

ACQUISITIONS 2019 STATE OF PROCUREMENT:

5 Trends That Are Reshaping How Governments Buy

The Governing Institute's national survey of state procurement officials reveals innovative best practices and leading states

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INTRODUCTION

Innovation is alive and well in state procurement offices throughout the country. By tapping expertise within their departments and mining new ideas from agency customers and vendors, procurement officers are finding new ways to reduce expenses, heighten end-user satisfaction and shorten acquisition cycles. At the same time, procurement departments are doubling down on their overarching mandate — to closely manage taxpayer dollars while enabling agency customers to deliver more effective government services.

These are among the biggest takeaways from a national survey of state procurement offices conducted in late 2018 by the Governing Institute. The survey includes responses from senior procurement officials in 28 states and the District of Columbia. These officials provided in-depth answers about all aspects of procurement operations, from contract and vendor management to organizational culture, leadership and technology modernization.

Their responses revealed five overarching trends that are reshaping procurement operations:

- 1** Data and analytics are driving all phases of the procurement process.
- 2** States are becoming more mature in applying best-value strategies.
- 3** Solution-based contracts are delivering more responsive engagements.
- 4** Procurement offices are forging closer relationships with vendors.
- 5** New types of contracting vehicles are boosting acquisition effectiveness.

The survey also found a common thread throughout the top five trends. Many state procurement offices — including those in Georgia, Massachusetts, Michigan, Minnesota, New York, Ohio and Utah — are creating pools of prequalified vendors as springboards for innovation. These pools not only speed procurement cycles, they help states find the best solutions and prices while encouraging participation by a wider cross-section of vendors, including economically disadvantaged companies.

This report examines how these top trends are improving procurement effectiveness and performance. It also highlights ongoing problems and shortcomings, as well as emerging techniques and technologies that are poised to have a significant impact on procurement offices over the coming years.

TREND No1:

States are using data and analytics to drive better procurement.

A growing number of states use analytics to uncover opportunities to make their purchasing organizations run more effectively. How valuable is data collection and analysis in improving state procurement outcomes? Two-thirds of Governing Institute survey respondents say it's critical to procurement success. In addition, nearly 70 percent of respondents have implemented some method to capture use and spending data, which is a critical piece of any analytics effort. Another 17 percent expect to implement data capture capabilities within the next 12 to 18 months.

Data-driven strategies arise in multiple phases of the purchasing process. Eighty-eight percent of states conduct a thorough market analysis at the start of a solicitation before deciding on a sourcing method for large information technology projects. Florida and Michigan, to name two states, conduct extensive market research using vendor forums, meetings with market research firms and internal subject matter experts to define objectives and understand the latest vendor offerings.

Along with having one of the nation's strongest policies on presourcing market research, Florida uses an array of technology tools to gather industry and market information, including the state's MyFloridaMarketPlace e-procurement system and vendor information portal. The system includes a reporting tool that captures spend and utilization data and provides analysis and customer reporting, which supports better negotiations, clearer specifications and improved procurement outcomes.

- **Analytics inform procurement processes from beginning to end**
- **Spending analyzers track investments and off-contract expenditures**
- **Audit data helps states find opportunities for continuous improvement**

Once contracts are awarded, states such as Connecticut, Minnesota and New York use detailed key performance indicators, sometimes paired with balanced scorecards and electronic dashboards, to closely track vendor performance and customer satisfaction. Wisconsin conducts extensive spend analyses, including off-contract expenditures, to assess the value of contracts.


In the past year, Massachusetts implemented a tool to analyze vendors and gain a better understanding of sales trends.

“The tool provides us with a data repository that we query to get a broader view of vendor performance,” says Gary Lambert, the commonwealth's assistant secretary for operational services.

The application lets procurement professionals develop vendor profiles with performance indicators and sales reports. It also creates summaries of project requirements that may be shared with vendors.

“That is a smart investment in both time and energy because it creates more efficiency

88% *of states conduct thorough market analyses for large IT projects.*



internally and makes it easier for vendors to comply with all the things that state governments need,” Lambert says.

Some states use the data they collect to identify opportunities for ongoing improvements. For example, Georgia procurement executives pay close attention to the data gathered in state procurement audits. The goal: to use data to educate procurement professionals and agency procurement offices about shortcomings and develop ways to address them. The procurement department’s audit group reviewed information related to all state solicitations and found certain individuals and agencies routinely posted a higher than average percentage of unsuccessful RFPs and problem contracts. By drilling deeper into the statistics, executives could determine the best remediation steps.

When individuals on the procurement staff were associated with high cancellation rates, managers validated which training courses and certifications the struggling individuals had completed and then spoke with relevant supervisors. In the case of one individual, the analysis

showed the problems could be addressed with additional training for building and correctly posting RFPs.

