Procurement Efficiency in Government:
POLICY, PROCESS, AND TECHNOLOGICAL TRANSFORMATION
TABLE OF CONTENTS

INTRODUCTION 3
CURRENT CHALLENGES 4
PROPOSED STRATEGIES 5
  OPTIMIZE RESOURCES: POLICY AND PROCESS 6
  OPEN COMPETITION VS. STRATEGIC SOURCING 8
  E-PROCUREMENT 9
MEASURING SUCCESS 11
SUMMARY 12
ABOUT CGI'S SPEND MANAGEMENT SOLUTIONS 13
Introduction

This paper provides a roadmap for state and local governments to improve government efficiency and generate savings that can fund critical government services instead of raising taxes, cutting services, or seeking additional funding. The material focuses on the advancement of public sector procurement operations and discusses trends and new practices in the promotion of procurement effectiveness.

Efficiency Improvement Steps

We believe that the best way to improve efficiency in public sector procurement and generate hard dollar savings is to take a holistic look at the “spend management” process across the entire government. First, the role of the procurement office must be considered a strategic, not tactical, element to the success of government. The chief procurement officer (CPO) position must be considered as a true “C” level position in government and have equal status with the CFO and CIO. In most governments today, CPOs and the operations that they manage are considered part of the “backroom” operations, serving a tactical need. This restricts their ability to execute strategically.

Second, government must be vigilant in continuously improving internal procurement policies and procedures. Government leaders must take a firm stance on changing longstanding culture and championing new and innovative ways to increase efficiency. Leaders will require the execution of a focused and ongoing change management and improvement program to facilitate a positive change in behavior and culture that results in the creation of an efficient, collaborative procurement program. The benefits are administrative efficiencies, better contracts, stronger vendor relations, and the delivery of best-value contracted goods and services to internal customers. Part of the change in culture also requires a rethinking of a procurement officer’s interactions with government programs and agency operations. The professionals of a central procurement organization should be embedded in, and accountable to, the programs that require their services. Similarly, agency experts should be shared with the central procurement organization, lending their experience to the development of better contracts in their particular areas of expertise.

Next, the services of the CPO and the procurement office need to extend beyond the traditional executive branch of government boundaries. There needs to be an established, structured, cross-boundary approach that includes state and local government, higher education, and government authorities to leverage the collective purchasing power of government. The historical boundaries and division of power between these entities must change. The need to continue operating separately at the expense of creating additional value and realizing true efficiencies must shift to a cooperative effort leveraging the dollars, human resources, and tools.

Lastly, as government moves forward with policy, procedural, and cultural change, procurement technologies can be implemented in parallel to further accelerate change and efficiency and to increase enterprise visibility into spending across all categories of procurement. In addition, CPOs need to leverage these source-to-pay technologies.
tools to execute policy and procedures consistently across the entire government. The costs for such tools in today’s market are much lower than in past years. Today’s tools are now considered a commodity in the market. In addition, many of these tools are now available to government in the form of Software as a Service (SaaS), eliminating the need to purchase and maintain the hardware and software. The combination of these efforts serves as the foundation for a high-value, automated procurement program that supports cross boundary coordination and cooperation (executive, higher education, local government, and perhaps multi-government).

Current Challenges

According to the U.S. Office of Budget Management, U.S. state and local governments were expected to spend approximately $1.5 trillion on goods and services in 2006. This level of spending creates enormous leverage for the government to drive down costs and improve the quality of service that it can receive from vendors. However, current administrations face challenges on several fronts.

**Procurement often seen as “backroom” rather than strategic function**

While there have been pockets of improvements in the way government manages procurement operations, most CPOs still manage operations that are considered to be “backroom” functions that provide little strategic value. Techniques such as strategic sourcing are met with skepticism, and outside help to modernize operations is frowned upon. These factors truly inhibit the ability of procurement operations to create the changes necessary to support the transformation of government procurement and create savings that can be utilized for other purposes.

**Fragmented purchasing leads to inefficiency and lack of purchasing leverage**

Throughout most of the United States, government procurement operations are multi-channel and independently managed. Typically, there are at least four separate procurement groups operating independently from one another at the state level—executive branch non-IT procurement, executive branch IT procurement, executive branch department of transportation construction procurement, and higher education procurement—with each group claiming to have unique needs and requirements. Add to this separate local government purchasing entities (with their own procurement authority) and quasi-government purchasing entities and programs, such as authorities and vertical construction projects, and one quickly realizes how confusing and inefficient this type of procurement culture and approach is to government and its vendors.

