

2008 Innovations Awards Program APPLICATION

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ID # (assigned by CSG): 08-S-26GA

Please provide the following information, adding space as necessary:

State: Georgia

Assign Program Category (applicant): Administration

1. **Program Name:** Procurement Transformation Initiative
2. **Administering Agency:** Department of Administrative Services
State of Georgia
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9. ***Please provide a two-sentence description of the program.***

The Procurement Transformation Initiative is rapidly transforming the statewide Procurement function in the State of Georgia, introducing purchasing best practices including Strategic Sourcing principles, a new organizational structure, new policies and processes, and an enterprise-wide implementation of a world class eProcurement system. Skill sets, processes, and program attributes within the State Purchasing Division and all State agencies and universities were identified as being lacking, therefore a comprehensive statewide training and certification program and process improvement efforts are being implemented.

10. How long has this program been operational (month and year)? Note: the program must be between 9 months and 5 years old on March 1, 2008 to be considered;

The effort has been underway since October 2005, and is ongoing.

11. Why was the program created? What problem[s] or issue[s] was it designed to address?

As the ninth largest State (representing the 17th largest economy in the world), Georgia's State Purchasing Division has authority for over 125 agencies and 35 universities with an annual addressable spend of **\$3.5 Billion**. In 2005, Governor Perdue's Commission for a New Georgia fielded a task force, composed of private industry procurement executives, to focus on improving government operations with specific regards to the State's Procurement function and the State Purchasing Division as the central purchasing authority within the State of Georgia. The primary objective of the Procurement Transformation Initiative was to (1) perform a thorough spend analysis of the State's purchasing, (2) implement Strategic Sourcing across the State's spend, while (3) simultaneously building the State's capacity to sustain the benefits of this effort into the future.

In summary, the State Purchasing Division was transaction- based, under skilled and reactive versus being knowledge-based, strategic, and proactive. Issues identified included significant savings opportunities missed, weak communications, poor data management and lack of a comprehensive purchasing system throughout the State incomplete by which to make effective purchasing decisions. Additionally, statewide knowledge, skills and abilities within the purchasing function throughout the State were sorely lacking, purchasing policies were rigid and inflexible, processes were outdated, thus significant opportunities for savings and efficiencies were being bypassed.

12. Describe the specific activities and operations of the program in chronological order.

State Purchasing implemented numerous initiatives, as described below, to accomplish the Transformation Initiatives:

Organizational Design

A new functional organizational design was defined; whereby the State Purchasing function was divided into two departments, Strategic Sourcing and a Knowledge Center to support the statewide Procurement function. The Strategic Sourcing function was composed of commodity teams having resident expertise in various goods and service categories in order to apply Strategic Sourcing principles when procuring on behalf of the State.

The Knowledge Center contained functions to support Strategic Sourcing efforts including spend analysis, training and certification, systems applications, vendor performance, compliance review audits and process improvement efforts.

Overall new job profiles were created, new pay-grades implemented, career pathing into the organizational structure designed, and staff development guidelines instituted. As a result of these efforts, new higher skilled staff were recruited and hired into the organization and a subset of the existing staff was able to make the transition into the new function.

Process Improvement

Occurring simultaneously with the new organizational design, process improvements began by introducing Strategic Sourcing principles as a new way to conduct statewide Procurement efforts. Utilizing newly passed legislation that was actively promoted to the legislature, State Purchasing for the first time was able to negotiate with vendors responding to Requests for Proposals (RFP's). Negotiation guidelines were implemented as a result, instead of simply seeking best price, total cost of ownership became the presiding factor in statewide procurements. Collaboration among State agencies and universities, serving as stakeholders on sourcing teams helped to define enterprise-wide needs, assist in market research, vendor analysis and cost analysis. Customer buy-in from these agencies and universities thus occurred, resulting in successful implementation of new Statewide contracts, while reducing total cost to the State of Georgia. This was all a new phenomenon within state government. Savings identified thus far exceed the **\$135 Million** goal as defined by the Commission for a New Georgia study.