“We approach them with an attitude of, ‘Let us help you’ instead of ‘We got you,’” says Lisa Eason, deputy commissioner of Georgia’s state purchasing division. “That makes them much less defensive and more receptive to us coming to them.”

Since the data-driven approach is relatively new, statistics aren’t available showing its impact, Eason says. But the procurement department has used the analyses to guide process changes and will analyze the impact of these efforts on cost and performance once the fiscal year closes. In the meantime, Georgia procurement executives will expand on lessons they have learned.

States are analyzing data to better understand vendor performance and sales trends.

One such insight is the value of analytics-minded college interns, who are helping the state address its need for data scientists. Interns not only offer expertise, they provide fresh approaches to solving problems.

“They regularly amaze us because of how they can think outside the box,” Eason says. “Once we introduce them to the procurement profession and how they can apply data analytics to it, there’s no telling where they can go from there. We’ve had several interns end up becoming full-time employees because of the breadth of knowledge they offer.”

Although states have made significant progress on analytics, the survey results also point out where more progress is needed. Only about half of the states (52 percent) said they use a technology solution to analyze spending, with another 31 percent planning to implement such a solution in the next 12 to 18 months. Putting these tools in place is important because without effective technology support, the depth and effectiveness of analysis can be dependent on staff availability and may become ad hoc rather than an ongoing practice.

Technology Procurement **BY THE NUMBERS**

Purchasing technology tools and services historically has been challenging for states. We asked participants in the Governing Institute survey a series of questions about technology procurement challenges, sourcing methods and emerging practices. Here’s what they told us.

MOST COMMON SOURCING METHODS

- 1** Request for proposal
- 2** Cooperative or consortium procurements
- 3** Sole source
- 4** Invitation to bid
- 5** Multi-step RFP

TOP FIVE PAIN POINTS

- 1** Unclear agency business requirements or needs
- 2** Long procurement cycle times
- 3** Unlimited liability clauses
- 4** Overly prescriptive solicitations
- 5** Complex procurement processes



HIGH CONSENSUS PRACTICES



96%

Design competitive sourcing methods to achieve project results consistent with the state technology architecture and customer needs.



96%

Review terms and conditions for the specific service(s) to be procured.



88%

Conduct a market analysis using broad and open communication with vendors and other experts before choosing a sourcing method for large project procurements.



88%

Have reviewed procurement processes to identify communication barriers between vendors and the state.



87%

Use award processes that permit negotiation of non-mandatory terms and conditions after tentative award but before contract signing.



81%

Embed procurement staff into the project team for procurements related to technology projects.

OPPORTUNITIES FOR IMPROVEMENT



60%

Say business problems or challenges aren't always clearly defined or understood by proposers.



46%

Lack standard processes to assess and manage risk throughout the life of the procurement and contract.



39%

Say their technology procurement organization in coordination with internal and external stakeholders does not regularly review and update contract terms and conditions.



33%

Lack clear decision rights and escalation procedures to manage contracts and disputes.

IS CONTRACTOR PERFORMANCE IMPROVING?



8%

Noticeably improved



48%

Slightly improved



44%

About the same as last year



TREND No2:

States are becoming more mature in applying best-value strategies over low price.

83%
of central procurement offices have used best-value procurement over the past 18 months to reduce costs and improve how common goods and services are purchased.

Contracts awarded based on best value

aren't new, but they're taking on greater importance than ever. More than 90 percent of states responding to the 2018 Governing Institute survey said they have rules in place to support a greater focus on value, compared with 71 percent in a similar survey conducted in 2015.

One reason for the shift is the rise in complex, non-commodity procurements, such as IT services, where expertise and service capabilities are as important as cost when evaluating solutions. Another factor is the desire among states to take advantage of dynamic market changes.

"Traditional procurement processes don't work in an era of startups and rapid technology evolution," says Chris Hughes, chief procurement officer for the state of Utah, which began using an innovative best-value approach several years ago to radically reinvent and simplify how state agencies buy goods and services.

"Our state has what I would consider to be one of the best entrepreneur communities in the nation, but we were finding those innovators did not want to work with government," says Hughes. "Now with our best-value approach vendors can find a solicitation, review it and respond in less than an hour."

Here's how it works: The state procurement office meets with customer agencies to understand the nature of their problem or requirement, as well as the ideal outcomes of a proposed solution. Using this information, the procurement office crafts a succinct RFP asking vendors to prove their expertise in solving similar issues.

- **States are giving price a lower priority when choosing vendors**
- **Procurement offices are implementing more responsive contract solutions**
- **States are finding ways to focus on value while complying with traditional low-bid statutes**

“Traditional procurement processes don’t work in an era of startups and rapid technology evolution.”

