

State of Kansas Information Technology Vendor Management Program

Executive Summary

In January 2003, incoming Kansas Governor Kathleen Sebelius initiated a performance review of state government. The Budget Efficiency and Savings Team (BEST) initiative was charged with examining ways to improve the efficiency of state government and obtain budget savings. Six teams made up of leaders from both the private and public sector focused on major areas of state government: Economy, Public Safety, Human Services, Agriculture and Natural Resources, and Infrastructure. (See <http://www.ksgovernor.org/performteam.html> for more information)

Formalized in the summer of 2004, the State's IT Vendor Management Program is an outgrowth of the work done by IT and purchasing professionals as part of the BEST initiatives. This program is a collaborative effort of a diverse set of public sector organizations and includes representatives from state and local units of government, school districts, and higher education, along with the Chief Information Technology Officer for the Executive Branch, the State's Division of Purchases, and the Kansas Information Technology Office – the State's enterprise project management and architecture office.

The goals of the program are to increase the effectiveness and efficiency of the State's IT purchasing processes, to realize savings through reducing purchase price and implementation and support costs, and to improve both vendor performance and customer satisfaction. The program was developed using a facilitative process that identified common goals and approaches to IT procurement and encouraged consensus in developing plans for strategic direction and execution.

The program is overseen by a steering committee that is made up of the Chief Information Officers of the six state agencies with the largest IT spending, the Chief Information Technology Officer for the Executive Branch, the Chief State IT Architect, representatives from Higher Education and K-12, County/City representatives, the State's Director of Purchases, and an IT Vendor Contract Manager. A standing "sourcing team" with similarly diverse membership performs historical data analysis and works to identify stakeholders for product and service categories. An ad hoc stakeholder team is then created, made up of those entities that are most affected by and most frequently use and support the technologies involved. The membership of the stakeholder teams may include a variety of purchasing, IT, or other professionals from state agencies, higher education, K-12, cities or counties.

Together, the teams work to formulate a sourcing strategy based on functional requirements, architectural considerations, market analysis and technology direction, opportunities for cost savings and consolidation, and potential process improvements. They work collaboratively to develop and negotiate new contracts, and to cancel, rebid, restructure or not renew existing contracts, as appropriate. They also assist in structuring RFP's and work with the State's Division of Purchases to evaluate and negotiate with suppliers. Finally, they develop tools and processes to solicit feedback and monitor vendor performance throughout the life of the resulting contract.

The State's IT Vendor Management Program has been highly successful. The work accomplished by the teams involved in this program was instrumental in achieving the \$10.7M of IT-related budget reductions implemented by the Governor in the current fiscal year. The processes and relationships created as part of this initiative provided new channels of communication that improved the sharing of best practices, increased awareness of the composition of state IT spending and the financial benefits of standardization, and set the stage for increased collaboration in IT architecture and other areas impacting procurement. Over time, we expect that institutionalizing these processes will ensure more efficient and effective procurement practices, as well as open the door for closer partnerships with vendors and the customers we serve together.

Background

In January 2003, incoming Kansas Governor Kathleen Sebelius initiated a performance review of state government. The Budget Efficiency and Savings Team (BEST) initiative was charged with examining ways to improve the efficiency of state government and obtain budget savings. Six teams made up of leaders from both the private and public sector focused on major areas of state government: Economy, Public Safety, Human Services, Agriculture and Natural Resources, and Infrastructure. (*See <http://www.ks governor.org/performteam.html> for more information*)

As one component of the Infrastructure review, a team was charged with identifying process improvements and savings in the area of Information Technology (IT). The team identified a broad set of initiatives targeting improvements in efficiency in the use of technology in state government. Among the initiatives identified were several “quick hit” projects related to IT management and procurement. These projects included cellular services, personal computers, toll-free services, and desktop software. In addition, a standing team made up of technology and purchasing professionals from a variety of state agencies was created to focus on identifying cost savings and process improvements in IT contracting for goods and services.

As an added incentive for success, the Governor introduced a budget proposal in the 2004 Legislative session that outlined \$26.7 million in budget reductions. These reductions were explicitly based on the assumption that the BEST initiatives would be successful in achieving the administrative efficiencies and budget savings they had been tasked with identifying. Of that amount, approximately \$10.7 million in reductions (about 40% of the total reductions) were targeted at IT-related expenditures. These reductions were taken across all state agencies, including higher education, in the Fiscal Year 2005 budget that began July 1, 2004.

