State of Arizona
Department of Administration
State Procurement Office

2019 George Cronin
Awards for Procurement Excellence

“Do More Good”: Utilizing Lean & Continuous Improvement to Enhance the Customer Experience - Arizona
**Executive Summary**

When the new Governor took office in the state of Arizona in 2015, he set out with an ambitious vision: for Arizona to be the number one state to live, work, play, recreate, retire, visit, do business, and get an education. To achieve this goal, Arizona had to think differently and determine how to operate more efficiently and effectively. Using the Arizona Management System (AMS - a professional, results-driven management system) to transform the way our State government operates, Arizona is striving to *Do More Good* for its customers and citizens (see Diagram 1).

AMS utilizes a process-centered approach with emphasis on understanding customer needs, identifying problems, improving processes, and measuring results. This continuous improvement mindset helps teams to add value to the processes they own for their customers. All Executive agencies currently utilize AMS, which has created a common process for identifying problems and improving processes.

**Innovation:** An enterprise-wide implementation approach has enabled procurement teams across the State to make improvements with a common language. Problem solving at every level and the gathering of inputs from non-traditional outlets have helped the team to better serve their customers.

**Transferability:** Lean methodologies are applicable to all levels of government, and procurement-focused process improvements can transfer across central procurement teams.

**Service Improvement:** Utilizing AMS principles, the team was able to reduce a large help desk ticket backlog, renew expiring contracts earlier, and improve the customer experience for fee payments.

**Cost Reduction:** Traditional procurement practices, such as contract cost savings as well as administrative efficiencies, can be enhanced through the application of AMS methodologies.

**Innovation**

The State’s approach to achieving the Governor’s vision utilizing AMS required the application of many inventive strategies. Much of the implementation process was handled via a train the trainer methodology, where emphasis was placed on critical concepts being passed down to front-line team members from individuals that actually *did* or were familiar with the work, themselves.

Arizona is one of only a handful of state governments implementing such a system at the enterprise level. While there are many centralized state procurement offices focusing on isolated process improvements, the implementation of AMS at SPO embodies a comprehensive lean culture, which in turn is aligned through every level of the organization. Metrics roll-up through leadership within the organization, and, ultimately, on to a Scorecard that is submitted to the Governor’s Office monthly. Scorecards align to, and measure progress, on Strategic Plans, which outline the agency’s most critical objectives, and help align daily activities to the Vision (see Diagram 2). This enterprise-focused approach has proven to be an innovative way to unite procurement teams with a common theme.

Problem solving (and identification) is encouraged at every level within the team, and, more importantly, is emphasized at the front-line level. This varies from the Lean Six-Sigma methodologies that some central offices are utilizing, which focuses on creating a few “problem solving experts” within a given team and relying on them to guide the identification and solving of problems.

This past year, as SPO sought ways to re-energize its AMS efforts, the team found going to the Gemba (a Japanese term meaning *to go to and observe the actual place the work is done*) to be extremely valuable. Not only did the team seek to Gemba other procurement teams within state agencies, but
they also sought to learn from processes and teams that were seemingly dissimilar from their daily processes. The team identified gaps in several areas that they wanted to improve upon: simplified visual management, visualization of progress with complex/highly variable processes, processes that better met the needs of our customers, and communication of resource availability.

While observing huddles with the Fleet Management and Surplus Property teams, the team learned that communicating progress on a few critical metrics was much more effective than attempting to communicate on everything in the team’s scope of responsibility. After meeting with the Administrative Law Judge section of the Industrial Commission, the team discovered that even the most complex processes can be measured and tracked visually. Upon hearing of a process improvement with Certificates of Insurance at the Land Department that resulted from asking their customers, “What is it about our process that makes it difficult for customers to do what we need them to do?”, our team was able to significantly reduce the amount of confused responses from our Co-Operative program customers regarding whether they had outstanding payments.

**Transferability**

The approach to procurement is quite similar amongst the states, even if laws may be slightly different and nuanced. Thus, this AMS methodology to managing procurement is easily transferrable to any state. The recurring procurement-related challenges that most states face (such as expiring contracts, limited staff and funds, increasing work scope, etc.) all stand to benefit from AMS. Several local Arizona government entities have expressed interest in implementing AMS modeled systems with their teams.

AMS allows for increased opportunity and necessity to track things that are meaningful in a similar manner across the enterprise. Many impactful discussions have arisen from our agency customers as a result of the ability to speak in a common language and align critical metrics.

In the coming years, SPO aspires to provide reflection and recommendations on best practices to other central procurement offices that might be interested in implementing a Lean management system.

**Service Improvement**

The application of AMS within SPO has helped to improve the effective delivery of multiple services for our customers. These improvements represent a broad range of disciplines across the organization.

**Arizona Procurement Portal Ticket Backlog:** In October of 2018, the state went live with the new Arizona Procurement Portal. By December, the ticket backlog grew to almost 1,400 open tickets as our Help Desk struggled to keep up with the influx of tickets. The average resolution time was 103 hrs/ticket (or about 2.5 working weeks). This led to immense dissatisfaction with SPO’s customers.

In mid-December, SPO kicked off a Kaizen (a process focused improvement effort) for this ticketing process. The team participated in a number of activities to identify the root causes of the backlog and long turn-around time. Through mapping the process, studying trends in ticket data, and identifying where the largest opportunities for improvement existed, the team identified that the main root causes were: lack of consistency in processing tickets, no dedicated resources for resolution of electronically submitted tickets, and ineffective communication on the status of defects and enhancements of the newly implemented E-procurement system.