— CHRIS HUGHES, CHIEF PROCUREMENT OFFICER, UTAH

Vendors respond with a handful of pages that explain how many times they’ve provided their solution — including clear metrics such as completion rates and customer satisfaction — the risks associated with their solution and any additional value they can bring to the job.

The state blindly reviews the submissions to evaluate which response shows the best expertise for the task. Identity of the vendor and details of the actual solution typically aren’t revealed until after a response is chosen and the procurement moves into a “clarification” stage where details are worked out.

“Our goal is to evaluate the vendors against each other in terms of expertise,” Hughes says. “We don’t really discuss what the solution is going to be until we’ve awarded a contract to the vendor that we believe is the expert in what we’re looking for.”

Even during the clarification stage, the state is careful not to dictate a solution. “We try not to intervene unless there’s a statutory requirement,” he explains. “We put our faith in the idea that the vendor can create the best solution because they’ve done it before.”

Value-based strategies are becoming so important even states that face statutory hurdles — such as laws requiring a contract to be awarded to the qualified bidder with the lowest price, also referred to as the lowest responsible bidder (LRB) — are finding ways to avoid price-only evaluations while still complying with the statute. For example, Wisconsin uses requests for proposals, or RFPs, to launch competitive negotiations when multiple vendors offer a product or service that can’t be judged simply by price and spec sheets. When reviewing RFPs, an evaluation committee ranks price as an important factor, but also assigns scores for other criteria spelled out in the proposal and awards the contract based on which vendor attained the highest overall score.

For technology procurements, Wisconsin can use a statutory exception to the low bid rule that allows it to limit the

bidder pool to suppliers who can support the state’s existing IT architecture. Once that pool of authorized vendors is established, procurement officials evaluate proposals based on price, service and other relevant factors. This reduces time compared to open-market competitions.

Hughes says Utah’s best-value approach — which has been used to buy everything from IT solutions to office supplies — speeds up procurement cycles, pulls new companies into the state’s supplier base and results in more innovative solutions.

“We look at this as more of a partnership in terms of what we’re asking for, rather than us hiring vendors to do exactly what we say,” he says. “We get better results when we do that; we become a lot more open to change; and the work tends to create more value for us.”

Like Utah, Alaska uses a sourcing process that awards contracts based on vendor expertise in addition to cost. The state’s approach includes a technique known as expertise-based project delivery (XPD), which helps procurement organizations determine best value by weighing performance capabilities that distinguish vendors from their competitors.

According to the Simplar Institute, which provides XPD training and consulting for public and commercial organizations, XPD followers solicit vendor proposals anonymously to prevent bias toward favorite vendors. In addition, proposals must highlight the expertise of key project team members and their track records of minimizing project risk.

The result is higher-quality talent assigned to government work, lower risk to both the vendor and the government, and better solutions delivered at lower prices, according to the Alaska state purchasing office. Alaska now uses the XPD-inspired process for large procurements, including one awarded last year that is on track to realize savings of \$100 million per year.

The State of eProcurement: **SYSTEM CAPABILITIES**



Source: Governing Institute Procurement Survey

TREND No 3:

Solution-based contracts are delivering more responsive engagements.

Along with focusing on value over price, states are becoming less prescriptive in their procurement solicitations. Solution-based contracts — which focus on the problem an agency wants to solve, rather than prescribing how to solve it — now represent significant percentages of state procurements. Ohio is one of the frequent users, with solution-based awards accounting for between 50 to 74 percent of its contracts in the past year. The state also develops contract terms and conditions specific to unique categories so criteria that define success for IT projects, for example, are clearly delineated.

As part of the movement toward solution-based contracts, states are creating umbrella contracts which include pools of prequalified vendors available to respond quickly to agency requests. Leading states also are addressing key challenges to using umbrella contracts effectively, including keeping contracts refreshed and balancing the somewhat contradictory needs for both speed and competition.

IT procurement, in particular, demands frequent updating of umbrella contracts to maintain currency. A handful of states — including New York, Minnesota, Georgia, Ohio and Utah — have implemented

- **Solution contracts gain momentum over prescriptive solicitations**
- **Umbrella contracts jumpstart negotiations**
- **States rely on regularly refreshed contractor pools**

continuous or frequent refresh cycles for these contracts to ensure ongoing market competition and provide client agencies with the latest solutions.

For instance, Georgia uses a public, open-ended application process to ensure it has a steady stream of qualified contractors to provide services that support highway safety, family and children services, and environmental protection programs. And Minnesota recently launched a master contract process that is continuously open to new vendors.