Through continued collaboration with State agencies and universities, streamlined processes and improved policies, along with lean management techniques has made the statewide Procurement effort more efficient and effective. This collaboration has also

contributed to improved quality of solicitations, cycle times, and a reduction in the number of vendor protests. For example, the cycle time for Requests for Quotations (RFQ's) has been reduced by **20%**. Additionally, the vendor protest cycle time was reduced by seven (7) weeks on average, thereby enhancing the time to put State contracts in place for the savings to occur. Amazingly, only **1.3%** of all State Procurement solicitations are being challenged by vendors utilizing vendor protests.

Training and Skills Enhancement

The next area to be developed was in collaboration with a Training Review Council composed of stakeholders in various State agencies and universities. Training assessments were conducted and training needs were defined. This was one of the highest demands from purchasing professionals across the State of Georgia. One of the first undertakings was to train State purchasing staff on the programmatic 7-Step Strategic Sourcing Principles as introduced by A.T. Kearney and their procurement practice. Additionally, training efforts centered on new policies and procedures, negotiations, specification development, and the proper use of new technology tools to make the Procurement effort more efficient. Training guidelines have been established in order to match purchasing professionals across the State of Georgia to the appropriate training resources to allow for professional development to occur. Specifically, this will allow purchasing professionals to self-assess, identify their training needs, and attend courses, become certified and better service their organization.

To lead this effort, a Chief Learning Officer position was created to develop a training and certification program for the more than 600 purchasing professionals throughout the State of Georgia. Mirna Barker, Ph.D., serves as Chief Learning Officer for the State Purchasing Division of the State of Georgia. Additionally, Dr. Barker was instrumental of the build-out of a world class training facility within the State Purchasing Division where statewide purchasing training classes are provided. This facility provides for remote training to the far reaches of the State, therefore making it easy for all purchasing professionals to benefit from this training. A combination of instructor-lead and computer-based training (webinars and self-directed online), as well as statewide field based training, is well underway as the training program has increased by nine-fold the number of training courses being offered in the last six (6) months.

Additionally, vendor training is included in this effort through new vendor orientation, systems training, and online tools. While utilizing a collaborative effort with vendors to assist in expanding their respective markets and making maximum use of their product/service offerings, we have built a partnership that is committed to providing excellent customer service.

Technology

Concurrent with the efforts described above, a gap analysis was performed to define the current State of existing technology systems versus the desired State. A collection of legacy systems built in-house provided fragmented and disparate solutions to the statewide Procurement function. A comprehensive statewide purchasing system was not in place. While the State of Georgia had a very basic ability in PeopleSoft to issue requisitions, purchase orders, and pay invoices, that was the limit of the existing functionality. Subsequently, the State invested in six (6) PeopleSoft modules which are now being implemented. These six modules will create a virtually paperless purchasing cycle from contract solicitation to catalog uploading to online shopping and procure-to-pay capabilities. For the first time the State will make it easy for buyers of agencies and universities easy to access statewide contracts thereby maximizing expected savings. Phase I of this project is currently underway with roll out to three large State agencies by Q1 2009. Statewide rollout will commence thereafter.

While this project is being implemented the legacy systems which had been in place have been significantly revamped to fill the gap. A great example is “eQuote” which is an automated RFQ system allowing buyer’s to obtain competitive bids for smaller dollar procurement efforts in a very efficient manner. An entire re-engineering of the “eQuote” system, through customer input, has taken place providing a more robust system with expanded functionality, and as a result statewide usage is continually growing.

13. Why is the program a new and creative approach or method?

Strategic Sourcing and Process Improvement initiatives are not considered new programs. However, what is creative in what the State of Georgia did and very challenging, was to implement a total Procurement Transformation. Many consultants will come in and provide recommended changes, but very few projects of this magnitude have ever been

completely implemented in a state environment. With the support of Governor Perdue, we were able to totally transform the way the State does business as it relates to procurement.

The overall objective for the Transformation project where two-fold: identify and implement Spend Management and Strategic Sourcing savings while simultaneously building the State's capacity to sustain the effort into the future.

