning fewer choices -- but the state could almost promise vendors they'll be getting the full volume of state business, he said. That's because the automated software will be able to track an agency's "maverick or renegade spending outside the state contract," he said.

Allin said the strongest resistance is coming from vendors that fear losing state business. But he said agencies are realizing the advantages of the state's new approach.

Officials are also planning to use the TrueSource software to analyze spending in the Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP), a cooperative of 42 participating states and the city of Chicago that purchases \$1 billion in pharmaceutical products for public-sector use.

Rose Svitak, a project manager at the Materials Management Division, said the software will enable the division, which manages MMCAP, to analyze the purchasing history and details of those 43 entities. It will be able to run side-by-side comparisons of name-brand and generic pharmaceuticals and provide comparisons of therapeutic alternatives that could result in savings and improved service, she said.

The software will also enable officials to aggregate spending on products developed by manufacturers that are part of a larger parent company, Svitak said.

She added that they are extracting data from disparate systems. MMCAP participants will meet in January, when the first analysis of the data will be presented.

Allin said saving money on pharmaceuticals will enable agencies to invest in other projects.

Officials at Minnesota's Materials Management Division use TrueSource's Spend Intelligence Solution to gather information from multiple databases so they can analyze state agencies' spending on commodities.

They also rely on the software to analyze the state's cooperative purchasing on behalf of the Minnesota Multi-State Contracting Alliance for Pharmacy, a

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consortium of 42 states and the city of Chicago that buys pharmaceutical products for government health care facilities.

TrueSource spent nine years developing the software, which has three components:

- TrueData aggregates structured and unstructured data from all systems and standardizes it into one format. The information is grouped and categorized according to standard classification systems.
- TrueAnalysis provides detailed analysis of data, including what was purchased, from whom it was purchased and how much was spent.
- TrueManage allows users to store procurement information -- such as electronic contracts, policies, procedures and templates -- at a shared, centralized site. A customizable Web-based interface can link data on spending to contracts and suppliers, among other activities.

The system costs from \$500,000 to \$1 million depending on the organization's size, said Rodney True, president and chief executive officer of TrueSource.

-- Dibya Sarkar

## ATTACHMENT E

### **Minnesota Department of Administration Selects TrueSource Spend Intelligence Solution to Manage Statewide Purchasing and Spending**

#### ***TrueSource Solution to track procurement, reduce redundant spending***

**Libertyville, Ill.**, October 31, 2005 – TrueSource, a provider of industrial-strength Spend Intelligence Solutions (SIS), today announced that the State of Minnesota Department of Administration has awarded the company a five-year contract for a holistic spend management software solution. The software will provide the State of Minnesota with comprehensive, accurate and refreshed information to drive continued efficiencies in statewide procurement.

The TrueSource solution will be used by the Administration Department's Materials Management Division (MMD), which is responsible for the state purchasing and contracting activities and the Minnesota Multi-State Contracting Alliance for Pharmacy (MMCAP). MMCAP is a purchasing cooperative managed by the State of Minnesota, representing approximately 4,000 facilities, 43 state entities and \$1 billion of purchased pharmaceutical products from 150 pharmaceutical manufacturers. The state and MMCAP will utilize TrueSource to capture Spend Intelligence for the purpose of reducing the resources and time associated with managing the procurement of goods and services.

"Taxpayers deserve and demand increasing accountability at all levels of government," said Kent Allin, Chief Procurement Officer for the State of Minnesota. "Comprehensive and accurate spend information is an essential step in actively managing and improving government agency acquisition of goods and services. Better information leads to better decisions – with a net result of lower taxpayer costs and improved citizen service. We hope to net a 2 - 10 percent savings in the commodity and service areas where the TrueSource solution is implemented."

The TrueSource solution will enable officials to effectively track statewide procurement and reduce redundant spending. The State of Minnesota currently spends in excess of one billion dollars annually to purchase commodities and services from 25,000 separate vendors. A state-of-the-art SIS will improve the State's ability to harness demand so it can purchase goods and services at reduced costs.

“Efficient procurement remains a leading challenge for agencies at every level of government,” said TrueSource President and CEO Rod True. “Given the enormous number of vendors, the number of procurement options, and the increasing complexity of the process, government procurement executives need robust technology tools to understand the scope of spending. Supporting Minnesota's Drive for Excellence initiative, the TrueSource solution will provide Minnesota's participating agencies with more detailed and accurate information about their suppliers and how they are spending money. This will enable them to identify targeted opportunities to control costs and leverage their buying power more effectively.”

