



Procurement and the Department of Administration

February 19, 2013

State of South Carolina
Office of the Governor



What is Procurement and Why Does it Matter?



- 3 primary components
 - Materials Management Office (MMO)
 - IT Management Office (ITMO)
 - State Engineer
- Direct procurement / management of major contracts
- Delegation authority to other agencies / universities
- Establishment of statewide contracts for multi-agency use
- Procurement doesn't stand alone
 - Mechanism through which you make progress in other areas possible
 - Ex.: Statewide IT plan
 - Ex.: Comprehensive real estate strategy

What's Not Working Today?



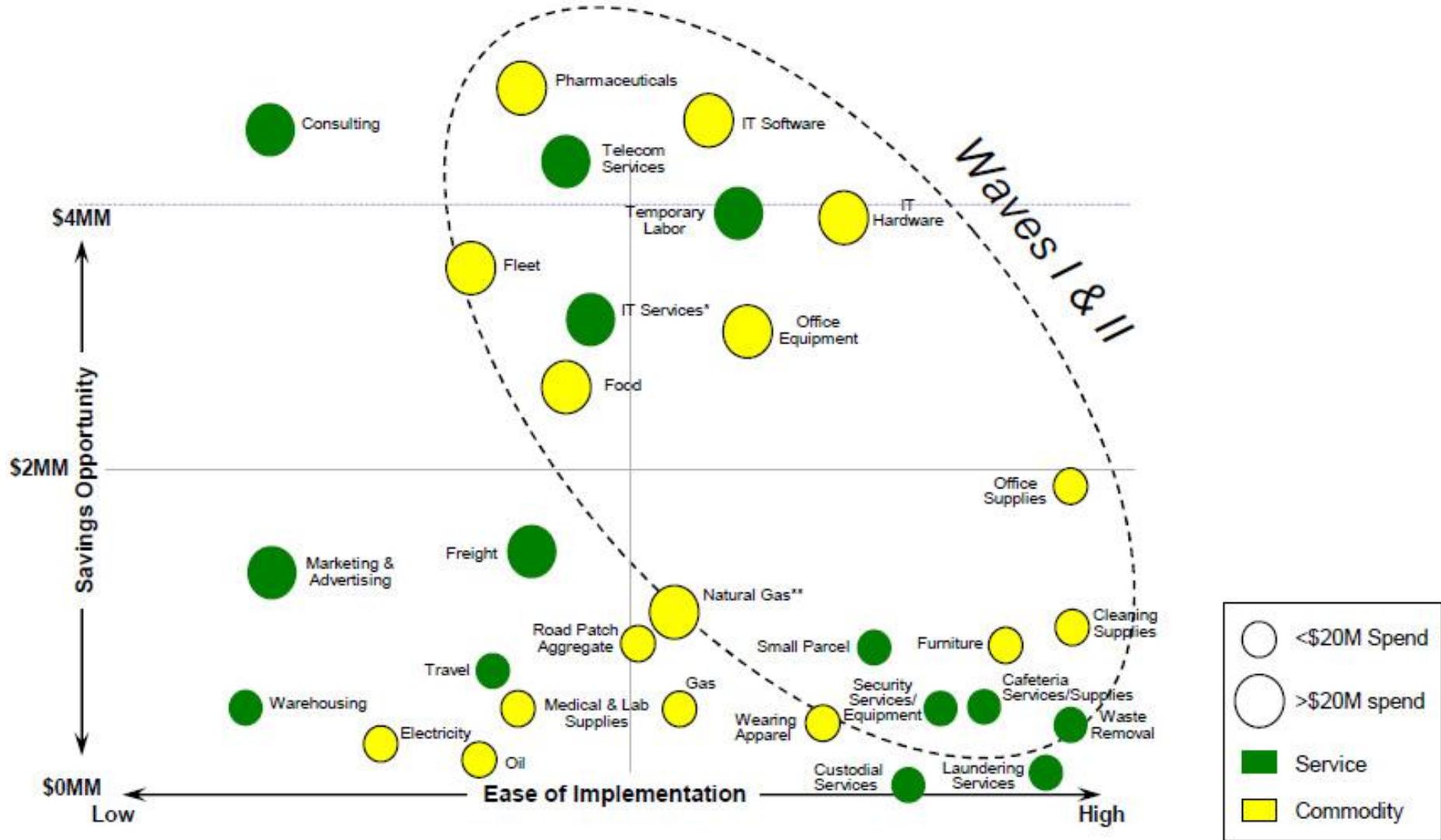
- Lack of an enterprise-wide focus or strategy
- Room to improve relationships with agencies
 - Billing rates not connected to cost or value
 - Breakdown in trust has a price: “Leakage”
- Entire debate has been over corruption fears
 - What about processing times, service levels, value, quality, savings?
 - There have been integrity problems with the current approach too
 - We’ve never won a National Association of State Procurement Officers (NASPO) award since they started in 1985 (up to 6 awards/year)
- Missed opportunities
 - Strategic Sourcing Initiative
 - Expansion of cooperative purchasing with locals, schools, etc.
 - Piggybacking

What is Strategic Sourcing?



