The background features a large, faint, circular seal of the State of South Carolina. The seal is divided into two halves. The left half shows a palmetto tree with a ship's mast at its base, with the words "SOUTH CAROLINA" above and "ANIMUS OPUSQUE VERITAS" below. The right half shows a female figure holding a torch and a scroll, with the words "DUM SPIRO SPERO" above and "SPES" below. The entire seal is encircled by a border of small squares.

Strategic Sourcing

December 13, 2013

State of South Carolina
Office of the Governor



Relevant Text from the Senate Bill



Section 33(C) of the Senate version:

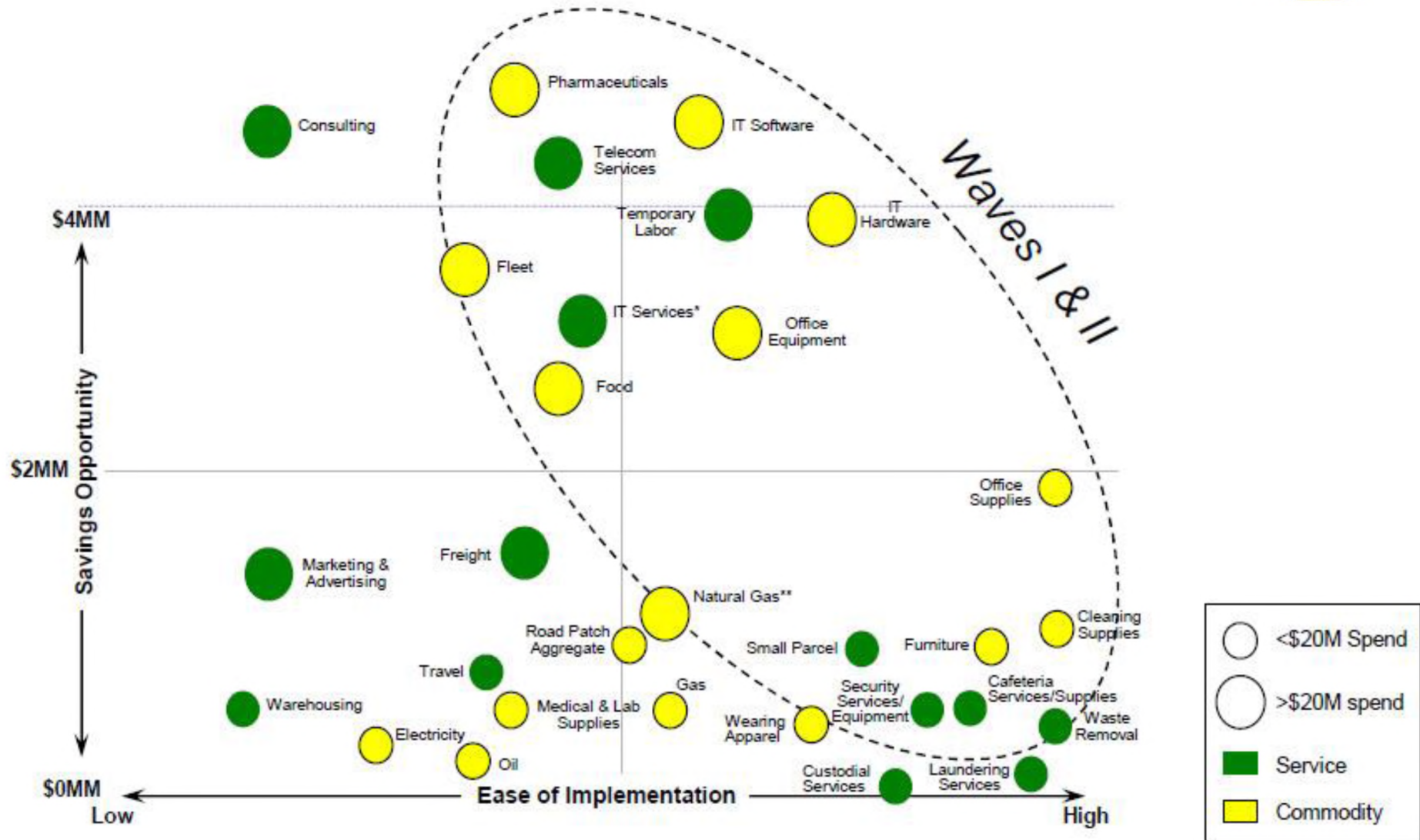
- (1) No later than December 31, 2015, the State Fiscal Accountability Authority shall undertake a strategic sourcing initiative through which it must analyze the state's current spending on various categories of goods and services, identify the greatest opportunities to leverage the state's purchasing power, and prioritize the state's subsequent efforts to maximize achievable savings.
- (2) No later than June 30, 2016, the State Fiscal Accountability Authority shall submit a report to the Governor, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives to recommend changes to statutes, policies, and procedures governing state procurement activities. The recommendations shall be formulated in order to reduce costs, accelerate processing times, and improve services provided to state agencies and their business partners.

