



## **State of Alaska**

Department of Administration  
Shared Services of Alaska

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# **2018 George Cronin Awards for Procurement Excellence**

## **Continuous Improvement in Statewide Procurement**

## Executive Summary

The State of Alaska's Statewide Contracting Office began introducing continuous improvement techniques into the procurement process in 2016. Driven by a budget shortfall and taking a page from the procurement offices at some of the largest employers in the state, we saw a golden opportunity to evaluate what we do in procurement and find ways to do it better and faster, freeing time for us to add more value—incredibly important as procurement shifts from a transaction-based occupation to a strategic profession. The idea that every process, form, approval, and policy that makes up our procurement process is always be on the table for improvement was adopted as we started introducing continuous improvement concepts to procurement staff at all levels.

**Innovation** - While continuous improvement techniques are not new and have been used in discrete procurement projects, front-line procurement staff learning the skills and applying them to the very foundation of what we do in public procurement may not be widespread yet.

**Transferability** - Continuous improvement techniques are very easily transferable. Many states already have a Lean or Process Improvement Office and resources that can provide training and materials. In states that do not have in-house resources, there are many nationwide and global resources for learning about continuous improvement and becoming certified.

**Service Improvement** - Adopting and fostering an environment of continuous improvement in procurement has led to tremendous gains in efficiency and service levels, discussed later.

**Cost Reduction** - Time is money and when you can transform a process and achieve a reduction in the amount of time that process takes, the savings can be enormous.

## Innovation

Continuous improvement techniques and methodologies have been around for more than a century. While getting their start in the manufacturing world, the underlying philosophies are easily applied to business processes.

In public procurement, protests and controversies make our processes magnets for reactive “add ons” intended to prevent a certain situation from ever happening again. As a result, sub-processes, more approval levels, and other efficiency-killing policies accumulate and become the routine. While well-meaning and reassuring at the time, layers of mostly unnecessary burden are created for hundreds or thousands of employees over decades as they become the norm. Without anyone ever stopping to examine why they were created in the first place, we end up putting process before value. (As an aside, a huge benefit of fostering a culture of continuous improvement in procurement is that we touch so many other parts of government - the demonstrated successes spread the culture fast!)

To address the accumulation of wasteful procurement processes in the State of Alaska, continuous improvement techniques were introduced slowly and methodically to procurement staff over a year in three distinct phases.

First, informal Lean and kaizen training was arranged for internal Statewide Contracting Office staff. We picked small internal processes to improve and made immediate changes and demonstrated immediate positive results. As a team, we started explicitly encouraging an environment of asking, “Why?” and never doing something that seemed wasteful just because that how it was done before.

Next, the same informal training was presented to representatives from all 15 executive branch agencies. We asked them to tell us their biggest pain point with our office. Unanimously, a statutory process for gaining approval of non-competitive single source contracts was brought up. This became our first statewide project and the results are discussed under Service Improvement.

Lastly, we began scheduling larger, multi-day improvement events—with training interwoven into the content—to focus on major statewide procurement processes. The explicit purpose was to rebuild these processes in a transformational way and the results are a massive efficiency gains across the entire procure-to-pay-to-disposal process.

The innovation is introducing continuous improvement techniques to procurement staff, internal and external, in a thoughtful, deliberate way. This was accomplished by providing training and creating buy-in to help shift the culture from “Because that’s what we’ve always done,” to “How can we do it better?”, with long-term goals to ensure the culture continues far into the future.

## Transferability

The basics of continuous improvement are easily and cheaply learned, adopted, and taught to others and it can take very little to show small internal successes that can still yield big results, which can then be used to help kickstart a more comprehensive effort.

The continuous improvement rollout in the State of Alaska has required minimal funding and the funding that was used was primarily for Lean Six Sigma coursework and certification for two key employees (using the NASPO Professional Development Fund).

For those states that have an in-state procurement training program, classes introducing procurement staff to continuous improvement tools and philosophies can be added to the curriculum to start the continuous improvement conversation in the procurement world. The State of Alaska has developed a class titled “Process Improvement Toolkit for Procurement Professionals” that will be rolled out in the fall of this year.