- Assess spending
 - Inventory vendors and contracts for each good/service
 - Review/compare current pricing
- Evaluate market conditions
 - Competitiveness, by good/service
 - Prioritize opportunities for savings: “The Scatterplot”
- Aggregate spending
 - Proceed to market with new strategy
 - Focus on “addressable spend” ...proceed in waves
- Take advantage of new tools and technology
 - Supplier Relationship Management software
 - Online reverse auctions

Example: Ohio





Example: Ohio

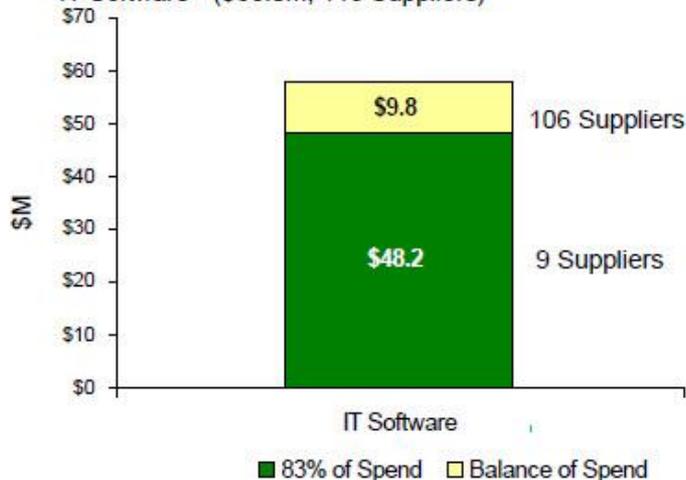
IT Software has \$58.0M in addressable spend with an estimated savings range of \$5.2M (9%) to \$8.7M (15%). There are 115 suppliers who provide IT Software to 68 different state agencies.

Annual Opportunity Sizing

| | |
|------------------------|------------------------|
| Annual Spend | \$58.0M ⁽¹⁾ |
| Addressable Spend | \$58.0M |
| Opportunity (9% - 15%) | \$5.2M - \$8.7M |
| Timing | ~ 6 months |

Supplier Concentration⁽¹⁾

IT Software - (\$58.0M, 115 Suppliers)

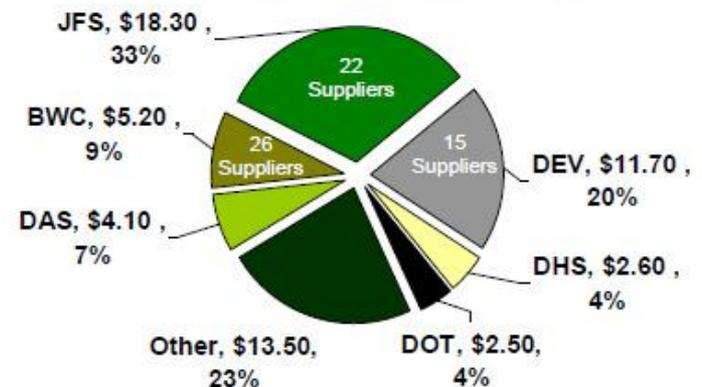


(1) Source: Central Accounting System (CAS)
 (2) Source: FY07 Term Contract Expenditures
 (3) Source: FY07 P-Card Report from OBM

Commodity Profile

- JFS, DEV, and BWC are the largest users and represent 62% of the total addressable spend
- There are 115 suppliers within the IT software category
 - Top 10 suppliers represent 85% of the total addressable spend
 - 106 suppliers consist of over \$9.8M in spend
- MBE/EDGE total spend: \$1.1M made up of 1 supplier⁽²⁾
- P-Card FY07 spend is \$0.2M⁽³⁾