States also are finding ways to balance expediency and competition. One example comes from New York, which developed prequalified vendor arrangements and umbrella contracts to quickly acquire IT solutions that combine software, hardware, implementation capabilities and cloud services under a single order. The state promotes competition via a simplified RFQ process that outlines some stipulations: Vendors are not allowed to provide any extenuating terms and conditions, and all vendors have to abide by the same terms and conditions. But once competed, the umbrella

contract allows for ongoing single orders for various products, and vendors can add items and resellers anytime during the life of the contract.

This translates into administrative savings for both contract users and vendors, says RoAnn Destito, commissioner of the New York State Office of General Services. “The contract allows them to add items and resellers anytime during the life of the contract and allows additional manufacturers to join based on periodic recruitment.”

In addition to IT products and services, the procurement office applies the two-tier methodology for other types of services and commodities contracts, such as administrative services and building automation products.

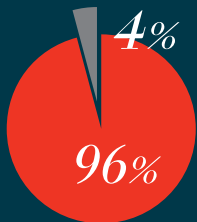
New York officials estimate the approach saved approximately \$50 million annually from 2016 to 2019 across state agencies and authorized users. There also are soft savings, such as lower administrative expenses because companies can have one contract for various commodities and services versus multiple contracts. In addition, umbrella contracts reduce the total number of transactions that purchasers must enter into their financial systems.

But for umbrella contracts to succeed, procurement executives must collaborate closely with internal customers, vendors and other stakeholders, says Sean Carroll, New York State’s chief procurement officer. In New York, the

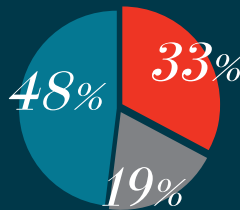
21%
*of Governing
Institute survey
respondents say
solution-based
solicitations
represent half to
three-quarters of
their awards, while
7 percent say they
use a solution-
based approach
more than three-
quarters of the time.*

How State Procurement Offices GAUGE CUSTOMER SATISFACTION

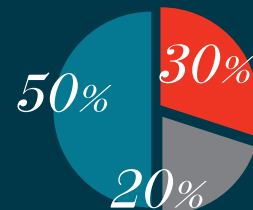
Informal feedback from meetings



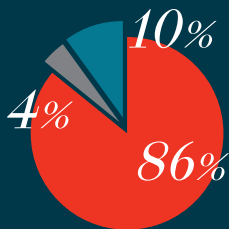
Random interviews with customers



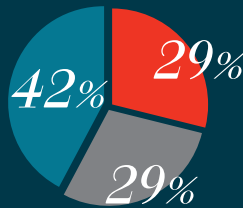
Quarterly survey of client agencies



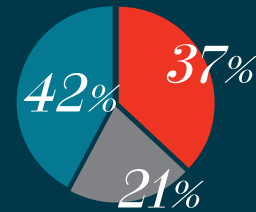
Compliant process



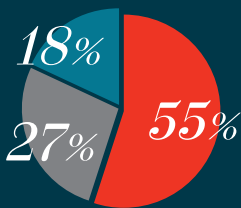
Survey at the end of a contract



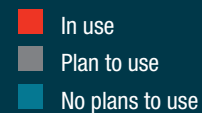
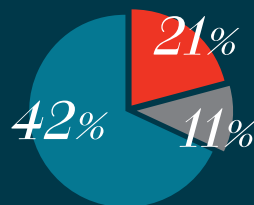
Survey at the end of an award



Annual survey of client agencies



Net promoter score with customers



Source: Governing Institute Procurement Survey

procurement office reached out to department CIOs, the state data security office, authorized users, legal staff, and vendors and contractors of all sizes, including small businesses and minority- and women-owned companies.

“When putting together a large solicitation, such as the umbrella contract, it is also recommended to do a request for comment so you can collect important information prior to final release,” advises Carroll.

Minnesota is another state capitalizing on umbrella contracts. To balance upfront qualifications and competition, the state identified areas ripe for the umbrella approach. For example, to address the ongoing need for programmers, web designers, technical analysts and project managers, the state set up contracts in advance with requirements listed at a high level. When it’s time to act, the procurement department solicits “mini bids” from vendors qualified under master agreements. The state dubbed its IT services program MNSITE and supports it with an e-procurement application. More than 230 prequalified vendors are part of MNSITE.

“We have their rates capped and have time-consuming elements such as their insurance requirements and certificates squared away,” says Betsy Hayes, Minnesota’s chief procurement officer.

MNSITE is shortening procurement timeframes.

“We went from walking paper contracts between agencies to now conducting electronic approvals and people using their smartphones to move things along in the workflow,” Hayes says. “It’s been quite a nice move into the 21st century.”

The strategy also is diversifying the state’s vendor pool. Twenty-one percent of the contractors participating in the program are certified as target-group vendors, such as woman-, minority- or veteran-owned businesses. This segment now accounts for 44 percent of the \$63 million in contracts awarded since MNSITE’s inception in early 2018, Hayes says.

