

# Statewide Technology Cooperative Contracting Program

## *Transforming Traditional Procurement to Knowledge-Driven Sourcing in Texas*

### EXECUTIVE SUMMARY

The competitiveness and complexity of today's technology marketplace requires a focus on knowledge-based activities and strategies such as spend analysis, analytics and business intelligence in order to provide real value in the information technology (IT) arena. Process-driven and repetitive transactional procurement practices are not sufficient to ensure the best use of taxpayer funds.

Over the past two years, the Texas Department of Information Resources (DIR) has transformed the Technology Cooperative Contracting (TCC) Program from a transactional-based procurement shop into a knowledge-driven supply chain organization that generates value for over 4,400 eligible state agencies, local government and public education customers throughout the state. By efficiently leveraging the volume buying power of Texas and bringing knowledge-based sourcing strategies to bear, the TCC Program generates significant cost reductions and improves the quality of the state's investment in technology commodities.

DIR's new supply chain sourcing strategy realigned organizational structure, technology infrastructure, and core processes to focus on building a "knowledge platform" with which to drive contracting value. The transformation included:

- *Intellectual capital* – skills and knowledge, organizational structure
- *Technology* – identification and deployment of a business intelligence technology infrastructure to support knowledge capture, transfer, and use
- *Revised business processes* – strategic spend analysis, metrics, and market intelligence

The significance of DIR's successful transformation to knowledge-based sourcing strategies and techniques is reflected in lower contract rates, more efficient contracting processes, and improved performance and accountability requirements. Benefits of the improvements are tangible to customer entities, vendors, and ultimately the taxpayers of the state. Already the changes have resulted in an 8 percent decrease in IT staffing services costs to customers—which translates to \$4.7 million saved each year. Metrics played a significant role in reengineering and negotiating new seat management contracts, which reduced prices on base services by as much as 63 percent.

Overall, in the first year of transformation, DIR customers saved \$83 million on expenditures of \$805 million. Projections for fiscal 2007 are additional savings of \$110 million on expenditures of \$970 million.

As DIR looks to the future of the Technology Cooperative Contracting Program, the knowledge-driven sourcing strategies are assisting in demand analysis, business case development, and a supply chain that meets the needs of customers and provides strong value to the state.

## PROJECT DESCRIPTION

The objective of the project was to transform the Technology Cooperative Contracting Program’s transactional paper-based function to a progressively and strategically focused supply chain management function that emphasizes knowledge and information.

## BACKGROUND

The Texas Department of Information Resources (DIR) Technology Cooperative Contracting (TCC) Program is designed to generate savings for taxpayers by efficiently leveraging volume buying power to lower the costs and improve the quality of the state’s investment in technology commodities. The program also provides an efficient purchasing process for its state and local customers.

The added value this program brings to customers has been reflected in the amount of voluntary participation it enjoyed, each entity seeing savings from leveraging the state’s combined buying power. In 2005 the Texas Legislature made the purchase of IT commodity goods and services through the TCC Program mandatory for all state agencies, thus increasing the leverage DIR has in contract negotiations as the IT commodity sourcing agency for the state.

<b>Fiscal 2006 Technology Cooperative Contracting Program Statistics</b>	
Spend through TCC Program contracts	\$ 805 million
Number of master contracts	343
Number of vendors	327
Number of eligible Texas public sector entities	Over 4,400 entities including state agencies, local governments, and public education
Types of commodities and services offered	<ul style="list-style-type: none"> <li>• Hardware, software, maintenance</li> <li>• IT staffing services, seat management, managed print services</li> <li>• Telecommunications commodities and services</li> <li>• Networking equipment and services</li> <li>• Enterprise license agreements</li> <li>• Business solutions</li> </ul>
Structure of TCC Program contracts	Not to exceed rates, indefinite demand/indefinite quantity (IDIQ), multiple awards to provide flexibility to meet customer needs
How do customers purchase from TCC Program contracts?	DIR manages an online store that provides customers with an easy and efficient tool to directly contact the vendors for the vast majority of order delivery and payment.

## PROBLEM STATEMENT

While Texas wields substantial volume purchasing power by the sheer nature of its size, DIR realized that its ability to effectively leverage the state’s buying power was limited by its reliance on traditional transactional purchasing strategies and processes. Further, the now mandatory nature of the relationship with state agencies in the IT commodity procurement arena made it important to be able to track and measure DIR’s ability to add value.

To truly provide value back to the taxpayers and customer entities, DIR initiated a project to move from a process driven task oriented procurement strategy to a results oriented, knowledge-driven, supply chain sourcing strategy. DIR was not satisfied with simply negotiating on volume, but rather wanted to implement a knowledge-based supply chain strategy that improved the delivery of state services by providing DIR customers with superior goods and services at reduced costs.