- FY07 Spend (\$M) by Agency -



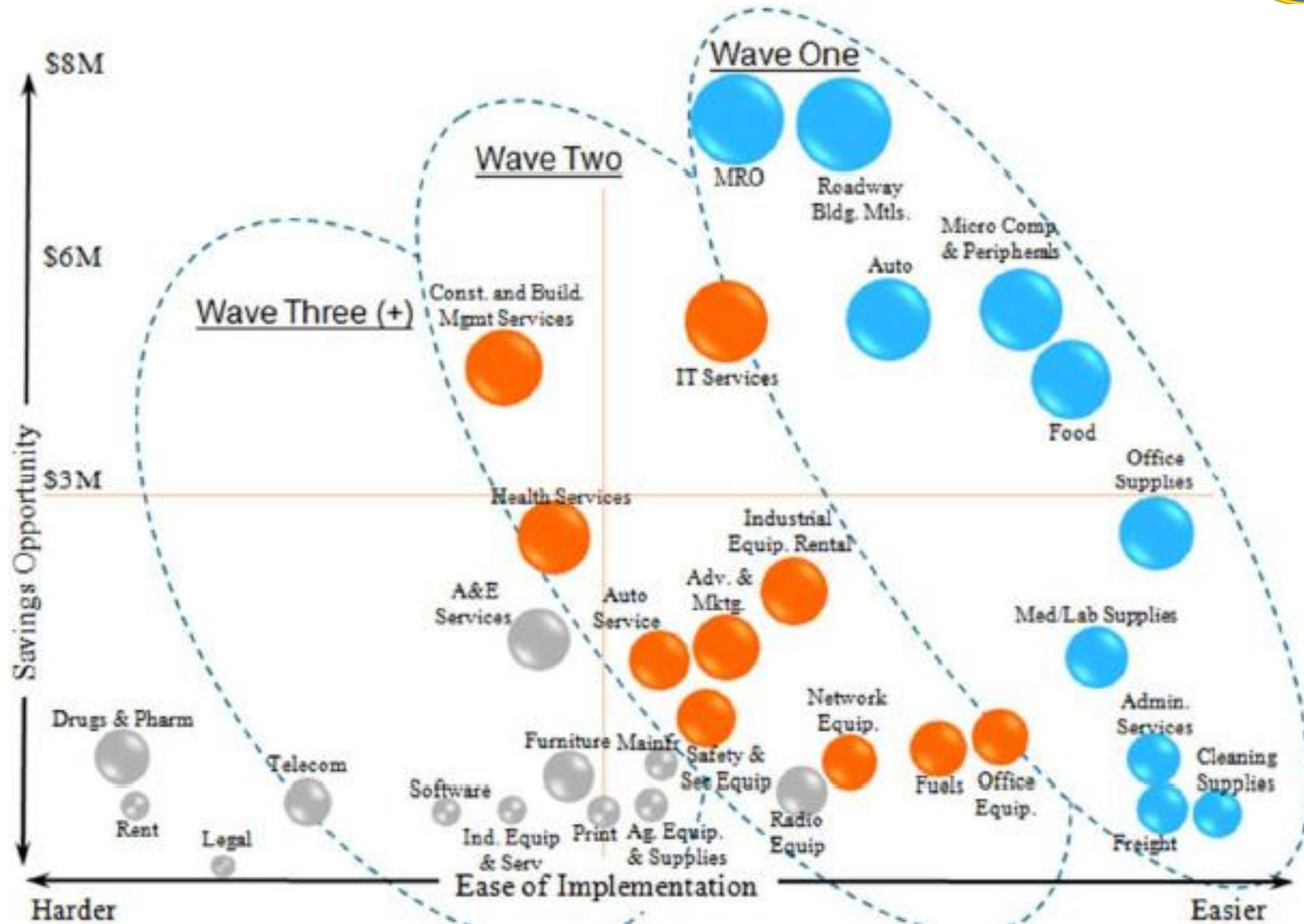
Example: Ohio



The total amount of addressable spend is \$717.3M with annual estimated savings ranging from a low of \$42.9M (6.0%) to a high of \$79.9 (11.1%).