We reviewed, cleansed, categorized, and evaluated annual spend data for the State of Georgia in order to identify appropriate categories for Strategic Sourcing and Spend Management. We prepared a sourcing and Spend Management plan and lead the effort to carry it out. We established a verifiable baseline spend, thoroughly analyzing all State expenditures on goods and services, developing a prioritized list of Strategic Sourcing categories, and created a high confidence projection of hard dollar savings opportunity. The State identified categories that were candidates for accelerated sourcing so that we could rapidly deliver tangible results.

The capacity-building portion of the Transformation resulted in development of the necessary information, organization, processes, skills, technology, and performance measures for the State to be able to sustain the transformation and continue to identify opportunities and implement measures to reduce the total cost of ownership of goods and services for the State of Georgia. This capacity-building effort was conducted concurrently with the Strategic Sourcing and Spend Management portion of the project.

One of the biggest components of the capacity-building phase was to understand and clarify the current eProcurement vision (PeopleSoft) and ensure that the capabilities of the Spend Management approach are properly scoped to meet both the short term and long term objectives of the State. We evaluated current procurement processes and technology, identified technology needs and developed the functional requirements for the appropriate technology solutions necessary for the State of Georgia to be able to sustain the Procurement Transformation and continue to identify opportunities and implement measures to reduce costs.

14. What were the program's start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

Procurement Transformation Initiative:

Introducing Purchasing Best Practices including Strategic Sourcing principles, a new organizational structure, new policies and processes which included a comprehensive review of State spend and development of “new” Statewide contracts with significant savings for the State of Georgia. In FY2006, the State Purchasing Division partnered with A.T. Kearney to assess current purchasing efforts and opportunities. The contract with A.T. Kearney included an amount for basic effort and a hold back amount (reserve) based on performance and realization of savings to the State of Georgia. Contract amount was \$14 million including payout of performance reserves, which was primarily funded by State appropriations.

- **eProcurement** - cost includes both the acquisition of PeopleSoft software, staffing of an SPD technology team, State Accounting Office purchasing technology team, and an outside implementation partner. Implementation and startup is from FY2006 through FY2012 at a total estimated cost of \$22 Million. Funded by other funds.
- **Professional Development** – expansion of the Professional Development organization from one position to four positions with additional supplemental staff as needed. Total annual budget \$500 thousand. Funded by State appropriations.
- **Process Improvement (Compliance and Audit)** – formation of the Process Improvement organization which assists agencies with process improvements, implementation of purchasing regulations and transaction review and compliance. A total of 12 positions with an annual budget \$750 thousand. Primarily funded by State appropriations.

15. What are the program’s annual operational costs?

Staffing and budget changes – Overall the State Purchasing Division has changed from 49 positions to 73 positions from FY2005 to FY2008. Annual ongoing operation budget changed from \$3.9 Million in FY2005 to \$7.6 Million in FY2008.

16. How is the program funded?

FY2008 funded by State appropriations \$7.3 Million (96%) and other funds of \$300 thousand (4%) for the annual operational budget. Various Procurement Transformation Initiatives are funded by other funds.

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

The passage of House Bill 312, made changes to the Official Code of Georgia Annotated (hereinafter "O.C.G.A."), Purchasing Process, 50-5-50 thru 50-5-102, 32-2-61. These sections are the governing administrative authority for purchasing in the State of Georgia and define the laws concerning the Department of Administrative Services ("DOAS") procurement process in general. This new legislation allows DOAS to make changes to the Georgia Procurement Manual (GPM) which defines the centralized procurement policies and practices. Changes that were incorporated into the GPM due to the House Bill and the Procurement Transformation Initiatives are as follows:

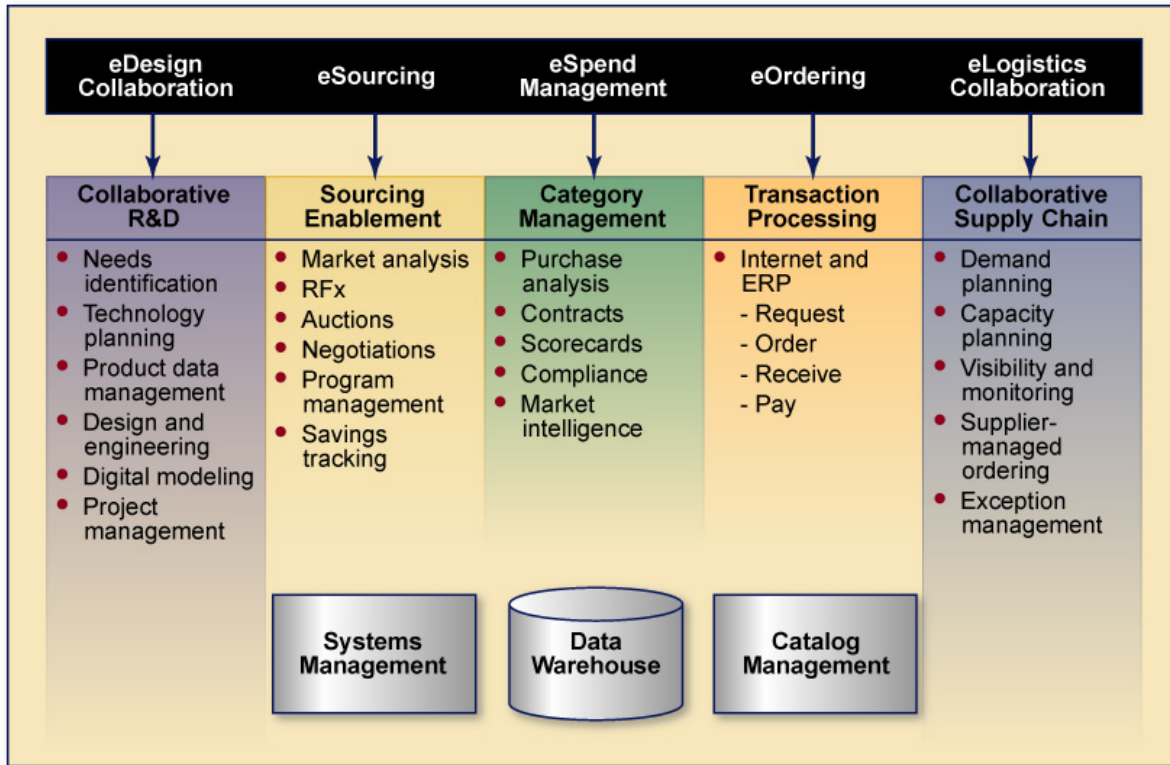
- Allow DOAS to collect and retain administrative fees from vendors,
- Negotiate technical and price proposals with only qualified offerors, conduct multiple revisions, disclose ranking and scores during negotiations,
- Include total cost of ownership in bid award,
- Utilize reverse auction for bids,
- Pre-qualify vendors in order to participate in reverse auction,
- Noncompetitive bids and proposals can be negotiated if compliant with code requirements,
- Electronically receive quotes/bids/RFP (electronic records),
- Accept electronic signatures, and
- Implemented a Notice of Intent to Award prior to the Notice of Award to allow vendors to review award recommendation before the final award.

18. What equipment, technology and software are used to operate and administer this program?

From a technology perspective, the Spend Management tools we purchased were the six PeopleSoft Supplier Relationship Modules in order to more easily integrate with the State's PeopleSoft ERP platform. Accordingly, while the project was focused on executing sourcing

categories and identifying process improvements, we needed to look at the State's broader vision and plans for eProcurement. Exhibit 1 illustrates the complete set of eProcurement elements, of which Spend Management is a part.

