



State of Tennessee

Department of General Services

Division of Central Procurement Office

2019 George Cronin Awards for Procurement Excellence

State of TN Estimated and Validated Savings Initiative

Executive Summary

In efforts to modernize state procurement, the State of Tennessee created the Central Procurement Office (CPO) in 2010, and was granted sole authority to negotiate on behalf of the State. With flexible and innovative approaches towards cost tracking, the CPO has achieved industry leading cost savings on terms and conditions most favorable to all stakeholders of the State. Upon its formation, the CPO identified the need for an efficient, streamlined method for collecting and reporting the data-centric approach being implemented. Through this need the CPO created two main models, the Estimated Cost Tracking Model and the Savings Validation Model. This two part approach starts with cost tracking models and templates that record a contract's lifetime value, along with its prospective negotiated and estimated cost savings. These efforts were later expanded upon to create the Savings Validation Model; a centralized model that allowed for the CPO to validate actual realized savings for certain key, high dollar contracts and initiatives.

Coupled with strategic sourcing efforts and skills training, the estimated and validation savings initiative is at the core of our innovative multi-step, on-going program that propels the State's negotiating power and drives exponential savings. Through the implementation of a data-centric process with standardized processes and forms, the Estimated and Validated Savings initiative has provided insight into CPO productivity, procurement consolidation opportunities, areas for process improvement and the ability drive efficient contract benchmarking and forecasting.

Innovation: The Estimated and Validated Savings initiative is innately innovative due to its scope and scale. The tracking undertaken looks backwards, at detailed data sets, to review services and goods ordered to validate whether the State saved the money it estimated it would save at the outset of the contract. The project's scale is also enhanced due the new responsibilities of the CPO as the centralized body for all procurement functions across state agencies. To our knowledge, this is the most extensive effort in the country to quantify the value that the CPO brings to the entire state enterprise. Moreover, estimated and validated savings has given us a new lens by which to structure future procurements in order to ultimately reduce costs, enhance negotiation leverage, improve reporting, improve service level agreements and overall, become ever stronger stewards of taxpayer dollars.

Transferability: The Estimated and Validated Savings initiative is 100% transferable and could be implemented on both an intra and inter-State level. Outside of the State, this initiative can be easily replicated in other states because of its minimal barrier to entry and the common need it addresses. First, these templates, models and processes are Microsoft Excel based and the TN CPO is readily available to share them. Second, this initiative addresses the common need for a central procurement authority to demonstrate its value to its customers.

Service Improvement: Striving to be a strategic partner to its state agencies, local government and its constituents, the CPO created a process to validate estimated cost savings through an in-depth analysis of actual purchases. Through its cost savings initiatives, the CPO has been able to readily forecast future solicitations, understand market behavior, effectively negotiate, and drive greater cost savings.

Cost Reduction: Through the Estimated Savings initiative, CPO has recorded approximately 1,298 procurements that resulted in estimated savings ranging from \$1 to \$33M individually. The CPO currently estimates approximately \$477M in savings generated through negotiations and has completed validation of \$267M. The data produced from the validation effort is not intended to drive budget cuts, but instead can inform budgetary discussions to identify cost reduction opportunities and guide the budgetary decision making process.

Innovation

The State of Tennessee endeavored to create a sustainable process that would efficiently and effectively capture the value of the CPO to the State and its taxpayers. This initiative demonstrates the CPO's value through:

- ❖ Standardization of contract processes;
- ❖ Validation of actual cost savings;
- ❖ Improvement of procurements via enhanced forecasting abilities; and
- ❖ Insight into the organization through data and information.

The Estimated Cost Tracking Model

Templates, models, guidelines and training were created to aid CPO employees in the monthly collection of cost tracking data across all procurements regardless of savings creation. The Cost Tracking template is the main submission form that is used on a monthly basis by procurement specialists upon the completion of any procurement. This template captures baseline information that enables the CPO to analyze and compute estimated cost savings through each phase of negotiations.

The data collected includes line items, estimated quantities, historical pricing, procuring agency, procurement type, cost savings type and etc. Due to the meticulous record keeping in place, the Estimated Cost Tracking Model provides flexibility in historical data research that aids in forecasting and developing future procurement strategies, while providing insight into purchasing behavior and negotiation tactics previously utilized. Through an in-depth analysis of purchasing behaviors, for example, we can finely tune cost proposals to enhance leverage in negotiations, or realize the need for a particular good or service is greater, or less, than originally expected and write the procurement accordingly.

This innovative model provides the CPO a unique lens by which to better structure procurements and forecast future needs and ultimately improve reporting, reduce cost and drive greater cost savings for the State.

The Saving Validation Model

While the Estimated Cost Tracking Model provides the foundation for the forward looking aspect of the CPO's data analytic initiatives, the Savings Validation Model is an essential model that looks backwards and showcases tangible realized cost savings for the CPO's highest value and high profile procurements and initiative.