The TrueSource Spend Intelligence solution collects, cleanses, classifies and integrates data from disparate systems to create intelligence about suppliers and purchasing trends that the State can utilize in its product and service negotiations. In addition, the solution consolidates information about what the State is buying and how much it is paying for each item, and monitors internal compliance with purchasing and spending goals.

The State's purchasing team will manage the sourcing solution through a portal, which will enable them to run reports for strategic decision-making.

### **About State of Minnesota Department of Administration**

The Department of Administration provides essential services, including procurement, facilities management and business consulting to its partner agencies across state government. During the fiscal year ended June 2005, the Department realized more than \$2 million in savings on goods purchased for agencies through reverse auctions and \$3.18 million savings in savings as a result of negotiating lease rates for agencies in non-state-owned buildings.

### **About TrueSource**

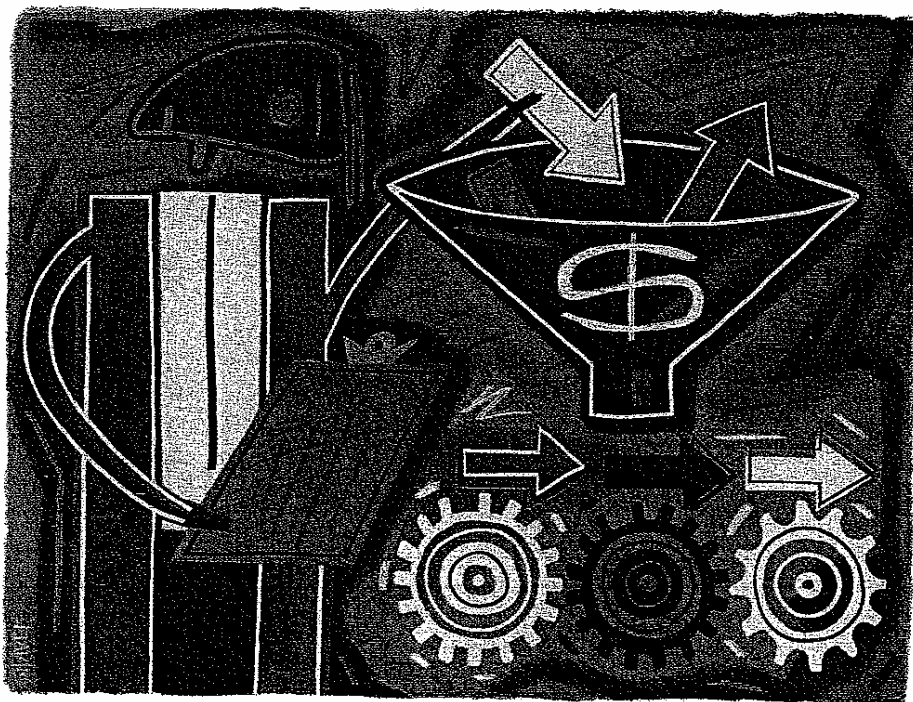
TrueSource captures millions of raw spending data points from virtually any source across your entire enterprise including purchase orders, e-commerce engines, p-cards, and many others. That data is then distilled into Spend Intelligence during a process of cleansing, standardization and integration through literally tens of thousands of spending classification rules generated over eight years, and specific to your operation. Once the spending data is distilled into Spend Intelligence, TrueSource makes it available in a functionally rich environment that facilitates both rapid and extensive analysis and management across the entire spending continuum. Better information. Better decisions. Better results.

We know you will agree that a superior and holistic ability to perform "Intelligent Sourcing" will lead to superior value for your organization.

# Buy by Data

States that can apply “strategic sourcing” to their purchasing operations stand to save millions of dollars.

By Zach Patton



**P**ennsylvania procurement officials like to lay out a familiar scenario: Imagine you're hosting a family picnic, and you need ketchup. A lot of it. Would you drive all over town, darting into convenience stores to buy enough small packets of ketchup to feed the family? No, you'd go to the supermarket, where you can buy one big bottle for a much better price.

That's common sense, but it's also a purchasing strategy that has eluded state

and local governments for years. Now, some public procurement officers are realizing they can save significant amounts of money simply by monitoring state expenditures and selectively targeting vendors to get the best possible price.

The concept is known as “strategic sourcing,” and many states now see it as a means of saving money through smarter purchasing. A private-sector practice for decades, strategic sourcing was largely absent from state procurement practices even

a few years ago. Delaware was the first state to implement the method in 2002; a handful of other states, including Illinois, New Mexico, Virginia and Rhode Island, followed in 2003. Today, 24 states are either practicing some form of strategic sourcing or are in the process of implementing it.

