

Internal Team Gets It Done In Texas

Strategic sourcing yields Texas-size cost savings – starting with fleet vehicles.

BY DAVID YARKIN

The initial goal of strategic sourcing in Texas was to generate \$15 million in savings through a wave of 10 sourcing projects. But after completing just the first four, the state has already achieved \$28 million in recurring savings. Driving the effort is an internal consulting team that is learning an entirely new skill-set. The procurement of fleet vehicles exemplifies the success of a new approach to procurement in Texas.

The origins of strategic sourcing

Procurement reform in Texas began in a legislative session three years ago when the legislature decided to put responsibility for statewide procurement under the authority of Comptroller Susan Combs. In most states, procurement is a function that ultimately reports to the governor. Texas is unique among American states in that procurement reports to a row officer who is elected independently from the governor.

Chuks Amajor, director of the state's Strategic Sourcing Division, credits Combs with providing the necessary leadership to drive changes in state procurement. "The comptroller wanted to bring best practices to Texas," says Amajor.

Like many states, Texas sought to reduce costs and improve quality through strategic sourcing. Also like many states, Texas decided to engage a management consulting firm to guide the initiative. But there was a major distinction in how Texas approached the challenge: The state opted not to rely on an army of consultants freshly minted from business schools.

Instead, Combs had a vision for a consulting team made up of state employees, managed by someone from a management consulting firm. The approach would provide the state the benefit of a consulting firm's know-how and expertise while ensuring that the knowledge developed during the project would stay within the state procurement organization.

Six months into the project, the internal team had grasped the concept so well that Texas decided to make an even greater long-term commitment to strategic sourcing. Combs established a Strategic Sourcing Division, headed by Amajor, alongside the state purchasing office, to drive enterprise-wide sourcing initiatives. "We're trying to accomplish the same things that other states did, but at one-thirtieth the cost," says Amajor.

"It was a completely different dynamic than any of the sourcing projects I had worked on in other states," adds Amajor. "It was a great opportunity but also a daunting task. The 12 [internal team members] weren't [Microsoft] Excel savvy. They didn't have a firm grasp of strategic sourcing. We asked quite a bit from them. They had to work a ton of extra hours. But the amazing thing was that we found out that we could, in fact, do it. We could accomplish very similar results to what the outside consultants could do. But it is important to stress how much time and work they put into this," Amajor said.

Fleet procurement project

The Texas vehicle fleet procurement project was led by Manuel Perez, fleet category manager of the Texas Procurement and Support Services (TPASS) group and a veteran government procurement manager. The scope of the fleet procurement was vast, ranging from sedans to police cruisers to construction-grade heavy-duty trucks.

The first principle of strategic sourcing Amajor and Perez brought to the fleet procurement was standardization. In years past, when the state went out to bid for vehicles, the specification would name the vehicle's make and model (e.g., Ford Taurus) and then ask dealers to submit pricing for that specific vehicle. This procurement changed that practice. Instead, the state would present the functional requirements of the vehicle and allow dealers selling any manufacturer's vehicles to submit pricing. Rather than specifying a Ford Taurus, the state would designate a full-size sedan with specific performance requirements.

Amajor explains the benefits that describing requirements in terms of standards rather than brands brought to the state: "Coming up with standards that were not specific to a brand was a new approach. That is extremely important when it comes to achieving volume leverage. Before, if you had a Ford, Chevy and Honda version of a mid-size sedan, that was three different makes. If you were buying 100 mid-size vehicles, you'd be buying 33 of each. If you standardize, you can make a purchase for 100 vehicles from one dealer. One of the tenets of strategic sourcing is that if you can leverage your volume you almost always get a better price."

This change, which seems like common sense to the outside observer, was not embraced by all using

agencies at the outset of the project – and for understandable reasons. Some agencies had been buying a particular manufacturer’s vehicles for a long time and had developed business models predicated on the assumption that they could continue buying those same vehicles. The mechanics in their garages had been trained and certified to perform work on a specific manufacturer’s vehicles. Other garages were stocking replacement parts from one manufacturer or another. Now, the lowest responsive and responsible bidder would become the standard for a certain class of vehicle, regardless of whether or not the dealer sold the manufacturer’s vehicles to which the agency had become accustomed.

“It was very difficult to get agencies to move away from brand-specific specifications,” says Amajor. “We know this is a difficult pill to swallow, but at the end of the day, it’s more important for us to be best stewards of the public’s money.”

The team took two critical steps to mitigate the resistance they would receive. First, they worked with the agencies directly to establish the standards. Perez led what Amajor describes as a very collaborative process to establish standards for each category of fleet. Agencies as large as the Texas Department of Transportation (TxDOT) and the Department of Public Safety came to the table and participated in the standard-setting exercises.

Amajor explains that the agencies were granted a great deal of autonomy in establishing the standards: “Procurement didn’t second-guess the standards and specifications. They had years and years of background. Getting their buy-in was more important than nit-picking on a spec here or there,” he says.

The second step was to establish not only a primary or best-value award for each class of vehicles but also a secondary award. If an agency made a compelling business case that selecting a vehicle from the secondary supplier was in their and the state’s interest, TPASS could grant a waiver and allow it.