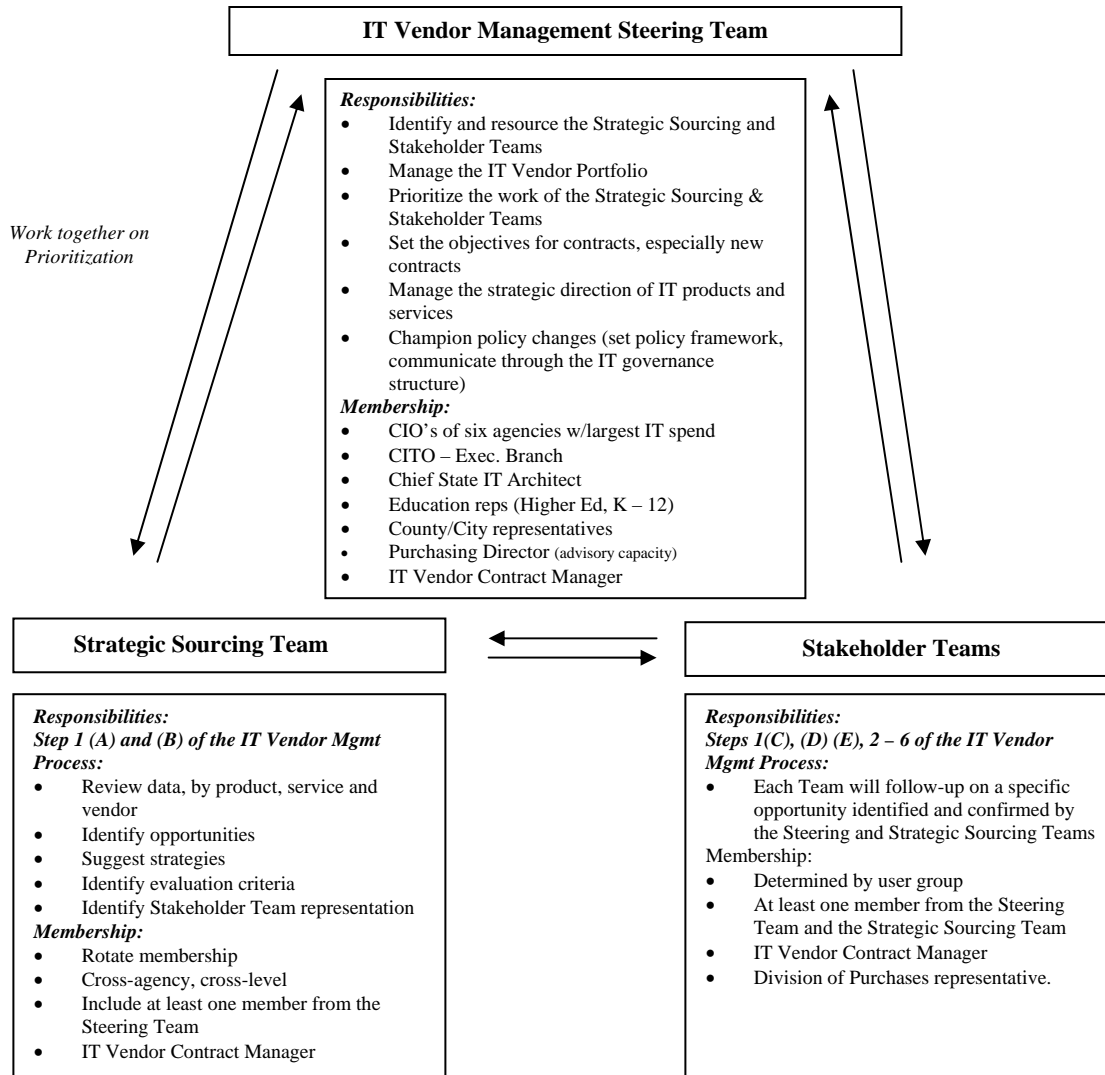
To implement the BEST initiatives identified above, Kansas formed multi-agency and cross-functional teams to provide analysis, recommendations, and help with reengineering and vendor negotiation, while continuing to identify opportunities for both one-time and ongoing improvements and efficiencies. To ensure successful execution, the State also instituted a streamlined project management framework for this initiative that maintained flexibility while focusing on accountability and communication. The intent was to trial new collaborative processes for this type of analysis and cooperation in the enterprise, and to develop best practices and processes that could later be institutionalized. It was from this effort that the State’s Information Technology Vendor Management program began.

Description of the State of Kansas Information Technology Vendor Management Program

Formalized in the summer of 2004, the State’s IT Vendor Management Program is an outgrowth of the work done by IT and purchasing professionals as part of the Governor’s BEST initiatives. The program is a collaborative effort of a diverse set of public sector organizations and includes representatives from state and local units of government, school districts, and higher education, along with the Chief Information Technology Officer for the Executive Branch, the State’s Division of Purchases, and the Kansas Information Technology Office – the State’s enterprise project management and architecture office. The goals of the program are to increase the effectiveness and efficiency of the State’s IT purchasing processes, to realize savings through reducing purchase price and implementation and support costs, and to improve both vendor performance and customer satisfaction. The program was developed without central mandate by using a facilitative process that identified common goals and approaches and encouraged consensus in developing plans for strategic direction and execution. The program has strong support from the Governor’s office, who has participated directly in sponsoring and recognizing the team’s efforts.