To date, 43 of the 1,298 procurements have been selected as the model procurements for the validation initiative, where actual purchase patterns are used to determine what has been saved over time. The 43 were selected to create a representative cross section that would serve as the model templates for the Savings Validation Model and be utilized as the validation effort expands. This was based off of their diversity in procurement method used, category/type, size, and scope. This type of strategic planning is evident in each part of this process and has allowed the CPO to create a sustainable process that can grow with the organization. The validation process itself is a multilayered analysis that begins with the associated monthly estimated cost tracking submissions and the creation of a savings validation methodology that tracks on a contract-by-contract basis the realization of those estimated savings. An assessment of the estimated savings form, contract elements (e.g., RFP, cost proposal), and data elements (either vendor data or data from the State's internal reporting system) is completed to create a broad recommendation for validation

methodology and savings type categorization. Three broad savings types have been defined for categorization:

1. One time savings - savings that are not realized on an ongoing basis;
2. Baseline derived savings - savings are applied when there is consistent, continuous spend and a historical baseline; and
3. Cost avoidance savings - savings when there is not a consistent, historical baseline, or when costs are negotiated to a lower rate than they would otherwise have been.

These distinctions provide insight into how validated savings will be calculated and how they can be used. All these efforts combined provide further insight into contract utilization, purchasing behaviors, negotiated payment structures and sourcing strategies for the future.

Transferability

The standards set through the implementation of a savings estimation and validation initiative serve as a platform to educate all parties in the procurement cycle. These initiatives drive critical thinking, in depth data analysis, strategic planning, transparency and communication. Ultimately, the Estimated and Validated Savings initiative are 100% transferable and could be implemented on both a micro and macro, and intra and inter-State, level.

Within the State, the individual processes and templates created through this initiative could be adopted at an agency level and utilized to capture and validate costs on the procurements that are performed outside of CPO responsibility. This initiative as a whole, either through individual ownership or CPO-led, will help agencies manage demand, identify contract compliance opportunities, guide budgetary decisions, drive cost savings and demonstrate organizational value.

The simplified, data-centric processes and the underlying concept of creating procurement function value through recognition as a strategic business partner could be implemented within any procurement organization across the nation. The Estimated and Validated Savings templates and models are adaptable and can be customized to each state's procurement divisions and agencies. The data centric approach fosters fact-based, detailed decision making processes, forecasting opportunities and provides a tangible method for demonstrating a state or an agency's organizational value. The State has already been approached by several of its peers to discuss Tennessee's reorganization, strategic sourcing efforts, and cost tracking initiative that has been implemented.

Service Improvement

When asked about the value of the CPO, it is now very easy to provide a quantifiable answer and an array of reports. Readily available, consistent and reliable data not only improves efficiency but also provides credibility to the organization and its processes. The data collected through the estimation and validation initiatives are utilized in various capacities for reporting such as:

- ❖ Creating key performance indicators (KPI's) and metrics, both individual and organizational;
- ❖ Identifying procurement consolidation and collaboration opportunities;
- ❖ Tracking agency specific savings and improved contract management;
- ❖ Identifying areas for contract compliance improvement;
- ❖ Tracking purchasing and negotiation behavior; and
- ❖ Delivering efficient benchmarking and forecasting opportunities.

Additional organizational improvements that were created through this initiative are:

- ❖ Agency insight and communication - The estimated savings initiative works in conjunction with State of TN initiative: Executive Order 27 (EO27) that transitions individual agency procurement professionals to the CPO and by proxy provides negotiation abilities. The estimated savings initiative tracks and reports individual agency productivity and savings relative to this initiative.
- ❖ Collaboration - Utilizing the tools and data produced from this initiative the CPO has driven cross collaborative procurements. For example CPO helped the State's two systems of higher education – the University of TN (UT) and the Tennessee Board of Regents (TBR) – to identify areas of procurement collaboration. A notable success; the CPO's data-driven, savings-focused approach allowed for an expedited analysis and joint negotiation to consolidate the group's spend collaboratively under a joint Office Supplies contract.
- ❖ Real-Time Contract Analysis - More recently, CPO has been adding at least three new procurements every quarter this past year the Savings Validation Model, which allows for real-time validation of savings to occur. This allows us to more readily provide feedback on negotiated payment structures for these contracts and obtain real-time tangible cost savings data.

Models and templates were created to capture data elements beyond current requested reporting needs. This allows for flexibility in historical data research that can aid in developing future procurement strategies. Readily-available, consistent and reliable data not only improves efficiency but also provides credibility to the organization and its processes. This initiative has improved and enhanced the CPO's ability to demonstrate value, to educate the State and its partners on achieving savings, and to make strategic, fact-based procurement decisions in a timely manner.

Cost Reduction

The Estimated and Validated Savings initiative created tools, teams, and communication techniques to help create a cost conscious culture that is focused on strategic partnerships with the CPO to create value for the State of Tennessee. Through the standardization of processes, templates and models, the estimation and validation initiative has driven efficient contract benchmarking and forecasting and has ultimately led to greater cost savings for the State. The CPO has recorded, through monthly submissions, approximately 1,298 procurements that resulted in estimated savings ranging from \$1 to \$33M individually. The CPO currently estimates approximately \$477M in savings generated through negotiations and has validated savings of \$267M.

With both initiatives in place, contract administrators complete quarterly vendor contract reviews and provide individualized agency reporting to further communicate and encourage effective contract utilization for maximum savings. The CPO has not only been able to reduce cost on procurements but validate true cost savings and allow the State to capture that value and build upon successfully methodologies. This model has allowed the CPO to obtain real time information and data on realized cost savings with a few procurements exceeding their initial estimated cost saving values by 500% more.

Conclusion

The implementation of an initiative to estimate and validate savings has provided the CPO several new and innovative ways to substantiate and outwardly demonstrate the value of the organization. This initiative facilitates meaningful, data based decision making processes for not only the CPO but the State as a whole and emphasizes the CPO's role as a valued, strategic partner that can deliver tangible results.