Shifting to a strategic sourcing approach involves some challenges. It relies on more centralized controls and much more thorough data-collection. And it raises the

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specter of getting too cozy with a limited number of vendors. But as more states adopt the approach—and as they experience dramatic savings—they are finding ways to overcome the barriers. As a result, strategic sourcing is very quickly becoming the gold standard in state procurement.

### Fixing the Shopping Gene

The broad concept of strategic sourcing is incredibly simple: States can save money by paying close attention to purchasing practices—who's buying what from whom and how much of it. Pinning down a more specific definition is slightly more difficult. There are as many variations of strategic sourcing as there are arenas in which it's utilized. The 2004 California Performance Review, which urged the adoption of strategic sourcing in California, called the concept "a rigorous, systematic process by which the organization analyzes its expenditures, evaluates both internal and external influences, and determines the appropriate supplier relationships necessary to support overall organizational goals."

If that is too dense an explanation, there's the ultra-simple one procurement officials in Pennsylvania use: smart buying.

Regardless of its variations, strategic sourcing is predicated on two broad concepts: analyzing expenditures and leveraging a state's collective buying power to obtain the lowest possible price for goods or services. Purchasing itself doesn't necessarily have to be centralized, but it's essential to have a central overseer to gather data from disparate agencies, use that information to negotiate with vendors and then steer agency buyers to the carefully negotiated state contracts. Purchasing officials who use the system say they are able to avoid the issue of favoritism for one vendor over another since all contracts are driven by purchasing data collected from the state agencies.

Strategic sourcing has borne substantial savings in almost every state that has implemented it. Pennsylvania can lay claim to being one of the bigger success stories. When Governor Ed Rendell took office in 2003, he faced a budget deficit of around \$1.5 billion, a formidable shortfall for any state. Rendell looked to strategic sourcing as a salve for many of Pennsylvania's financial problems. "I knew we could do it," he says.

"I had read during the campaign about private industry doing such sourcing, and I thought it was something we could get into easily."

Rendell says he inherited "some woeful contracts with private vendors." The state had 25 separate cell phone contracts—five with the same company and at five different rates. Purchasers were buying personal computers from 15 different companies. That made for some obvious opportunities for strategic sourcing. "We hadn't used our leverage as purchasing power for anything," Rendell says.

Three years into its strategic sourcing efforts, Pennsylvania can boast at least \$140 million in savings. It went from maintaining 17 warehouses to running only four—

**Since private industry was doing strategic sourcing, "I thought it was something we could get into easily."**

— Pennsylvania Governor Ed Rendell

for an immediate savings of \$4.5 million. As more contracts are put in place, the state expects its strategic-sourcing savings to total more than \$200 million a year.

### Developing the Base

One of Pennsylvania's biggest initial challenges came from suppliers who were concerned with one of the central tenets of strategic sourcing: Consolidating contracts means reducing the number of vendors that do business with the government. That can be a tough sell, says state General Services Director James Creedon. For instance, two years ago, Pennsylvania bought its office supplies from 1,800 separate vendors; now, a single vendor supplies all state agen-

cies. Creedon acknowledges there were discussions about the trade-off and the economic impact of purchasing from fewer suppliers. Ultimately, he won the day by arguing that purchasing didn't have "a mandate from the voters to spend more money and buy more from more vendors. We had a mandate to reduce spending." A corollary of that point is that while states have an interest in supporting small businesses, they shouldn't do it through procurement. "You have to separate the notion of creating a favorable business environment in your state from the way you buy your goods and services," says Frank Kane, a spokesman for General Services. "Create an environment that's good for growing businesses, but don't try to subsidize those businesses through procurement."

The best way to combat vendors' concerns, Creedon says, is through information. In the case of the 1,800 office-supply contractors, 68 percent of those vendors received less than \$1,000 a year from state contracts—hardly an amount worth the trade-off on higher prices for the state. Concrete information such as this allows procurement officials to show more explicitly what's best for the state, which can alleviate concerns about suppliers.

But getting that data—compiling accurate, comprehensive information about how a state is spending its money—is the single biggest roadblock states face when moving toward strategic sourcing. "You have to streamline your procurement and aggregate your data," says Ellen Phillips, the deputy state purchasing agent for Massachusetts and the president of the National Association of State Procurement Officials. "The most common obstacle is identifying what savings you're actually going to get through strategic sourcing." States frequently aren't initially equipped to identify those savings. The mere collection of current spending data can often prove incredibly difficult.