Organizational Structure. One of the keys to the success of this program is the high degree of collaboration and teamwork that occurs across multiple levels of government. The effort is overseen by a steering committee made up of high-level procurement and IT officials from Kansas’ larger counties and school districts as well as the state’s colleges and universities. An IT executive with deep purchasing experience has been designated as the IT Vendor Contract Manager and serves as the “point man” for the effort. This manager is also included in the membership of each of the teams to maintain continuity and ensure effective communication and coordination of their work.

IT Vendor Management Program Organizational Structure, Roles, and Responsibilities



Vendor Management Process. The following outline is organized by high-level phases of the vendor management lifecycle and highlights the activities, roles, and responsibilities of the parties identified in the diagram above.

1. Sourcing Strategy Formulation

What is done: Analyze data such as historical and projected spend, purchasing practices, supply market information, customer requirements, benchmark information, etc.

A) Develop Prioritization strategy

B) Determine Stakeholder team composition based on purchasing patterns

- C) Procurement strategy: Goals, objectives, guiding principles, best practices (identifying opportunity areas such as standardization, supplier consolidation and changes in purchase processes)
 - D) Requirements definition
 - E) In/Out/Co-source Decision (Build or buy?)
 - F) Supplier identification
- By whom:** The Strategic Sourcing Team (A) and (B) and the Stakeholder Team (C), (D), & (E)

2. Supplier Evaluation and Selection

What is done: Supplier evaluation to determine which suppliers are best suited to meet requirements.
By whom: Stakeholder Team and the Division of Purchases' buyer

3. Negotiation/Contracting

What is done: Vendor negotiations and contracting.
By whom: Stakeholder Team and the Division of Purchases' buyer

4. Transition to Supplier

What is done:

- Manage issues as the new contract is started
- Implement the communication plan so all units of government know about the new contract

By whom: A member of the Stakeholder Team in concert with the buyer

5. Vendor and Contract Monitoring, Measurement, Evaluation and Feedback

What is done?

- Provide feedback to the Strategic Sourcing Team and Steering Team
- Use the evaluation criteria developed at the start of the process to monitor performance and measure the success of the contract, proactively identifying potential supplier issues and negotiating solutions
- Collect data from vendor reports, stakeholder feedback and vendor feedback. Lead standardization of requirements and specifications by managing customer input and feedback channels

By whom: Stakeholder Team and the buyer

6. End/Review/Re-source (return to Step 1)

Significance to the improvement of operation of government

In the past, state procurement activities were often pursued with limited involvement by the affected communities. This initiative, with its base in collaborative problem-solving, is designed to solicit broader customer input that is driven by data analysis. For example, we found that although the state's PC/desktop computer contracts had been focused on the needs of traditional office staff workers, more than 50% of the purchases being made from the contracts were for use in K-12 educational settings. By including K-12 procurement and IT support staff in the stakeholder teams for this area, we were able to provide for their needs more completely within the contract, reducing the need to initiate separate procurements. From the outset, the teams targeted the institutionalization of new processes that had the promise of increasing the ongoing efficiency of our IT contracting. For example, we extended the period during which upcoming IT contracts slated for renewal are reviewed. In the past, a 90-day window was the norm, but this allowed little time for strategic evaluation of the contract. The Strategic Sourcing Team now reviews contracts six months out, with the assistance of the Division of Purchases, which allows the committee to prioritize the handling of contracts and create stakeholder teams to work the contracts in a more strategic fashion. Since the stakeholder teams are more broadly based, contract renewals or replacements now reflect more closely the needs of a wider user base.

Benefits realized by service recipients, taxpayers, agency or state

The IT Vendor Management Program is focused on benefiting units of Kansas government (state government, cities, counties, school districts, and universities). However, many of these benefits pass-through to taxpayers and others who fund state and local government and higher education, such as the federal government.

Both state agencies and taxpayers benefit from reductions in the cost of procuring technology. In addition, standardizing the technology used by focusing on functional requirements and reducing brand and model diversity reduces the overall cost and complexity of support over the useful life of the equipment.

End users at state agencies benefit from reduced training needs achieved by standardizing on technology, clearer and more responsive customer service processes, and improvements in the “fit” of the technology to their needs. Another benefit of cost reductions is the increased range of options available to address business goals. In some cases, a solution that may have been a better fit, but too costly in the past now becomes feasible. Or, for example, by reducing the cost of desktop PC’s, agencies may still spend the same amount of money, but use their savings to purchase more PC’s and rotate their equipment to more closely match the optimum PC lifecycle, which results both in reduced support costs and increased computing power available to the end user.