This fragmented approach to procurement does not allow government to aggregate its purchasing power to drive down costs, improve service, or reduce the time and resources required to efficiently manage the process. Nor does it provide for an efficient single face of government to the vendor community. The true challenge is to transform this silo approach by integrating these primary stakeholders into a single program that presents a coordinated overall procurement approach to the vendor community.
Limited effectiveness of existing procurement technologies

While most governments leverage some components of the source-to-pay systems in the market today, maximizing the benefits of e-procurement is conditional upon successfully implementing good procurement practices and having the right experience and skill sets among the staff. A Gartner report revealed that many ERP/financial application suites with e-procurement modules lack the capability to capture all the relevant data and functionality needed by suppliers of complex goods and services to fill their orders. As a result, organizations perform custom workarounds and manually process major categories of spend. These difficulties require the CPO to carefully perform due diligence, in consultation with the CFO and CIO, when choosing source-to-pay solutions.

Aging workforce and diminishing future talent

CPOs must consider the skill-sets of their current employees and their ability to recruit, hire and train new talent, especially as an increasing number of government workers are approaching retirement age. A research study conducted by The Center for Organizational Research on the aging and retiring government workforce expects the proportion of older government workers to increase at an average rate of 4% per year between 2000 and 2015. The study’s conclusions show that various factors such as past employment patterns (tremendous growth in the 60s, downsizing in the late 80s/early 90s, declining appeal of public service, competition with the private sector for talent, and cutbacks in training and development programs) have resulted in the considerable disparity between the percentage of young and baby-boomer workers. Not only must procurement officials take into account a retiring workforce, but they must also consider the outlook of future talent qualified in procurement.

The shrinking pool of new labor coupled with the increased competition from the private sector may make it difficult for government agencies with limited resources to augment or maintain their workforce. They also must improve the skills of their workforce in order to leverage today’s procurement technology solutions. Meeting this challenge will require the CPO to make some tough decisions in the coming years. They must implement creative ways to attract new talent, which may be difficult given government and union rules on recruitment and staffing, or augment current staff with individuals hired from outside services. There is a third emerging option, which is to outsource some components or categories of procurement functions, allowing the CPO to deploy limited resources on the highest value activities and remain focused on the more strategic functions of the agency.

Proposed Strategies

Undertaking meaningful procurement transformation to modify culture through business process reengineering and change management creates a foundation that can be further strengthened through technology tools. When the new culture and technology are combined, they create a powerful force to build a new community of vendors, shoppers, and procurement professionals all supporting this important initiative through a single window of government. With these objectives and challenges in mind, the following outlines building blocks to improve procurement efficiency, free staff to devote time to improve vendor relationships and contract management, optimize use of procurement technologies, and ultimately drive down costs.
**Optimize Resources: Policy and Process**

Governments need to determine the most appropriate way to effectively leverage limited staff resources. At the category level, collaboration across agencies on similar procurements can ultimately benefit all parties. Collaboration will promote new communities of common interest inside of procurement. These communities will then be able to operate efficiently, sharing knowledge and time within a particular category of spending that is tracked and monitored using readily available source-to-pay tools.

At the government-wide level, regardless of the procurement situation (centralized, decentralized, outsourced or use of outside expert resources), it is important to have a centralized governance structure to manage policy and process and to leverage resources across the enterprise. This central governance organization should be a joint effort between the CPO, CIO, and CFO. The strength of this model lies in the recognition of the CPO as a peer and in the CPO’s ability to leverage the chief strategist on technology tools who has the knowledge to choose the right solution, and the financial officer who is in the best position to enforce spending compliance and verify savings.

This governance model requires governments to rethink the current structure and to establish a long term relationship that forms a cooperative approach leveraging the strengths of each “C” level member. They must collectively set the policy, focus and direction that allows for collaborative cross-government cooperation. If the procurement program extends to other entities (for example, if local governments can buy off of a state’s contracts), consideration should be given to how those entities can and should become part of the governance structure and the overall procurement program. Depending on the level of participation by a local government entity or group, this inclusion may be limited to a particular category of spending or across all levels of the enterprise procurement program.

