



Strategic Sourcing Here to Stay, States Say

By David Yarkin

In August, the nation's top public procurement officials gathered in Tampa for the National Institute of Governmental Purchasing (NIGP) Annual Forum. One seminar posed a question crucial to the future of procurement reform: Is strategic sourcing a fad or is it here to stay? To delve further into that question, I called some of my former colleagues in state procurement offices across the country.

History reveals that after a decade of adoption in the private sector, strategic sourcing made its first appearance in state government in 2002 in Delaware. Strategic sourcing was the brain child of Treasurer Jack Markell, a good-government reformer who had seen its value when he was a senior executive at Nextel and Comcast. From Delaware, strategic sourcing spread to Virginia, where Governor Mark Warner, another successful former telecom executive, championed the practice's ability to drive savings, while improving quality and increasing the participation of minority- and women-owned businesses.

By 2003, Pennsylvania, Florida, Illinois, New Mexico, Connecticut, and Rhode Island began sourcing initiatives of their own. As success spread, more and more states jumped on the bandwagon.

By 2006, more than two dozen states had hired consulting firms to help lead sourcing engagements.

In speaking with a dozen state procurement officials over the last two weeks, I discovered a number of emerging themes, including:

■ Departure of Consultants

With the notable exceptions of Arizona and Massachusetts, most states pursued strategic sourcing with the help of a consulting firm. The firms

brought armies of "20 and 30 Somethings" that worked 12 hour days—fueled by lattes, and, at times, a high estimation of their own capabilities.

While many state procurement directors complained that there was a significant culture clash between the consultants and the government procurement staffs, most states appreciated the energy and extra arms and legs that a team of consultants could bring to a sourcing project. As Curt Topper, Pennsylvania's Deputy Secretary for Procurement says, the great benefit of consultants is, "their ability to project manage and drive to a goal in a short period of time." Yet consulting firms have to leave sometime as most states cannot afford the seven figure price tag in perpetuity.

■ Reduced Budget Deficits

In the early 2000s, states faced significant deficits. Governors and budget chiefs looked under every rock, desperately searching for ways to save money. Chief executives saw strategic sourcing as a painless way to realize tens of millions of dollars in savings without having to layoff state employees or cut programs that mattered to citizens. Today, with all but a handful of states in the black, the need to find operational efficiencies is less urgent.

■ Basic Commodities

When states and their consultants began sourcing, they first tackled the commodities that are considered easiest to source, such as office supplies, computers, copiers, and cars. By the time the first or second cycle of sourcing projects had been completed, the next round of commodities tended to be far more complex and time consuming to source.

■ Limited Staff Resources

Of the two dozen states I've met with in the last year, most state pro-

curement departments have somewhere in the neighborhood of 20 buyers on staff. While this number may be sufficient to establish dozens of multiple award contracts, it falls way below the massive level of effort required to establish a strategically sourced contract. In most states, a buyer requires 8 to 14 months of full-time work to set up a strategically sourced contract. With buying organizations that are so small (Indiana Governor Mitch Daniels' Administration inherited a Procurement Division with a paltry nine buyers) there simply aren't enough bodies to source anything except a handful of high spend commodities.

States Continue Sourcing

With these obstacles, what continues to drive strategic sourcing efforts? Once state purchasing directors realized that strategic sourcing created contracts that yielded such dramatic savings and high quality, there was no interest in reducing efforts, or, in the words of Washington State's Deputy Director, Department of General Administration, Peter Antolin, "taking our feet off the gas pedal, after we made a mid-course correction."

For most states, the departure of the consultants has meant that procurement offices tackle fewer sourcing projects. A number of states continue to apply the strategic sourcing methodology, but with a more limited universe of commodities. Florida's Director of State Purchasing, Russ Rothman says, "while we don't produce the fancy graphics that the consultants did, we still perform our internal and external profiling, we still try to aggregate our spend, we still negotiate with our suppliers, and we have become results driven rather than process driven."

Forecast Calls for Savings

While most states have reduced or eliminated budget deficits, the need for states to save money wherever possible is about to return with a vengeance. Looming in the horizon

is a “demographic tsunami that will never recede,” says David Walker, U.S. Comptroller General and Chief Accountability Officer of the Government Accountability Office (GAO).

According to the National Association of Budget Officers (NABO), 16 states saw Medicaid shortfalls in 2006, with the total Medicaid bill expected to rise by 4.6 percent in FY07. In addition, the states’ responsibilities for the Medicare Part D prescription drug program and the growing liability of benefits for retirees threaten to crowd out state investments in education, economic development, and infrastructure. Against this backdrop, it is easy to see why states will continue to hunger for the savings that strategic sourcing can deliver.

While savings from sourcing captures the attention of budget offices, end users across the country have seen that fully leveraging a state’s buying power can also deliver superior service. Rob Wynkoop, Indiana’s Deputy Commissioner of Finance and Procurement, offered an example from recent headlines. While computer users across the globe scrambled to replace faulty batteries in Dell laptops, Indiana’s agencies had a very different experience. Because the State had driven all of its volume to Dell and was now a very big customer, Dell knew that it has to deliver. The computer giant proactively contacted each agency with affected laptops and had those batteries replaced in a matter of days. “Had we been dealing with three or more PC vendors, it would have taken weeks or months to resolve,” says Wynkoop.

Leadership Drives Sustained Savings

Ultimately, the entire discussion about the future of strategic sourcing in state governments revolves around just fifty people—America’s governors. State procurement officials report to governors that face reelection every two or four years. For states to continue seeing sourcing successes, the unwavering support of the chief executive must con-

tinue. They must continue to support the radical change from the status quo. Vendors who may have sold to a particular agency for decades at high margins may find themselves without a state contract. Agencies who have enjoyed years of local decision making now see the central procurement unit establishing contracts that offer fewer choices of suppliers and products in order to maximize buying power. Legislators hear complaints from companies that are major employers (and campaign contributors) who lose state contracts. All of these stakeholders seek to air their grievances with the governor’s office. To sustain sourcing savings, the governor must—must!—consistently side with the procurement staff.

The good news is that most procurement directors have told me that their governors continue to support sourcing. I attribute this to the genuine inclination from a new breed of pragmatic governors to run an efficient government and drive the best value for their taxpayers. While procurement was once a fairly unrecognized, back-office function in most governments, with the advent of strategic sourcing, it has become a political asset to many administrations. Chief procurement officers have given their governors the gift of excellent media coverage, allowing the boss to claim the mantle of fiscal responsibility.

As long as the savings and headlines from strategic sourcing continue, procurement professionals like Topper, Rothman, Wynkoop, and Antolin will have the executive support they need to sustain strategic sourcing for years to come. □

Editor’s Note: If your entity has taken an innovative approach to strategic sourcing, e-mail Yarkin at dyarkin@govsourcing.com.



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