| Category | Addressable Spend (\$M) | Low | High |
|---|-------------------------|-----------------|------------------|
| Professional (Consulting, Temp. Labor, 3 rd Party Admin.) | \$ 192.55 | \$ 5.90 | \$ 14.63 |
| IT (Hardware, Software, Services) | \$ 125.98 | \$ 10.80 | \$ 17.00 |
| Pharmaceuticals (Pharmaceuticals) | \$ 77.53 | \$ 7.75 | \$ 13.18 |
| Utilities (Electricity, Natural Gas) | \$ 49.16 | \$ 0.33 | \$ 2.30 |
| Telecom (Telecom Services) | \$ 43.02 | \$ 3.44 | \$ 6.02 |
| Fleet (Fleet) | \$ 34.58 | \$ 2.77 | \$ 4.15 |
| Office Services (Office Supplies, Furniture, Office Equipment) | \$ 34.50 | \$ 4.30 | \$ 6.81 |
| Logistics (Freight, Warehousing, Small Parcel) | \$ 27.79 | \$ 1.62 | \$ 3.59 |
| Advertising and Marketing (Advertising, Marketing Services) | \$ 27.65 | \$ 1.11 | \$ 2.21 |
| Food (Food) | \$ 25.55 | \$ 2.04 | \$ 3.06 |
| Fuel (Gas, Oil) | \$ 17.56 | \$ 0.40 | \$ 1.11 |
| Roadway (Road Patch / Aggregate) | \$ 14.06 | \$ 0.28 | \$ 1.40 |
| Travel (Airfare, Hotel, Car) | \$ 10.37 | \$ 0.30 | \$ 0.90 |
| Other (Cafeteria Services, Cleaning Supplies, Security Services, etc.) | \$ 37.03 | \$ 1.87 | \$ 3.52 |
| Totals | \$ 717.3M | \$ 42.9M | \$ 79.9M |
| Two Year Savings | | \$ 85.8M | \$ 159.8M |

Example: North Carolina



Example: North Carolina



Opportunity Sizing

| | | |
|---|----------|---------------|
| Total Spend – FY '08 – '09 (annualized) | \$68.9M | |
| Total Spend – FY '10 | \$46.9M | |
| Est. Addressable Spend | 60% | \$28.2M |
| Savings Opportunity | 5% - 9% | \$1.4M – 2.5M |
| Estimated Sourcing Duration | 6 Months | |

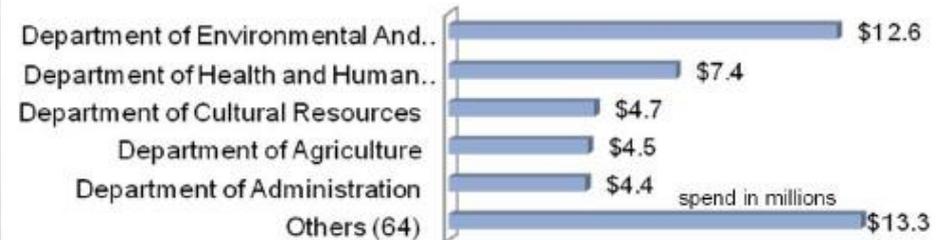
Opportunity Assessment

- Current market conditions are favorable to seek competitive pricing:
 - Intense market competition, strong buyer power, and weak demand
- Spend for Architecture and Engineering is fragmented
 - Top 80% of spend is with 50 vendors
 - 557 total vendors
- 59% of the category spend data is direct payments
- Engineering Services commands the majority of the spend at 63% (\$29.5M)
- Lack of spending with leading industry vendors indicates opportunity
- Aggregate A&E services (cross-agency and cross-functional) to achieve the highest value (high service levels at low cost) resulting in Master Service Agreements with preferred suppliers
 - Leverage the current market conditions to achieve lower labor rates, renegotiate pricing
 - Utilize e-Auctions during strategic sourcing process

Top Vendors (FY '10)

| Top 10 Vendors | \$M | % Total | Cum % |
|--|-------|---------|-------|
| THE FREELON GROUP INC | 4.80 | 10% | 10% |
| PEARCE BRINKLEY CEASE & LEE PA | 2.50 | 5% | 16% |
| O'BRIEN/ATKINS ASSOC PA | 2.35 | 5% | 21% |
| PERRY BARTSCH JR CONSTRUCTION | 2.15 | 5% | 25% |
| DAVID R POLSTON ARCHITECT | 1.76 | 4% | 29% |
| BJAC | 1.68 | 4% | 32% |
| SCHENKEL SHULTZ INCORPORATED | 1.44 | 3% | 36% |
| HEATON CONSTRUCTION | 1.44 | 3% | 39% |
| CAROLINA ENVIRONMENTAL CONTRACTING, INC. | 1.15 | 2% | 41% |
| DUDA PAINE ARCHITECTS LLP | 1.04 | 2% | 43% |
| Others (547) | 26.62 | 57% | 100% |
| Total | 46.93 | 100% | 100% |

Spend by Entity (FY '10)



Vendor Fragmentation (FY '10)

| % Spend | \$ Spend (M) | # Vendors |
|-----------|--------------|-----------|
| Top 80%: | \$37.5 | 50 |
| Last 20%: | \$9.6 | 507 |

Example: North Carolina



■ Industry Summary

Industry Trends:

- Architecture and Engineering services are part of a larger industry category, "Pre-Construction Services", where similar sourcing strategies can be employed across Surveying, Due Diligence, Environment and Ecological Studies, and other Design-related activities.
- Intense competition between large supplier base of architects and engineers – indicates buyer opportunity to foster competition and renegotiate current contracts
 - Despite some large players, the engineering industry is highly fragmented: U.S. has ~40,000 non-residential construction and ~50,000 heavy construction/civil engineering companies
 - ~80% of companies have less than 20 employees (Source: Datamonitor)
 - 50 largest firms account for 35% of total industry revenue (Source: FirstResearch 2009)
 - Architecture industry is fragmented as well; the top 50 vendors make up less than 20% of the total revenue (Source: Hoovers)
- Strong buying power of government entities because industry demand for pre-construction services is highly driven by construction needs of large companies and governments
- High unemployment (9.1% in NC as of 10/2010), lower employment costs, and low demand for construction projects

Key Industry Vendors:

- Architecture: AECOM Technology, HDR, Heery International, Gensler, and HKS
- Engineering: Jacobs Engineering Group, URS Corp, Fluor, and Bechtel

■ Observations

- 59% of the category spend data is direct payments to vendors
 - During agency discussions, purchasing agents had difficulty verifying this spend due to lack of visibility
- \$20.3M (43%) falls under "Building Design Contracts" commodity code
- NC does not have significant spend with industry major vendors
- Professional Services Management within DOT Technical Services handles A&E services contracting
 - Further research required to determine whether term contracts are being utilized by DOT
- Further information required to:
 - Analyze procurement process – *existing requirements for vendors, qualification process, work forecasting, etc.*
 - Clarify estimated future spend on Engineering Services

Example: North Carolina



■ Recommended Sourcing Approach

- A leading practice is to source pre-construction services at an aggregate level across the organization resulting in large multi-year agreements
 - Standardize job titles to create a standardized
 - Establish/re-negotiate rate cards with preferred supplier relationships
 - Standardize/rationalize specifications/requirements
- Proactive supplier management program is key success factor to maintaining the lowest total cost of ownership
 - Negotiate strong SLAs and penalties for non-performance

■ Additional Information

- Sample line item spend data includes project design fees, stream restoration, building renovations.
- Minimum contracted spend as identified in E-Procurement (IT convenience, agency, and state term contracts): \$1.2M (2.6%)
- State term contracts identified for this category during analysis: N/A

Does This Really Save Money?



- Georgia: Procurement Transformation Initiative (\$135 million)
- Florida: MyFloridaMarketPlace
 - \$233 million in 32 agencies, through September 2011
 - Also saved \$420 million through a 3-month mass renegotiation in 2008 (Pew)
- Virginia: eVA (\$280 million since 2001) – single statewide portal
- Minnesota: Strategic Sourcing (\$210 million through 2011)
- Pennsylvania: Strategic Sourcing Initiative
 - Over \$260 million in first four years (through 2007)
 - Independently validated by opponents (Legislative Budget & Finance Cmte)
- Texas
 - Recent report identified potential savings of \$252M-539M through changes in strategic sourcing, delegation authority, and organizational structure.



So what about S.22?

Isn't this what was agreed to earlier?



No.

- In the 2011-12 session...
 - The House put all of procurement in the Department of Administration (2011).
 - The Senate Judiciary Committee put IT procurement in the Department of Administration (2011).
 - The Senate put IT procurement in the Department of Administration (2012).
 - The House (again) put all of procurement in the Department of Administration (2012).
 - The Conference Committee put IT procurement in the Department of Administration (2012).
- Putting all of procurement in the SFAA (as the new Senate Finance Committee amendment would do) – **is a step backwards from every other draft of this bill in the past two years.**

Don't We Need More Oversight?



More than this?

- Substantive committees
- New Legislative Oversight process
- Legislative Audit Council
- Inspector General
- Protest process – Procurement Review Panel, Circuit Court
- Federal granting agency review
- Single Audit
- New reporting language
- Prosecutorial authorities
- Blogosphere / FOIA
- Improved management / accountability
- Existing statutes and regulations
- Making sure you hire the right people

Can the Executive Branch Be Trusted?



- According to the National Association of State Chief Administrators (NASCA), the Department of Administration is responsible for procurement **in at least 45 states**
 - Most of the others have some or all of procurement in another executive agency that's called something else (Department of General Services, etc.)
 - **Across the country, procurement appears in more Departments of Administration than any other function**
- We can't remove the human element from procurement
 - Putting it in SFAA isn't the answer
 - Processes, controls, and the right people are
 - We can do this in a Department of Administration