## Service Improvement

Three procurement-related continuous improvement efforts are demonstrated below:

### SINGLE SOURCE REQUEST PROCESS

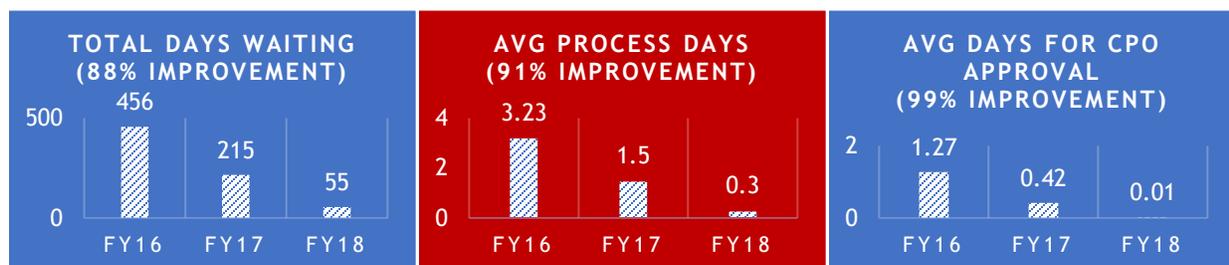
**Problem:** Requests take too long to process and requests for more information are inconsistent

**Root Cause:** Lack of standards, paper form

**Remediation:** Developed guides, electronic form/approval process, eliminated redundant reviews

**Direct Cost:** \$0

**Results:** Over a *year* of waiting—401 days—was eliminated from the process annually. This time is returned to program staff, agency procurement staff, and the statewide procurement office to pursue value-added activities. What once could take up to a month of back-and-forth is now accomplished in a matter of hours.



### LEVERAGING ALASKA'S E-PROCUREMENT SYSTEM

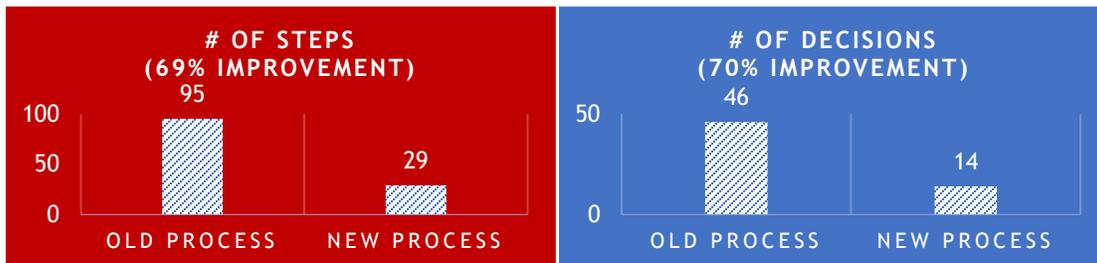
**Problem:** Inconsistent use of the statewide e-procurement system, not sharing best practices

**Root Cause:** Not enough training provided, no requirement to use the system, no standard process

**Remediation:** Held weeklong process improvement event with representatives from 13 of 15 agency procurement offices and two accounting representatives. Examined current process, identified waste, created and agreed to adopt transformative future state process.

**Direct Cost:** < \$1,000 for meeting space, materials, and snacks

**Results:** This event resulted in cross-departmental agreement to adopt a team-created standard process that increased efficiency by nearly 70% and more fully leverages the state's investment in our e-procurement system. Implementation complete as of January 2018.