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



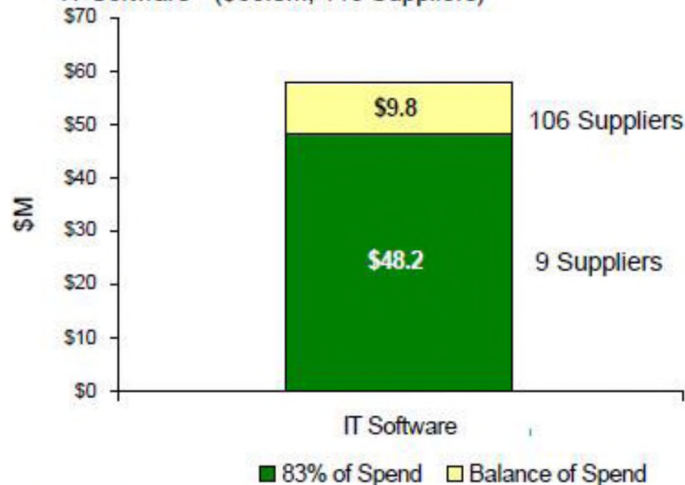
IT Software has \$58.0M in addressable spend with an estimated savings range of \$5.2M (9%) to \$8.7M (15%). There are 115 suppliers who provide IT Software to 68 different state agencies.

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⁾

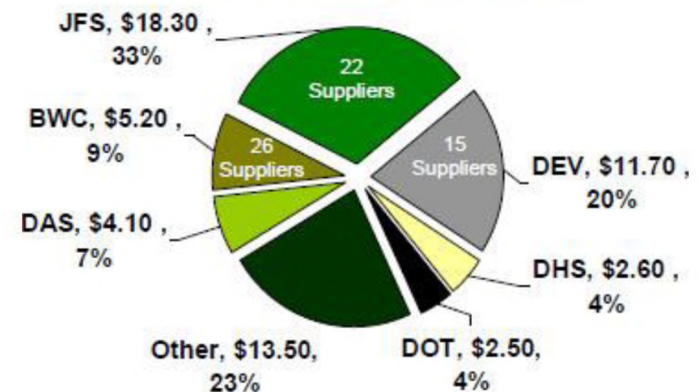
IT Software - (\$58.0M, 115 Suppliers)



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 -



(1) Source: Central Accounting System (CAS)