The team implemented several countermeasures to address these root causes. Standard Work cards (see Diagram 3) were developed for all Help Desk team members to ensure consistency in processing. A schedule was also created to ensure that tickets received through all medium types (electronic vs. phone) were given dedicated resource hours to resolve. An intentional communication plan was implemented that updates customers on the status of reported defects and requested enhancements.
Since the implementation of these countermeasures, the team has successfully eliminated the backlog and has consistently kept the open ticket count under 150 tickets since mid-June (see Diagram 4), and the turn-around time was reduced from 103 hours in December to 3.9 hours in July.

**Information Technology Team Contract Renewals:** In FY 2019, all SPO contract teams were given a goal to complete contract renewals 30 days or more prior to their expiration. The team started FY 2019 with only 53% of contracts meeting the goal. Heading into the Quarter 4 of FY 2019, the IT Contract team missed extending several contracts prior to the 30 day renewal goal.

Through data analysis, benchmarking, and focused discussions, it was identified that the contracts that missed the 30 day renewal goal were delayed as discussions regarding increased pricing discounts took place with suppliers. The team determined that many of their technology contracts were too complex to expect a vendor to respond with price concessions within 20-30 days. As such, the process for discussing pricing changes with vendors needed to be initiated earlier in the process.

To address the root cause, the team is implementing a Countermeasure that will be standardized. The Countermeasure starts the communication regarding price concessions with the vendor much earlier to allow ample time to discuss and ensure the contract be renewed on-time. Utilizing AMS, the new and inexperienced team was able to accelerate solutions that were previously unknown or altogether invisible.

**Co-Operative Program Communication Improvement:** SPO’s Co-Op program allows local governments and non-profit organizations to purchase from statewide contracts. In turn, the vendors associated with those contracts pay an administrative fee (equal to 1% of the Co-Op spend for a given period). Usage reports and administrative fees are due quarterly. This past fiscal year, many issues were experienced with past due payments. Numerous e-mails were sent to Co-Op members reminding them of the fee due dates and delinquent payments.

This recurring problem was cause for much frustration and waste for the team. Given the program’s importance to the funding of our office, considerable resources were devoted to tracking these payments to no avail. The team sought the actual root cause of this issue. As there was no data that indicated why this issue occurred, the team went to their customers, the Co-Op members, for feedback. Customers that were habitually delinquent on reporting were contacted and told that SPO was seeking to improve its processes and wanted to understand what aspects of the current process made it difficult for them to submit reports on-time. The team was very surprised by the most common answer: the majority of delinquent vendors did not know that the e-mail communications applied to them, meaning that a report was owed. This was an excellent learning opportunity for the team! Had they not stopped to collect data to determine the real root cause, they would continue to experience this issue.

Armed with this new information, a Countermeasure was developed for the next set of quarterly communications. Their countermeasure was simple, yet effective: clearly state (in the opening of the communication) that the message was applicable to all recipients, and that receiving the e-mail indicated that a delinquent report was owed (see Diagram 5). Through implementing this countermeasure, the team saw an 11% decrease in customer inquiries requesting clarification on if a payment was owed or not. AMS helped the team to seek input from their customers to identify the true root cause, instead of assuming the root of the problem is understood and implementing a solution not based on data.

**Cost Reduction**

AMS/Lean thinking principles have also contributed towards cost savings and reductions within SPO. In alignment with SPO’s Vision, the team is regularly seeking ways to add value for our customers.
Negotiated savings with contracts are a common area for procurement teams to report savings, but AMS has also created anticipated savings in other functional areas of operation.

**Healthcare-Related Consultant Contract Cost Savings:** The previous contracts for Healthcare Related Consultants were cumbersome and did not meet the needs of SPO’s customers. Once these contracts ended, SPO worked with customers to consolidate with a contract that better met their needs. Additionally, the Contract Manager identified opportunities for cost savings with several of the vendors that were ultimately awarded a contract, which resulted in an anticipated $311,220 annual savings over the five-year life of the contract.

As a result of this contract manager’s AMS mindset and focus on adding value to our customers, agency customers now have a contract that is easier to use, better meets their needs, eliminates the need for separate single-agency contracts, and offers services at a lower rate than the previous contracts.

**SPO Intern Program Revamp:** In FY 2019, SPO leadership observed that its intern program had a low rate of graduating interns that both wanted to pursue permanent full-time employment with SPO and were interested (and ready) to transition into a procurement role.

In alignment with AMS principles, the team began gathering data and identifying the true underlying root causes for this problem. This low conversion rate of interns into full-time staff did not provide for a good return on investment for the resources that had been allocated to developing interns that ultimately pursued other opportunities. On average, it costs SPO approximately $1,900 in labor costs (or 36.5 hours) to conduct a recruitment for an open position and $2,400 in labor costs (or 74 hours) for a new hire to successfully complete the on-boarding and training process. These are labor costs that would have to be incurred again to recruit for positions that could have been filled with graduating, experienced interns.

In May 2019, a Kaizen was initiated to develop a program that was better suited to develop interns that could be considered for full-time positions at graduation. Data indicates that the two main contributing root causes were: inconsistent work assignments/development opportunities and lack of intentional structure in the program (see Diagram 6).

The team is implementing Countermeasures which focus on identifying the best fit candidates in the recruiting process, standardizing the on-boarding process, making work assignments visible so that the balance of administrative vs. development tasks can more easily be monitored, and assigning mentors to provide meaningful development opportunities with the procurement process. The team anticipates approximately $8,700 in annual cost avoidance associated with labor resources that must be incurred when the team must recruit for positions that should have been able to be filled by qualified interns.

**Conclusion**

AMS has proven to be an innovative approach for SPO to endeavor to achieve its vision: to be the #1 procurement office in the nation, where adding value is the norm, and customer service is second to none. Data-driven problem solving has consistently improved processes for team members and customers, alike. SPO is motivated to continue striving to identifying customer needs, add value, and, ultimately, to Do More Good for Arizona.