There are several benefits to collaboration at the category level and in the overall procurement:

- Expertise and unique skills of procurement professionals located in agencies across a government will be leveraged.
- Creation and management of the procurement policies and processes will be controlled by a central entity that has the authority to marshal limited resources.
- Input and ongoing management will be secured from various specialties including procurement, information technology and finance.
- New skills and expertise are embedded into the procurement organization without the need to maintain a large central organization.
- Procurement staff is closer to the customer and can be embedded in the customer agency teams for large and strategic projects.
- Cross boundary communication will be improved and a community of common interest will be created.
- Broad input is allowed into creating and evolving government procurement away from a rule-intensive, transaction process-driven program to a strategic imperative of government.
Proposed Solution

Develop a government-wide procurement program that centralizes authority, shares responsibility, and places accountability in the hands of procurement professionals throughout the system. Key points to consider in program design are the following:

- **Centralize authority under a single body (CPO, CFO, CIO).** Create and clearly define a governance model if one is not already in place or it is unclear. The structure must clearly articulate roles and responsibilities to ensure true accountability of all individual participants and organizations.

- **Facilitate cross agency collaboration.** Support the creation and management of cross-agency teams that collaborate on procurements and allow the team to manage vendor contracts and relationships. This creates accountability for the success of the contracts with the same staff that created the contract and that are the key purchasers.

- **Consider the possibility of outsourcing less strategic procurement functions.** Outsourcing functions such as payment, transaction execution and management, and invoice reconciliation and auditing can free up limited staff resources to manage more strategic projects.

- **Perform a process optimization review.** Undertake a comprehensive review of current processes to identify areas to eliminate duplicative efforts and streamline unnecessary approvals.

  - Examine current statutes, regulations, policies and procedures. Determine if change is required or if existing rules and requirements can be interpreted differently to meet changing needs across the entire source-to-pay cycle. For example, consider eliminating the need for a transaction altogether (paying for goods and services based on receipt instead of invoice where pricing is fixed for a good or service). This can eliminate the cost of processing a particular transaction altogether.

  - Eliminate unnecessary and manual approval steps and duplication of efforts that are currently performed in stovepipe fashion by each agency. Consider leveraging on-line workflow and business rules to route procurement transactions, or using reporting or management tools such as scorecards to increase accountability across government without increasing the amount of time currently involved in the oversight required for each transaction.
Open Competition vs. Strategic Sourcing

Government is expected and required to provide a fair and open competitive environment for procurement. In some cases this mission has been interpreted as an imperative to provide all firms with government business. This interpretation has diluted governments’ ability to leverage buying power and clout, thereby impacting the ability to save taxpayer money. The resulting high number of vendors and contracts also stretch limited government staff resources. Today, we are seeing several approaches aimed at helping the CPO to meet these challenges such as cooperative purchasing and strategic sourcing.

Cooperative purchasing programs allow multiple governments to pool their purchasing dollars and resources to solicit proposals and create contracts for certain common goods and services. The procurement process is usually managed by a lead entity and the unique terms and conditions of other participating entities are incorporated into the overall solicitation and contract package. In most cooperatives, the unique socio-economic and other special program requirements of each member are included as well. A prime example of a government cooperative is the Western States Contracting Alliance (WSCA), which has fifteen member states and has been managing cooperative contracts since 1993.

Even though cooperatives have existed in government for many years, starting in 2000 a number of state governments began to explore the use of strategic sourcing as an alternative method of procurement. Recognizing that strategic sourcing’s approach and value differs from those of cooperative purchasing, states like Oregon, Washington, California, and New Mexico have engaged the services of an outside firm to assist them in implementing a strategic sourcing project. Since 2000, approximately 20 states and local governments have hired outside spend management firms to assist with some facet of government strategic sourcing work.

Cooperative purchasing is primarily focused on the aggregation of volume to reach high volume discounts on unit prices from reputable vendors on behalf of multiple participating governments. Strategic sourcing on the other hand incorporates a holistic spend management approach. Unlike cooperative purchasing, strategic sourcing focuses on a specific government’s unique requirements, socio-economic programs, rules of procurement and business needs. It determines which goods or services need to be sourced for the specific government based on detailed spend analysis of that government’s data. In addition, a strategic sourcing project carefully examines the unique practices and policies of that enterprise, looking for ways to best interpret and leverage those rules to create a sourcing strategy and event that will provide the best value to that government when the project is completed.

As more and more governments execute a strategic sourcing project, the use of strategic sourcing methods and techniques are now being incorporated into the ongoing procurement program, and we are seeing these methods and techniques being adapted to cooperative purchasing efforts as well. There is also a renewed interest by government in the use of e-procurement systems to manage procurement activity, to improve spend visibility, to monitor internal customer contract usage, to measure savings on an ongoing basis, and to quickly automate and implement transformational changes executed through the CPO’s policy and process changes.