(2) Source: FY07 Term Contract Expenditures

(3) Source: FY07 P-Card Report from OBM

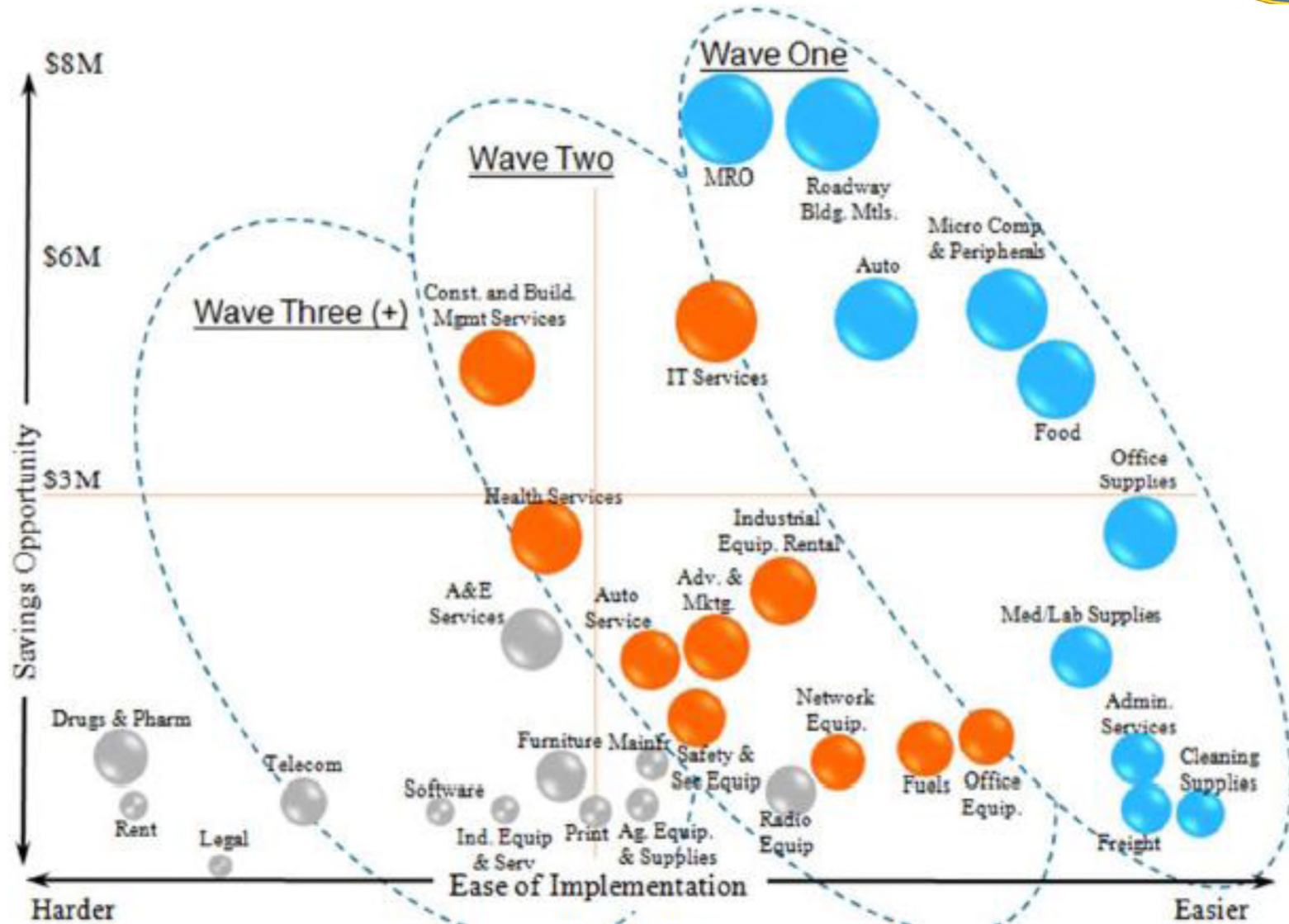
Example: Ohio



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

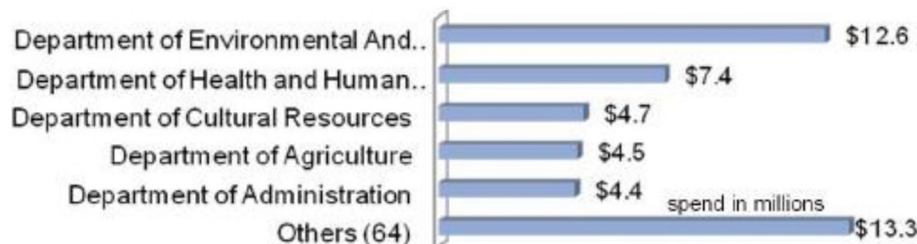
Opportunity Assessment

- 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.

Other Resources



- University of Michigan's Administrative Services Transformation
 - ast.umich.edu/pdfs/What-is-strategic-sourcing-102811.pdf
- GAO's 2012 report on Strategic Sourcing found that its expanded use would save billions
 - www.gao.gov/products/GAO-12-919
- Slidedeck from National Association of State Purchasing Officers (NASPO) with some stories, savings figures from other states
 - www.naspo.org/documents/Strategic_Sourcing_All.ppt
- Presentation from PA's former Deputy Secretary for Procurement, who now runs his own consultancy
 - purchasingforum.ogs.ny.gov/sites/default/files/Keynote%202013.pdf