That was certainly the case in California, where strategic sourcing was adopted in 2004 to help address that state's crippling budget shortfalls. State officials were exuberant about the method's potential—and forecast \$96 million in savings in the first year alone.

But when they began their analysis, they found the purchasing information in almost hopeless disarray. Shoddy bookkeep-



ing in several agencies thwarted the effort to aggregate and examine statewide data. Purchasing officials had hoped to complete the data analysis in a couple of months; it dragged on for more than six. There was no consolidated data center. "The state was spending \$4 billion to \$6 billion a year," says California's general services director, Ron Joseph. "But we didn't really know how we were spending it or exactly what we were spending it on."

As an initial strategic sourcing effort stalled, the state was forced to revise its predictions on savings. Last May, the Department of General Services announced the new estimate: a mere \$5 million for the first year. "We got off the ground quite a bit more slowly than we had hoped," says Joseph. "But we still saw the potential."

The good news for California is that the revised first-year prediction turned out to be too low. California ended up saving \$11.3 million in fiscal year 2005. Since then, the effort has begun to yield substantial results. The state now anticipates \$170 million in savings from the strategic sourcing contracts negotiated so far. That's certainly a healthy start, but some officials

**"If you're going to do strategic sourcing at its fullest level, you need a very good understanding of yourself as a consumer."**

*—Ron Joseph, California's general services director*

there are still unsure about the ultimate potential of strategic sourcing to save much more than that.

#### **Building a Foundation**

The issue of collecting purchasing information is also vexing procurement officials in Minnesota as they shift to strategic sourcing. Despite an electronic trail from official purchasing cards used by agency buyers, purchasing information was not sufficient

to determine what was being spent on what.

But even as the state trains a closer eye on its procurement data, it is discovering another problem, something Director of Administration Kent Allin dubs "maverick spending"—non-contract purchasing where procurement employees in various agencies are not making use of the state-negotiated prices that are available to them. Reining in that practice is essential for the state to get a handle on its expenditures. The bottom line, Allin says, is that strategic sourcing cannot be successful without comprehensive purchasing information. "You need the foundation in data," he says.

And that may not be all you need. Strategic sourcing, California's Joseph says, "is more than saying, 'Okay, we're going to buy a lot. Give us a good price.'" Bundling purchases is just the starting point. "If you're going to do this at its fullest level," he says, "you need a very good understanding of yourself as a consumer. You need to know the marketplace very well. Strategic sourcing is a very simple concept that's very difficult and complex to implement."

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June 1, 2005

Re: State of Minnesota – Letter of Reference Regarding True Source, Inc.  
RFP for Spend Intelligence and Spend Management

To Whom It May Concern:

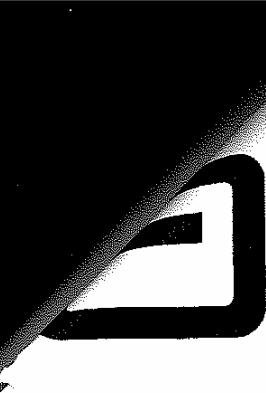
Abbott Laboratories has worked with True Source since 1996 on a number of very successful systems projects, including the design and development of the Abbott Purchasing Information Network (PIN) system (our Abbott naming convention for the commercially available Spend Intelligence Solution offered by True Source).

Our relationship with True Source has been as a long-term business partner providing advanced Business Intelligence and Knowledge Management solutions to Abbott Corporate Purchasing. Abbott has worked with many globally known service and software providers, True Source was chosen over many of these organizations for their ability to provide superior software and integration expertise in the area of Spend Intelligence and Spend Management. True Source continues to support Abbott today in maintaining our PIN system and providing ongoing software expertise to enhance our online experience and strengthen our business intelligence applications.

We have no reservation in recommending True Source; they are an excellent company to have on your team. Our ambitious goals for the PIN project were to come in on budget, deliver in the stated timeframes, and successfully deliver the stated financial goals used to justify the project. In actuality and as testimony to True Source's ability to "deliver", we implemented ahead of schedule, under budget, and currently we are 4X beyond our original ROI targets. That number continues to grow due to the unique and flexible capabilities of our PIN system.

The True Source system allows Abbott to manage a large volume of information from many locations and disparate systems (\$9B in Spend, 21 domestic locations, 30 international sites, 350 Purchasing professionals) with regular data refreshes direct to desktop. Also unique are our detailed capabilities across the entire "Purchasing Continuum" of Spend Management, from data and content collection through Sourcing program management,

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implementation, and compliance/auditing. It is also worth noting that in the corporation wide 2001 Abbott Information Technology Expo, Abbott Corporate Purchasing and True Source received the prestigious "Business Impact" award for the application having the most significant business impact.