She points out that MNSITE isn’t solely responsible for increasing participation among economically disadvantaged businesses. Minnesota has taken other steps toward greater inclusion and equity in contracting practices, including creating an Office of Equity in Procurement within the procurement division. Still, Hayes is pleasantly surprised

to see how MNSITE supports these efforts. “We didn’t expect to see such an impact on diverse businesses,” she says.

Based on MNSITE’s success, Minnesota is applying similar concepts to other program areas. These include master contracts for accessibility services, aerial imaging and court reporters.

Massachusetts also manages multiple, prequalified vendors for a range of contract categories, from operational supplies and tradespeople to IT consulting services. Lambert, the commonwealth’s assistant secretary for operational services, describes the prequalification process as rigorous and one that follows the same structure and workflows of any other solicitation.

“The difference is an additional step in the process that happens after the first round of qualifications,” he says. “We execute the state’s standard and special terms and conditions on behalf of our customers. Customers then may focus on making sure the vendors are supplying the right response to meet the business needs.”

This approach relieves agencies from worrying about executing contracts or whether a potential vendor has the appropriate insurance or workers’ compensation coverage in place. Once a contract is awarded the procurement office oversees the legal details, while agencies take responsibility for project management and determining how well the terms and conditions are being met.

“If for some reason a vendor does not meet the agreed-upon standard, it is the procurement office’s responsibility to deal with the contract management aspects of that issue, not the customer’s,” Lambert explains. “Customers may not be proficient in process and administration — they’re the subject matter experts on the product or the service they need. We take the administrative burden out of play for them and allow them to focus on getting value for their agencies.”

He says in-depth understanding of customer requirements and market analyses are essential for success with this approach.

“Otherwise, you’re most likely going to guess wrong about what customers need, which creates tension among vendors and with customers because buyers may start asking for things that were not part of the original solicitation.”

State Procurement's TOP 10

The Governing Institute Procurement Survey ranked state procurement offices based on extensive responses from 28 states and the District of Columbia. Here are the leading states and a look at some of their best practices.

No1 Michigan

Michigan uses multiple sourcing methods to speed up procurement cycles, reduce costs and increase innovation. These methods include strategic sourcing, category management, best-value procurement and agile development methodology. The state's Contract Monitoring Plan is comprehensive and among the best evaluated. The central procurement organization uses automated data collection to compile a Net Promoter Score, which quantifies customer experience.

No2 Georgia

Georgia's use of public, open-ended application processes to continually refresh commonly used contractor pools is truly innovative. The Georgia State Purchasing Division (SPD) provides comprehensive training on all stages of contract administration. Cooperative management of technology procurements by SPD and the Georgia Technology Authority has improved sourcing and cut costs by 10 to 20 percent.

No3 Massachusetts

The commonwealth's strategic sourcing methodology includes extensive pre-procurement planning where trained leads collaborate with state agencies and municipalities to understand customers' desired outcomes. Primary procurement methods include multi-step RFPs, alternative procurements, bake-offs, pilots and reverse auctions. Massachusetts also has removed communication barriers that impede its relationships with vendors and created a team that conducts industry marketing and communications.

No4 Ohio

The state's forward-thinking risk management practices include the creation of a Major Project Oversight Committee to improve its success rate on large technology

projects. Ohio uses innovative sourcing methods like agile development, state challenge awards, proofs of concept and pilots. It also has mature metrics to measure and analyze purchasing performance. A prequalification process for IT contractors and a built-in refresh cycle help the state maintain a qualified pool of contractors who can quickly execute contracts.

No5 New York


The Procurement Services division of New York State's Office of General Services (OGS) uses multiple, regional and state awards, as well as mini-bids, best-value and cooperative contracts. Under a new IT umbrella contract, OGS Procurement Services awarded more than 400 contracts across software, hardware, cloud and implementation services. These contracts are available to state and local agencies, require secondary bidding to optimize price and bring all IT contractors under a single set of terms.

No6 Wisconsin

Wisconsin has a 10-year goal of using sourcing innovations to save \$160 million on spending in major goods and services categories. The state's new e-procurement platform fully manages purchasing transactions, including requisitions and purchase orders. The platform uses business intelligence software to improve business decisions and runs sourcing events for ITBs, RFPs and RFIs, with a fully auditable central repository of information and records for each sourcing event. Wisconsin also frequently updates its procurement rules and policies.

No7 Utah

Utah's Division of Purchasing has concentrated on improving contract management over the past two years. Those efforts include mandatory weekly risk reports for some solicitations and the launch of an electronic tool that



automatically notifies contract managers of important dates and milestones. The state also created an excellent Contract Administration and Monitoring Guide with comprehensive coverage of contract administration actions, monitoring actions and contract close-out items. Utah is coupling technology with process improvement through the use of a customer experience tool.