State agency purchasing staff gain better and more efficient input into the procurement process, resulting in less resources being required to obtain goods and services. Costs related to contract administration are reduced by eliminating what were essentially duplicate procurements. In addition, the teams and processes created as part of the program open new lines for the sharing of information and opportunities across levels of government on many issues related to procurement and IT in general.

Vendor Benefits. The IT Vendor Management program provides direct benefits to the vendor community. By consolidating our spending and negotiating more as one entity, it reduces the need for many of the administrative costs on the vendor side associated with multiple contractual vehicles (negotiation, procurement, support). Also, by coordinating analysis on the State’s side, we come to the table with clearly defined requirements that allow vendors to turn around estimates and bids more quickly by reducing the amount of “discovery” that was previously included in the procurement process. We have also seen that by encouraging the vendors to explain their cost structures and what constitutes a “win” for them, we are able to structure our procurement vehicles and approaches to create a more successful partnership. For instance, vendors suggested that we could achieve significant savings in PC Desktop purchases by identifying and adopting standard configurations which could be used across multiple agencies and lines of business, a concept that worked well and introduced benefits beyond purchase price.

Return on Investment

The primary investment by the State in the IT Vendor Management Program has been the soft cost associated with staff and manager’s time. While local units of government, school districts and other organizations achieve hard and soft cost savings through contractual vehicles made more efficient by this process, the metrics are not yet in place to calculate these savings in comprehensive manner. Anecdotal evidence indicates some school districts have reduced their expenditures in select areas by as much as half by using state contracts created out of this process. Other local units of government have been able to move their procurements through lower-priced state contracts, achieving not only direct savings from the purchases themselves, but also avoiding the cost of running independent and duplicative procurement processes for the same goods.

In the short term, this collaborative review and discussion process helped agencies become aware of technology options used by their counterparts that were cheaper or more efficient. Also, as part of the group analysis and negotiation process, the focus often shifted from procurement to deeper questions about business practices. For example, while negotiating for a projected \$200,000 savings this year on the state's long distance and toll-free telephone services, our analysis also produced an effort to identify and eliminate dozens of little or unused 800#'s that had been left in place from forgotten or abandoned initiatives, or where customers had been shown to prefer other channels of communication.

We fully expect even greater benefits to accrue over time. The program recently distributed an in-depth survey of local units of government and K-12 to determine their IT contracting needs and patterns in more detail, and to identify contracts and other procurement methods that are proving successful for them. In some cases, such as the statewide PC/Desktop contract referred to earlier, analysis shows that the major "spend" comes from other governmental units outside state government. Thus, there is also the possibility that the state could take advantage of working together with these groups to obtain discounts on prices by using existing local government contracts.

This local focus was recently highlighted in a presentation made on the IT Vendor Management program to the State's Advisory Council on Intergovernmental Relations, an organization created by the 2002 Legislature to study services provided by local units of government, and identify ways to improve their structure and efficiency. The presentation was very well received by the group, which has broad representation across cities, counties, and the general public. As a result, a decision was made to add information about the program to a series of forums on "Sharing Approaches That Work" being held in cities around the state to promote greater integration and cooperation between state and local government.

Another area in which we plan to achieve long-term benefits is through the creation of a strong link to our growing Enterprise Technology Architecture program. Our state's Chief Information Technology Architect is a member of the Vendor Management Steering Committee, and is actively working to incorporate an Enterprise Architecture dimension into the program's new processes. By integrating broader architectural concerns into the effort to standardize our technologies and vendor base, we expect to sync up opportunities for measurable cost savings with our strategic architectural direction, creating a tangible incentive for enterprise architecture adoption that aligns with the cost and efficiency pressures often driving the business of state government today.

Conclusion

The State's IT Vendor Management program is new, with a "loosely coupled" organizational structure, and participation is voluntary. Participants are drawn together by common needs and the business drivers of lower costs and increased efficiency. By working together part-time in an ad-hoc team-based process, the information technology component of government has been able to deliver hundreds of thousands of dollars in cost savings. At the same time, we have begun work on creating a culture of sharing and collaboration that is already exhibiting a number of added benefits – best practice sharing, an emphasis on common approaches and architectures, and new communication channels. By combining these benefits with ongoing analysis of IT spending and the integration of Enterprise Architecture, we believe we are laying the framework for an enterprise "self-awareness" that will continue generate growth in both cooperation and cost savings in the future. We are proud of our effort here in Kansas and welcome the chance to share our experience and lessons learned with other states.