If you have any questions, please don't hesitate to call me, 847.938.3962.

Sincerely,



Todd Grunert  
Purchasing Manager – Supplies and Services

**Powerful, proven Spend Intelligence and Spend Management software for State Government—automating the entire Strategic Sourcing Continuum.**



# TRUE SOURCE

## Spend Intelligence Solution

How can I consolidate and analyze suppliers and spend data in more detail?

How do I find opportunities for greater leverage across the State?

Who are my top 1,000 suppliers?

What are the top 1,000 commodities we purchase?

Where am I experiencing negotiated contract leakage?

Who isn't buying from preferred suppliers?

What percentage of a supplier's business do we represent?

How can I analyze purchases made across our multiple procurement systems and Agencies?

Are my analyses automatically updated as new purchases are made?

Does another Agency already have a contract with this supplier?

Where are our current policies and procedures documents located?

Where are our current contract and terms templates located?

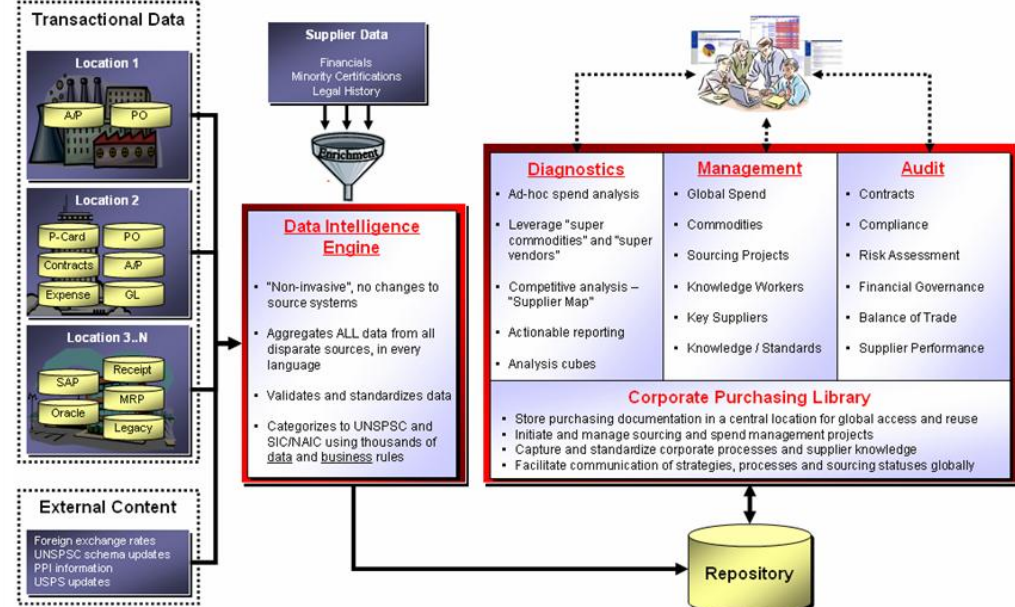
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### Overview

The TrueSource solution captures millions of raw spending data points from virtually any source across your entire enterprise including purchase orders, e-commerce engines, p-cards, and many others. That data is then distilled into Spend Intelligence during a process of cleansing, standardization and integration through literally tens of thousands of spending classification rules specifically tailored for State purchasing operations. Once the spending data is distilled into Spend Intelligence, TrueSource makes it available in a functionally rich environment that facilitates both rapid and extensive analysis and management across the entire spending continuum. The bottom line is an advanced capability to better manage State-wide spend.

### Solution Architecture



### Key Features

- State-wide analysis across all purchasing locations and all existing transactional systems
- Integrated procurement collaboration and management environment
- Automated data validation, cleansing, classification, and enhancement—including automated classification of purchases by UNSPSC Code
- Automated data refreshes
- No changes required to your existing transactional systems
- Rapid deployment and ROI via included standard implementation consulting services package

### Benefits

- Consolidate State spend, refreshed monthly, with automated structure and audits
- Leverage actionable reporting to gain insightful knowledge about spend and suppliers
- Be better managers of spend across the Strategic Sourcing Continuum, including implementation of commodity programs
- Use Spend Intelligence and leverage points to be a better negotiator with suppliers
- Create productivity and savings opportunities for the State
- Share information, documents, and best practices among your purchasing professionals