Proposed Strategy:

Implement Strategic Sourcing

1. Conduct a spend analysis
2. Determine amount of redundancy in contracts
3. Form cross-agency category teams
4. Account for socio-economic factors
5. Consolidate contracts
Proposed Solution

Establish a strategic sourcing program. Such a program supports the overall strategic effort of the CPO, by proposing sourcing strategies specific to the individual government through analysis of its unique spending profile and needs. This reduces the number of contracts that need to be managed internally, leverages the full buying power of the organization, and allows staff to focus on managing key categories of spend and the associated vendors. Organizations should take the following steps:

- **Conduct a spend analysis.** Conduct an analysis of spending to determine the areas most appropriate for strategic sourcing. This may be a difficult undertaking without external assistance since most governments do not have established data warehouses capturing and storing data at this level of detail.
- **Determine amount of redundancy in contracts.** Examine the number and types of contracts across the enterprise to determine the most appropriate groupings of goods and services as a next step in deciding a strategic sourcing strategy. Grouping goods and services into categories and rationalizing the supply base reduces the total number of managed contracts and increases governments’ buying power.
- **Form cross-agency category teams.** Use these teams to develop the solicitations. This synthesizes customer needs and ideas into the solicitation documents and resulting contracts and takes full advantage of the expertise of the staff that has been sourcing for these goods and services independently in the past.
- **Account for socio-economic factors.** While formulating the sourcing initiative, take into consideration socio-economic factors such as environmental concerns, small, minority and women owned business programs, and economic and development initiatives.
- **Consolidate contracts.** Reduce the number of contracts to improve the ability to manage vendors and the government’s relationship with them. Vendor management should be built on a foundation of mutually accepted performance-based contract measures.

E-Procurement

While it is useful to improve processes and eliminate unnecessary statutory and regulatory barriers in procurement, much time is still lost with manual hand-offs of documents and lengthy searches for critical data on procurement activity and vendor performance. Without an e-procurement solution that creates automated hand-offs of established processes, efficiency improvements will be limited to the speed at which human intervention will allow. This includes the ability to generate and send purchase orders online using a catalog-based ordering system for unit priced goods and services such as office supplies, PC’s, temporary labor services, and the like.

To ensure that functions such as e-invoicing and evaluated receipt settlement and accounts payable processes can be automated, the procurement solution should be directly linked to the government accounting system(s) to allow for automated...
matching and automated payment processing of goods or services received and accepted. This eliminates the need to key invoices and reduces the potential errors of mis-keying payment data provided on a paper invoice. In addition, the capture and central storage of detailed procurement data by today’s procurement solutions allows staff resources quick and easy access to organization-wide information. This offers critical business intelligence and supports tools like scorecards that report procurement activity and spend at a detailed level.

Some additional advantages of a complete e-procurement solution include:

- Data from several purchasing systems is compiled into one database for improved organizational spend analysis. Better pricing can be negotiated by identifying preferred suppliers and leveraging the combined spend profile.
- Complete paperless records of purchases can be captured and maintained for quick and easy reference.
- Sophisticated business and workflow rules for approval or notification improves workflow, order tracking, and auditing, and allows automated escalation if approvals are not granted within a predetermined timeframe.
- Organizations are able to track the full business cycle of requests, from initiation to payment.
- Data and information can be shared across the enterprise quickly and easily, or protected from view using security measures.

Proposed Solution

Implement an e-procurement application to support, facilitate, and accelerate government procurement processes, sourcing, data collection, and vendor relations. The solution should support procurement professionals, casual shoppers, and vendors transacting business over the Web. Key characteristics that such a system should offer are these:

- **Self service.** Provides vendors with a self-service tool to register and technology to share information regarding contract opportunities, historical contract and bidding information, and government news and information.
- **Online invoicing.** Allows vendors to provide online invoicing, eliminating the need to key payment data by government employees.
- **Vendor catalogs.** Provides the capability for government to shift the responsibility for the creation and maintenance of on-line catalogs that government regularly purchases from the vendors themselves, eliminating the need to search paper-based catalogs, or visit multiple vendor specific websites to place orders on-line.
- **Enterprise-wide and scalable technology.** Uses enterprise-wide and scalable technology that can be added to an existing technology infrastructure.
- **Simple rule maintenance.** Allows purchasing rules to be modified, tested, and implemented without the need for reprogramming.
- **Accommodation of multiple types of purchases.** Provides the ability to automate multiple types of purchases (such as catalog-based supplies or complex, indirect spend categories).
- **Hosting option.** Offers the option of a hosted service environment to minimize government infrastructure investment.
Virginia eVA Case Study

Prior to 2001, Virginia's procurement activities were decentralized across more than 180 state agencies, institutions and other public bodies. The autonomous buying entities functioned with a patchwork of outdated, inefficient and redundant systems, which added to the cost of doing business while preventing the Commonwealth from leveraging its purchasing power. Virginia partnered with CGI to develop a statewide electronic purchasing solution called eVA, a Web-based government-to-business system that funnels purchasing activities through a single electronic portal.