Exhibit 1 Elements of eProcurement



Implementation of a sustainable Spend Management capability (with processes and tools) is required so that benefits from Strategic Sourcing are achieved and sustained over the long term. A best practice Spend Management approach will satisfy three key State of Georgia objectives: Spend Visibility, Refreshable Analytics, and Compliance. We are able to achieve these objectives through the implementation of six PeopleSoft modules that directly correspond to the Initiative's newly established business practices:

- **Strategic Sourcing** – Enables SPD buyers to create buying events, permits suppliers to respond to procurement actions, and allows purchasing agents to analyze supplier responses and make awards.
- **eSupplier Connect** – A two-way communication tool that enables supplier self-service access to SPD public information and enables them to supply information back to the State.
- **eProcurement** – Automates employee requisitioning through an easy self-service web-shopping system. This module streamlines employee ordering and lowers

procurement costs by reducing transaction overhead and controlling maverick spending.

- **Supplier Contract Management** – Standardizes contract processes, reduces time-to-contract, and drives contract compliance.
- **Catalog Management** – Provides the SPD with a web-based application to access, transform, and integrate catalog content.
- **Supplier Rating System** – Collects critical data across the enterprise to provide a comprehensive record of every supplier's performance. (Delayed due to postponement of EPM implementation.)

The Team Georgia Marketplace project includes:

- The implementation of the six (6) PeopleSoft eProcurement modules to meet State Purchasing Division's business requirements.
- Rollout the eProcurement system functionality to the State Purchasing Division and two selected pilot Agencies
- Development of a master plan for the rollout of all eProcurement system functionality to all State agencies
- The Network hardware and infrastructure that currently supports the Executive Financial System (located in the North Atlanta Data Center) will support the enhanced PeopleSoft eProcurement System.

The current legacy system that we are utilizing for electronic sourcing is eQuote, as noted in question 12 and will eventually be replaced by the PeopleSoft Strategic Sourcing module once it is implemented statewide. The technology utilized for eQuote is:

- Platforms - SSL, Tomcat, Solaris, and WinXP
- Database –Oracle
- Code Language - JAVA.

19. To the best of your knowledge, did this program originate in your State? If YES, please indicate the innovator's name, present address, telephone number and e-mail address.

Yes, the program originated in Georgia. In 2003, Georgia Governor Sonny Perdue established the Commission for a New Georgia (CNG), an innovative public-private

partnership to create breakthrough ideas to help Georgia grow and to make Georgians healthier, safer, and more educated. The Commission formed a series of task forces to improve the effectiveness of Georgia State government operations. Among the several task forces designated to deal with the issue of redefining government were the Administrative Services and Procurement Task Forces. (For more information on the Commission and its task forces see <http://www.new-georgia.org/>.)

One major theme of the recommendations from these task forces was that the State needed to transform its procurement function from a tactical-minded “back room operation” into a strategically-focused organization that seeks to aggressively drive down the total cost of ownership of goods and services for the enterprise. The Procurement Task Force believed that a transformation of this nature could potentially produce \$200 million in annual savings after a three year period and significantly improve process efficiency and staff productivity.

After the Administrative Services and Procurement Task Forces’ recommendations were finalized, the Governor chartered an implementation team comprised of high level representatives from a number of State agencies to review the recommendations and develop a more specific implementation plan. The implementation team endorsed most of the task force recommendations and estimated achievable annual savings for non-university spending of \$135 million by the end of a four year period.

The Department of Administrative Services (DOAS) conducted a request for proposal to obtain a procurement transformation partner to assist in leading the effort to transform the State Purchasing Organization and to implement certain procurement related recommendations of the Commission for a New Georgia.

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20. Are you aware of similar programs in other States? If YES, which ones and how does this program differ?

We are not aware of any State conducting similar Procurement Transformation programs in the same magnitude as what the State of Georgia has implemented. The depth and breadth of the State's procurement transformation is more complex than any initiative other States have tried to undertake. The State of Virginia and State of Florida have implemented Strategic Sourcing and eProcurement Initiatives, but they did not include all of the capacity-building initiatives that the State of Georgia have implemented. There are also several States that only did the Strategic Sourcing initiative, but did not implement any eProcurement technology or capacity-building initiatives.