### PROPERTY MANAGEMENT PROCESS

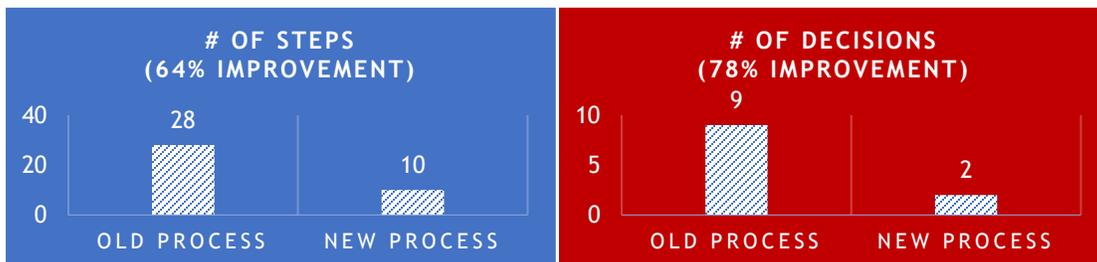
**Problem:** Getting rid of end-of-life property/equipment is cumbersome and takes too long

**Root Cause:** Many layers of paper approvals create bottlenecks in the disposal/surplus process

**Remediation:** Held 3-day process improvement event with representatives from 14 of 15 agency property management offices. Examined current process, identified waste, team created and agreed to adopt transformative future state process.

**Direct Cost:** < \$500 for meeting space, materials, and snacks

**Results:** The primary result of this event was the creation of an online form that automated workflow of the approvals. Combined with reducing the levels of approval required, a three-day process now takes around one hour.



## Cost Reduction

The cost savings derived from continuous improvement initiatives are mostly indirect. We have calculated indirect cost savings for the three projects cited under Service Improvement below using the data cited under Service Improvement and a blended, fully-loaded hourly rate of \$52/hour for the range of positions involved in each process. Keep in mind that successfully building a culture of continuous improvement will generate indirect cost savings daily as long as there are inefficiencies present!

### **SINGLE SOURCE REQUEST PROCESS** **\$207,025/annual savings**

OLD PROCESS: 24 hours/transaction x \$52/hour x 175 annual transactions = \$227,500/year

NEW PROCESS: 2.25 hours/transaction x \$52/hour x 175 annual transactions = \$20,475/year

$\$227,500/\text{year} - \$20,475/\text{year} = \$207,025 \text{ annual savings}$

### **LEVERAGING ALASKA'S E-PROCUREMENT SYSTEM** **\$1.2 million saved since July 1, 2017**

OLD PROCESS: 32 hours/transaction x \$52/hour x 900 annual transactions = \$1.5 million/year

NEW PROCESS: 10 hours/transaction x \$52/hour x 900 annual transactions = \$468,000/year

$\$1.5 \text{ million}/\text{year} - \$468,000/\text{year} = \$1 \text{ million annual savings}$

The new process includes a built-in check to purchase from statewide contracts, increasing managed spend and associated savings. A 10% increase in managed spend over the past two quarters has generated an estimated **\$240,000 in additional savings**.

### **PROPERTY MANAGEMENT PROCESS** **\$4.9 million/annual savings**

OLD PROCESS: 22.5 hours/transaction x \$52/hour x 4,400 annual transactions = \$5.1 million/year

NEW PROCESS: 1 hour/transaction x \$52/hour x 4,400 annual transactions = \$228,800

$\$5.1 \text{ million}/\text{year} - \$228,800/\text{year} = \$4.9 \text{ million annual savings}$

## Conclusion

Continuous improvement techniques and methodologies have a place in public procurement. As we roll out our Process Improvement Toolkit for Procurement Professionals course, we hope that it inspires students to pursue further learning about Lean, Six Sigma, and kaizen and adopt those philosophies in their day-to-day work in procurement. Two key staff in Alaska's Statewide Contracting Office pursued and obtained Six Sigma Black Belt certification in support of the continuous improvement culture shift in our state. Other statewide procurement staff who show an interest in pursuing similar certification will be encouraged and supported in their own continuous improvement journeys.

In short, as procurement professionals seek to add more value to projects, time must be freed up to do so. With so much time taken up by wasteful processes, continuous improvement tools—simple and complex—can help us achieve this goal. Simultaneously, we will realize immense time and cost savings while encouraging a culture of change for the better, all good things in our world.