Amajor, a professional consultant trained to push toward the optimal procurement solution, would have preferred for the state instead to drive all the volume to a primary award. However, Amajor realized that he could

accomplish 90 percent of his savings goals by listening a little to the wishes of the agencies rather than face resistance that could threaten the entire project.

For each class of vehicle, the state described a standard, base model. Suppliers were asked to submit pricing for this base model. The state then listed every possible option available and asked the dealers to price out each of the options. In the past, the state had not asked suppliers to compete on the basis of options, so when an agency built an order for a vehicle, it ended up paying close to retail for an option package that it needed to meet its operational duties. The pricing would be held firm for the contract’s first year and then would be tied to the Producer Price Index (PPI) in the out years.



A second component of the cost evaluation was fuel efficiency. “This was particularly important to Comptroller Combs. She wanted us to look into energy consumption because she knew that the purchase price was only a portion of the total cost of ownership of a vehicle. This was her call, and I think it was a good one,” says Amajor. The state factored in how much it would pay in fuel over the 100,000-mile lifetime of each vehicle.

An outgrowth of the inclusion of fuel economy was a larger portion of the state’s vehicle business going to manufacturers like Honda and Toyota. Vehicles from these manufacturers typically had a higher sticker price than domestic vehicles but became a more attractive option when viewed

from a total cost of ownership (TCO) perspective. Amajor intends to add additional TCO factors such as maintenance history and resale value in future fleet vehicle procurements.

In addition to the standard-setting exercise, the greatest amount of effort in developing the RFP came in providing historic volumes for each class of vehicle. Amajor and Perez were able to list in the RFP both how many vehicles in each class the state has purchased in the previous year and how many of each individual option the state had bought.

Amajor explains that providing this level of detail was critical to getting the most aggressive pricing from suppliers, not only in this fleet solicitation but also in all strategic sourcing procurements. “Vendors need to know what volumes they can expect if they win so that they can give you the most competitive pricing. Without the volumes, they are forced to make assumptions and educated guesses. It creates enormous risk and, in procurement, the greater the uncertainty, the greater the risk, the higher the price.”

Once the RFP was published, the state held a preproposal conference with the vendor community. The meeting was different than the kind of bidders conference that was once typical in Texas, where the state read aloud instructions from the RFP and did not engage the audience. Instead, the state openly solicited feedback from the vendors in attendance. “We’re going to give you an opportunity to comment and help make the RFP better,” said Amajor at the conference. “And we’ll incorporate the feedback.”

True to their word, the state did incorporate a number of suggestions from the vendor community into the RFP. For example, at the pre-proposal conference, Sam Pack’s Five Star Ford, Carrollton, Texas, suggested that the state remove a clause in the RFP that prohibited towing of vehicles from the factory to the dealer. Keeping that clause, the Ford dealer argued, would require each vehicle to be driven individually and would clearly be more expensive than towing. The state agreed and elected to drop the requirement.

After receiving responses from the vendor community, Amajor and Perez decided to hold a round of Best and Final Offers (BAFOs). Whereas in the

RFP, the dealers were asked to submit pricing on hundreds of options, in BAFOs, the state told the dealers which options would be purchased in very high volumes – and were de facto standards for some agencies – and asked them to lower their prices for those high-volume options.

“We weren’t doing a BAFO for the sake of doing a BAFO,” says Amajor. “We weren’t just pounding our fists on the table and saying, ‘Give us better prices with nothing in it for you.’ Our team takes the approach that there always has to be some kind of carrot in a BAFO round, some reason for the bidder to be able to say, ‘I can do better in price than the first round.’”

By most accounts and measures, the state’s strategically sourced contract for fleet vehicles has been a significant success. It has saved state taxpayers some \$5.7 million, or 6.7 percent, compared to the previous aggregated price. It has been adopted by the user community in Texas with very few complaints. And the vehicle dealers – normally a fairly cantankerous group in government contracting – have embraced the contract.

Steve Hancock of Fort Worth Freightliner, a dealership that has historically been one of the largest vendors selling trucks to the state, commended Combs and her team for the changes they made to state procurement.

Hancock says that the standardization effort was key to driving down cost: “The state used to say, ‘We want a specific series of truck.’ Now, they just say the weight of the truck and the description they want. They don’t restrict it to a certain manufacturer. This benefits the state because it opens the door so more dealers can bid on that item. With more vendors able to bid on it, all of us have to be more aggressive with our pricing if we want to have a chance to win.”

Hancock also describes the use of TCO as a “sophisticated” procurement practice. “It’s the first time we have seen governments in this area take life cycle costs into account. I think the other governments around here should consider doing what the state has done. [Manuel Perez] is very innovative at modernizing,” adds Hancock. “It was a pleasure to work on this RFP, and we love how easy the state has made it for our customers to be able to buy

the vehicles they need at a competitive price from this contract.”

With the strategic sourcing of fleet vehicles, Amajor, Perez and the state purchasing office have proven that principles like standardization, volume aggregation and TCO factoring can yield dramatic savings without sacrificing quality. By implementing strategic sourcing, albeit in a nontraditional way, Comptroller Susan Combs and her team

are indeed being good stewards of the public’s money.

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