As of September 2006, the award winning system has connected more than 170 agencies and 490 localities to 32,000 vendors selling 5 million items, resulting in more than 1 million orders processed.

- **Functions to support procurement best practices.** Provides the infrastructure to support strategic sourcing, multi-team procurement efforts, contract and vendor performance monitoring and management, and document contract and procurement libraries.
- **Flexible access.** Provides access to all agencies, colleges and universities, and other governments that are part of the procurement community.

The CPO, in consultation with the CFO and CIO, should take into consideration what is best for the management of procurement business and determine if an ERP module will meet those needs, or if the organization would be better served with a best of breed solution integrated to the financial system of an ERP. Failure to apply this due diligence can lead to an unoptimized, underperforming, and incomplete e-procurement system, which results in large sections of unmanaged spending and low user adoption.

**Measuring Success**

There are no "quick fixes" to the purchasing measurement problem. Each procurement organization requires measures tailored to its environment and people. However, it is important to have measurement tools that allow senior government officials to track and monitor procurement activity to determine progress against process improvement and efficiency goals, and to assess how well automation facilitates, supports and accelerates these efforts.

To best meet the needs of government in measuring progress and success, governments need to measure administrative and hard dollar savings, customer (internal and external) satisfaction, and political acceptance. Here are guidelines that the Center for Advanced Purchasing at Arizona State University offers for establishing and using measures of purchasing system success:

- Measures need to be designed for use at a point in time.
- Each organization has specific measurement needs at a given point in time.
- Measures should address financial results, supplier performance, computer systems, and internal practices and policies.
- Measures must change frequently.
- Trend analysis often is useful.
- Measures should not be overdone or underutilized.
- Measures are only tools.
- Benchmarking is a source of new ideas and measures.
- Senior management must see value in the measures used.
- Measures can show the effectiveness of purchasing, and identify areas needing improvement.
- The credibility of measures must be ensured. (Leveraging the governance structure discussed earlier and having the CFO provide this service helps ensure this credibility.)
- Continuous improvement in purchasing depends on measurement.
Summary

The breadth and scope of the goods and services needed in government to deliver services ranging from human services, to transportation, to public safety, to collections, and a myriad of other citizen services, pose numerous challenges for procurement operations. Meeting the public sector test of fair and open competition for government contracts adds to the challenge because it requires a number of policies and procedures to ensure that the standard is met. To be successful, a strong central governing body is needed to establish and manage a set of collaborative, outcome-focused policies and practices that acknowledge the unique requirements of the public sector. In this way, a government can use this body to leverage a limited number of resources focused on meeting the needs of a single agency. It will be empowered to carry out government-wide critical functions such as strategic sourcing, contract and vendor management, and other skilled worker functions not historically required in a transaction-driven environment. Implementing such a program will create accountability both to the voters and to the many constituencies that government agencies and procurement serve.

Transforming existing procurement policies to embrace new, efficient practices and enable technologies is a key fundamental driver to the success and survival of any government agency. CPOs are encouraged to recognize that the status quo will not sustain their organizations for the long term. Whether there is transformation in terms of governance, staffing, outsourcing, new technologies or a combination of any of these pieces, procurement agencies must be ready to adapt and serve the constantly changing needs of the government.
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About CGI's Spend Management Solutions

At CGI, we’re in the business of satisfying clients. For more than 30 years, we’ve operated upon the principles of sharing in our clients’ challenges and delivering quality services to address them. A leading IT and business process services provider, CGI has approximately 26,500 professionals operating in 100+ offices worldwide, giving us close proximity to our clients.

Through our Spend Management practice, CGI has the deep capabilities and extensive service and technology offerings that support governments in enhancing their procurement operations and vendor relations. CGI is ready to serve as a consulting resource, solution provider, and managed services partner to assist government decision-makers in the development, analysis, implementation and management of the procurement solution that best fits their needs.

The below diagram highlights our full, end-to-end procurement solution offering.

For more information, please visit our website (www.cgi.com/spendmanagement) or our newsletter (www.procurementinsight.com), or contact us at spendmanagement@cgi.com.

Footnotes:
(2) Wilson, Debbie (2006). One-Size Procurement Transaction Tools Don’t Fit All, Gartner Research

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