No8 Minnesota

Last year, Minnesota centralized IT procurement into a single division that manages technology purchases for 78 state agencies, a move which speeds up procurement cycles and improves service. The state also saved \$14 million over the past 18 months by using cloud-based software to analyze spending through the Minnesota Multistate Contracting Alliance for Pharmacy, a group purchasing organization for drugs and pharmacy supplies.

No9 Florida

Florida has some of the nation's strongest policies on presourcing market research. These activities include benchmarking against similar size states, assessing agency purchasing patterns, and engaging stakeholders to understand purchasing needs and objectives. The state's MyFloridaMarketPlace e-procurement and vendor information portal includes a reporting tool to capture and analyze spending and utilization data.

No10 Missouri

Missouri's new MissouriBUYS e-procurement solution automates purchasing processes and is open to state and local government agencies, as well as universities. The platform offers self-service registration and profiles for vendors, and it's fully integrated into the state's financial management system. Missouri also has an impressive array of contract administration resources, including contract health checks that help agencies prepare for contract renewals.

TREND No4:

Procurement offices are forging closer relationships with vendors.



Disappearing are the days when states discouraged direct communications between procurement offices and vendors to avoid the appearance of bias.

As long as proper controls are in place, states are shedding their reluctance to communicate closely with vendors. These communications come in a variety of forms, with some states establishing units devoted to vendor outreach and communication and organizing annual procurement conferences and opportunity fairs. Besides helping governments stay current with the latest available solutions on the market, some officials see these interactions as a way to increase spending with women-, minority- and veteran-owned businesses.

“There are absolutely requirements that during specific times require there to be some type of separation between the procurement office and responding vendors — we don’t want one vendor to get information that gives it an unfair competitive advantage over others,” says Minnesota CPO Hayes. “But there’s been almost a cone of silence that has to come over procurement organizations. That’s not an accurate interpretation of what’s required to avoid unethical situations. When there’s better understanding and more inclusion, it’s really a win/win situation: Government and industry both benefit from mutual understanding.”

Having clear ground rules in place helps cultivate these benefits. Massachusetts maintains a “pretty open line of communication with the vendor community,” says Lambert.

- **Resistance toward communicating more closely with vendors dissipates**
- **Annual conferences bringing together procurement officials and vendors**
- **States launch vendor opportunity fairs and other innovative events**

“We’re not interested in hearing marketing information. We want information around trends in a vendor’s market and where the market is headed.”

If at any time during the solicitation process someone believes any interactions are jeopardizing fairness and competition, the person may raise the issue via an established complaint process that requires officials to investigate the concern while the solicitation is in process, he adds.

Massachusetts and Minnesota are two states that hold opportunity fairs to bring in vendors for educational events. In Massachusetts, the fairs include meetings between vendors, contract managers and sourcing leads to discuss important trends. Other events highlight vendor presentations about their latest products and services.

Minnesota organizes an annual fair for small and economically disadvantaged businesses. For the first time this year, the state also created a session modeled after the television show Shark Tank, where prequalified vendors could pitch innovative ideas and products to a panel of agency buyers.

“It was very well received,” Hayes says.

But while leading states are finding innovative ways to strengthen communication between government agencies and vendors, the Governing Institute survey also indicates there is room for improvement. Eighty-eight percent of states responding to the survey said they had reviewed their IT procurement processes to identify communication barriers with vendors. But only 62 percent said they had acted based on those findings to remove barriers.

“When there’s better understanding and more inclusion, it’s really a win/win situation.”

— BETSY HAYES, CHIEF PROCUREMENT OFFICER, MINNESOTA

TREND No5:

Contracting vehicles are using an array of new approaches to boost effectiveness.

In addition to greater use of value and solution-based contracts, states are taking advantage of new ideas and technologies to improve acquisition efforts. Agile development techniques, which involve a philosophy of continuous improvement through iterative changes, are impacting procurement offices. Nearly two-thirds (65 percent) of survey respondents named agile development as one of the formal methodologies the central procurement organization uses or plans to use to reduce costs and improve how common goods and services are purchased.

For instance, Maryland shortened solicitation cycles with more modular contracts designed to accommodate and adapt to fast-changing technology. The state's IT department also uses agile when developing consulting and technical services RFPs.

Agile isn't the only innovation hitting procurement departments. Michigan created several new solicitation types for sourcing unique solutions that wouldn't be served well by traditional competitions.

One example is Michigan's competitive proof of concept process — a solicitation vehicle introduced last year that lets the state try out solutions for addressing new requirements. Multiple companies are invited to submit proofs, which are competitively evaluated. The state has the option to negotiate a full implementation contract with the winning vendor without reopening the solicitation, says Stephen Davis,

- **Officials gravitate toward agile techniques and continuous improvement**
- **Competitive proofs of concept tailor solutions to changing requirements**
- **Reverse auctions yield cost savings in appropriate markets**

director of the Relationship Management Division within Michigan's Department of Technology, Management and Budget.