21. Has the program been fully implemented? If NO, what actions remain to be taken?

The program has not been fully implemented. The follow actions still need to be implemented:

Organizational Design

We have hired 80% of our vacant positions and we are actively recruiting for the remaining positions.

Process Improvement

We are completing the lean management techniques of our seven stage procurement process, finalizing SPD's Standard Operating Procedures and have hired a technical writer to re-write the Georgia Procurement Manual. There will be an on-going initiative to implement new Statewide contracts that were identified during the Procurement Transformation Initiative in order to continue increasing savings to the state.

Training and Skills Enhancement

Finalize and implement the State of Georgia Certification Program which includes Basic Procurement Certificate, RFP Certificate, Negotiations Certificate, Contract Management Certificate and P-Card Certificate.

Technology

As noted above in question 20 we are in the process of implementing the PeopleSoft SRM modules to the pilot agencies and will be doing the statewide roll out over the next several years.

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

- There was a lack of a compelling mission and strategy for our procurement function, as well as a clear sense of value it should deliver through on-going cost reduction and improved service delivery
- Definition of procurement roles, how the organization is structured, and insufficient staffing levels significantly hamper the State's procurement performance; gaps in skills, training and incentives among State procurement team members limits their ability to achieve their mission
- Rigid procurement processes often disadvantage the State during negotiations
- Significantly underdeveloped performance management practices at the vendor, category, agency, and individual employee level
- Lack of good procurement data that is well structured, clean, complete, synthesized, and accessible; transactional procurement systems are fragmented and cumbersome
- Best-practice Procurement tools are missing

Solutions:

- Launched a procurement transformation program
- Established a center-led procurement organization
- Upgraded core procurement processes
- Strengthened procurement skills and use of procurement tools
- Increased staff capacity and competencies
- Implemented comprehensive performance improvement/risk mitigation program
- Addressed technology deficiencies
- Made necessary legislative and policy changes
- Strategically sourced statewide contracts

Benefits (Pro):

- More collaborative environment

- Millions in Annualized Savings
- Expanded Audit Capabilities
- Accurate Spend Analysis
- Negotiations for both service and price
- Expanded opportunities for training
- Effective vendor management
- Creation of more statewide contract
- Process time reduced with eRFx
- State Purchasing becoming self-funded
- Single performance metrics repository

Lessons Learned (Con):

- Executive sponsorship and middle management support
- Adequate staffing
- Embed consultants with buyers to ensure knowledge transfer
- Provide timely and effective communications
- Keep focused on change management
- Collect spend data from agencies & vendors
- Raise the skill set and knowledge of all purchasing staff
- Accurately track savings and goals
- Ensure accountability
- Share victories
- Build trust & commitment
- Maintain customer service and satisfaction

23. How has the program grown and/or changed since its inception?

The transformation program has grown in the execution of its components largely due to the increase in highly talented staff, focused work efforts and systems/procedure improvements. The impact of the programs in every aspect is being felt across State administration and the reliance and confidence in purchasing capabilities has reached an all time high.

24. What limitations or obstacles might other States expect to encounter if they attempt to adopt this program?

- Lack of funding
- Change management issues
- Sponsorship and support
- Lack of resources
- Improper knowledge transfer

As mentioned in an earlier section, other states have initiated portions of our program, but not in such an all encompassing way. The degree of difficulty was extremely high when tackling so many efforts – but the overall benefits are great. It was the Governor’s wish to accomplish this over his term of office and his administration realized that this was that rare opportunity for to achieve a total transformation to a best-in-class administrative function.

Top leader sponsorship is an absolute requirement – and with that, a true understanding of the value of a best-in-class procurement function despite resistance from multiple constituents. A major aid to achieving this initiative has been the redesign of the organization and market-based salaries to attract top talent. Without the human resource talent and passion this project would not be a success.

Funding to accomplish the systems and personnel enhancements can be a real obstacle, but with the proper reporting of savings, management reporting, development of internal funding programs, marketing/communications efforts and good will we would not have been able to have delivered our programs.