Michigan's process overcomes a key drawback of traditional proofs of concept — the fact that a competitive procurement generally takes place after the concept is proven. That means a vendor with a successful proof of concept may not win a contract for the full implementation, a situation that's upsetting for both vendors and end users.

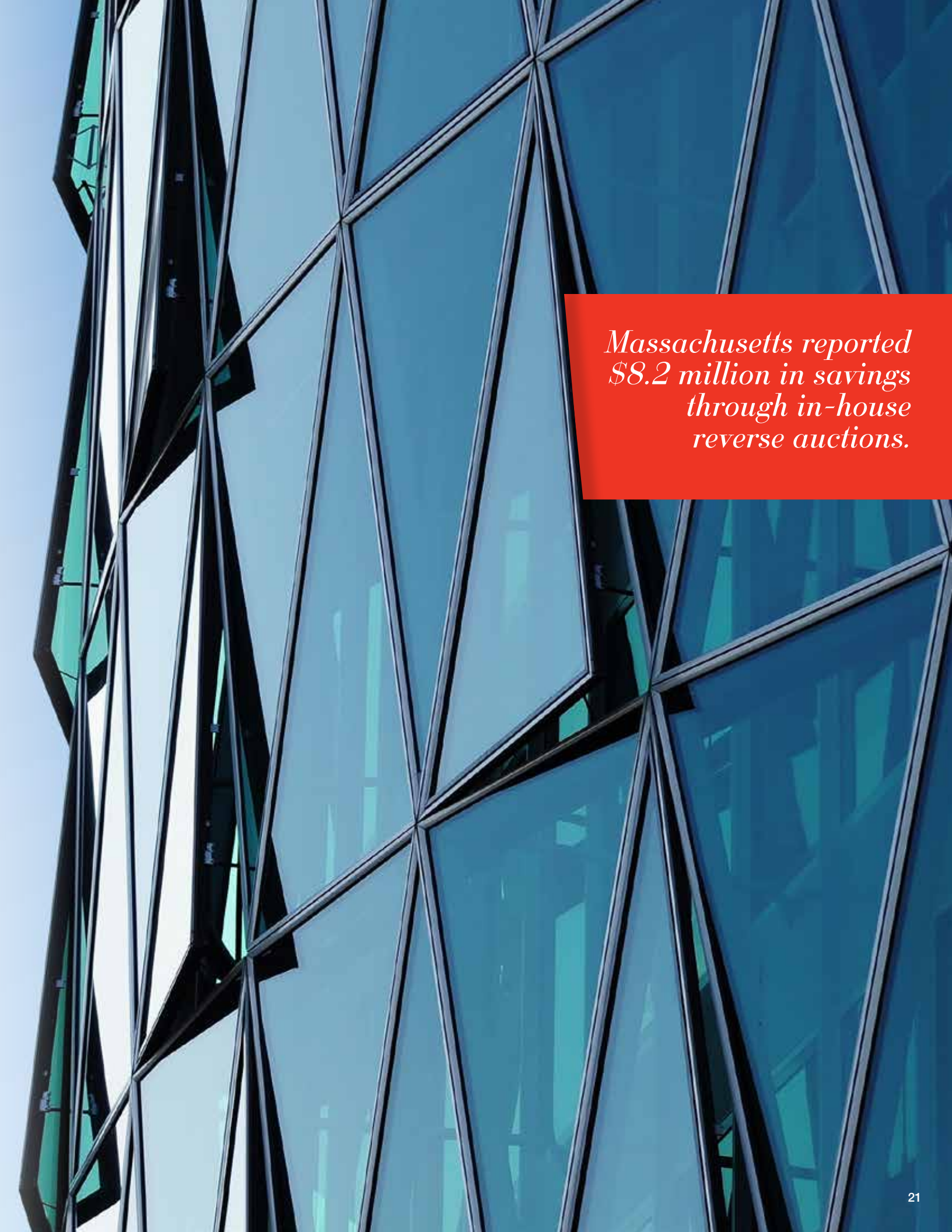
"Vendors aren't happy — if the proposal works well, they would want to move on to a contract. But without competition we can't just move on to a contract, so we would then have to do an RFP," Davis says. "End users may be furious because they like the product they've been using."

Michigan also developed an invitation to negotiate option, which is used when market research shows a single vendor can provide a specialized service or product.

"In such cases, a full-blown RFP would end up taking up a lot more time without adding any value," Davis explains.

For transparency and a hedge against leaving out a relevant vendor, officials post a notice on the state's e-procurement site about the pending negotiations and invite any interested parties to come forward.

A third vehicle, direct solicitations, applies to solutions with a limited pool of potential vendors,



*Massachusetts reported
\$8.2 million in savings
through in-house
reverse auctions.*

TODAY'S FOUR BIGGEST PROCUREMENT GAPS

The Governing Institute's State Procurement Survey shows that states are implementing many new strategies to speed up purchasing processes and make them work better for internal customers and vendors. But the survey also revealed problem areas that stand in the way of successful solicitations and contract administration. Four important gaps that need attention are:

1 Post-award contract administration. This area is under-managed by a significant number of states.



22%

of procurement officials say contract administration plans are used in critical, high-dollar or high-impact contracts.

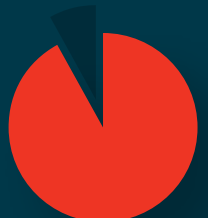
2 Risk management. Many states lack formal risk-management strategies. In addition, procurement policies often go a year or more between updates, while a handful of states visit this area once every five years.



46%

do not have a standard process for assessing and managing risk throughout the life of the procurement and contract.

3 Wide variations exist in performance metrics. States appear to be struggling to define quantitative indicators to evaluate performance of procurement contracts and vendors.



92%

say client agencies usually are pleased with their procurement awards, but few could provide examples of how they measure client satisfaction.

4 Most states don't capitalize on automation. Digital options exist for streamlining key procurement processes, but few procurement organizations take advantage of them.



86%

don't use automated communications services, chat bots, virtual agents or chat functionality on their websites.



67%

say they have not automated invoicing or implemented electronic invoicing.

Michigan's competitive proof of concept process lets the state try out solutions for addressing new requirements.

such as companies that can provide waste management services for a specific region.

Besides tailoring solicitations to unique requirements, the trio of new contracting vehicles shortens solicitation times. The typical RFP process in Michigan lasts 169 business days, Davis says. The invitation to negotiate approach takes only 140 days to execute a contract; competitive proofs to concept finalize in 133 days; and direct solicitations shrink the process to 119 days.

Procurement executives are capitalizing on other innovations, too, such as the market/test/rebid (MTR) procurement approach used by the Georgia Technology Authority to avoid extended timelines for certain technology solutions. The process starts with a GTA request for ideas to solve a specific need, such as specialized networking capabilities for enterprise storage services.

“GTA doesn’t put a lot of constraints on the request – at this point we are open to suggestions from the marketplace,” says Deputy Commissioner Eason.

After proposals arrive, GTA runs pilot tests of solutions to validate their usefulness in the state’s IT environment. Once state officials develop a core group of qualified vendors, they invite them to rebid the project. This approach significantly reduces acquisition times. In the past, for example, an agency that needed to add new servers to a data center often waited six months or longer for the units to be up and running, partly because of delays in the traditional request process.

“We knew it doesn’t take that long for private sector organizations to stand up a server,” Eason says, adding that the MTR process cuts the time in half. “All the agencies that use GTA for this type of work are much happier.”

In addition, MTR cuts acquisition costs by 10 to 20 percent by freeing up personnel time and other factors.

“I would encourage any state to be very open to new ideas and flexibility,” Eason says. “I’d also ask suppliers about best practices they’ve seen in private sector that maybe could be modeled in public sector procurements.”

States are finding costs savings with other techniques, as well. New York conducted a pilot test to assess the potential savings from using reverse auctions for commodity procurements.

The process, where sellers bid for the prices at which they are willing to sell their goods and services, has produced significant savings, according to New York’s Carroll. A recent reverse auction involving 12 lots of IT equipment yielded a savings of 62 percent off the contract price. Overall, officials estimate reverse auctions have saved the state approximately \$50 million.

Carroll says reverse auctions work well in situations where the vendor pool is well defined and there are multiple vendors in the market.

“In order to ensure competition, it is important to have a sense of how many suppliers can be part of the reverse auction,” he says.

Potential bidders also should receive training from auction facilitators before the event.

“This helps the bidders become comfortable with the process prior to the reverse auction day,” Carroll says. “We have open viewing for contract managers, other agencies and states to prepare or consider reverse auctions for their own procurements.”

Time to ‘Be Creative’

The Governing Institute survey found that five key trends loom large over government procurement operations today. But the biggest takeaway of all is that these developments are only part of a larger story. Driven by the need for new ideas to address marketplace dynamics and give agencies resources to better serve constituents, procurement offices are becoming dynamic centers of innovation.

Michigan’s Davis voices an opinion shared by many other procurement officials. “There isn’t any one-size-fits-all solution for procurement,” he says. “Using the same model for every type of contract doesn’t make sense. Read your statute, understand where the boundaries are and then just be creative.”



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