The challenges to implementing a knowledge-based sourcing strategy centered on the following areas:

- *Intellectual Capital* – While strong on standard procurement skills, DIR did not have the knowledge-based skills necessary to perform data analysis or market intelligence. Each contract manager was expected to be a “jack of all trades”—performing benchmarking, calculating cost savings/avoidance, developing contract specifications, negotiating, and managing executed contracts.
- *Technology Infrastructure* – The TCC Program had been supported by an obsolete system that that lacked features and the ability to scale to meet increasing demands. Specifically, the system did not provide adequate reporting, it had no analytical capabilities to support effective supply chain management decisions, and it was not equipped to handle large volumes of data.
- *Business Processes* – Procurement processes were procedurally oriented and placed high value on managing transactions instead of on outcomes and results.

## **SOLUTION**

DIR accomplished the project objective over the last two years with a move to strategic knowledge-based sourcing activities, such as spend analysis, benchmarking, market intelligence, and ongoing supplier performance. The transformation project focused on three key knowledge-based areas:

### **(1) Intellectual/Human Capital**

To move from a transactional mindset of order taking and contract processing to a knowledge-based organization focused on sourcing strategically, DIR made significant changes to its existing organizational structure and the skills sets of employees. Three separate (but linked) business units now form DIR Supply Chain Management Services. The knowledge requirements and skills of staff employed in each area are based on specific expertise. The business units are designed to function as an interactive team to provide comprehensive, integrated supply chain management services:

- *Contracting and Procurement Services* – Meets customer needs through timely and effective execution of contracts and has responsibility for all phases of the contract life cycle. Organizationally, responsibilities and structure were redefined and upgraded:
  - Contract development and award responsibilities were separated from contract management responsibilities. The contract execution activities are now staffed by employees with strong negotiation skills and industry expertise which provides the required knowledge to develop specifications.
  - As a further alignment between knowledge and skills sets, tactical procurements were separated from strategic procurements.
  - A new contract monitoring section was staffed with employees skilled in the core competencies of contract administration. Previously, due to the pressure associated with awarding the contracts, little time was available to spend focused on contractor performance. By establishing a specific knowledge-base, this group provides valuable information that can be used in the contract award cycles and also ensures accountability for appropriate use of taxpayer funds.
- *Sourcing Analytics and Solutions* – A new group, Sourcing Analytics and Solutions was created to support the existing contracting and customer services teams. This group, developed from scratch, employs data warehouse architects, database administrators, supply chain management professionals, and people with enterprise IT skills in the areas of packaged solutions, analytical solutions, and reporting solutions, business analytics and intelligence. The charge is to utilize these knowledge-based skills in developing new contracts, prioritizing contracting opportunities and implementing new sourcing strategies.

- *Customer Services* – Customer Services brings the customer perspective to the mix, identifying contracting opportunities and customer needs. Knowledge-based expertise in three specific customer “channels”—state agencies, education, and local government—ensures a targeted approach to customer outreach. By actively soliciting and collecting data and knowledge of customer needs, DIR is better equipped with the knowledge necessary to provide contracts that support customer’s mission critical business processes.

## **(2) Implemented New Technology Solution**

Moving from the old system of spreadsheets, a simple database (Microsoft Access 97), and manual processes—where the sheer volume of information quickly outgrew the capabilities of the tools used—to a new technology solution was critical to the success of the transformation. The organization was data rich but information and knowledge poor. The new Revenue and Sales Reporting (RASR) Analytical Platform initiative addressed these shortcomings by implementing an industry-standard data warehouse and business intelligence portal that improves and enhances processes, analyses, and reports. Ultimately, the RASR Analytical Platform collects the data, generates the information, and presents the knowledge to make wise sourcing decisions.

Immediate performance, accuracy, and efficiency gains were recognized by migrating to a new database (Oracle), and by automating many of the manual processes. Access to the information was improved by implementing an enterprise business intelligence (Business Objects XI R2) toolset that provided self-service reporting, OLAP analytical capabilities, and dashboard functionality. The implementation of an enterprise data warehouse and the refinement of the associated data collection processes provided even more effective analyses.

## **(3) New Business Processes**

Building the organizational structure with new skills established a foundation of knowledge-based workers who use market intelligence and analytics to evaluate trends and patterns. New business processes have been developed for:

- Calculating and analysis of monthly spend figures
- Preparation of business cases based on research and market intelligence provided both through analytics and customer input
- Demand/opportunity analysis based on quantifiable research and market intelligence
- A validated methodology to calculate and track cost savings that is based on actual contract spend, not projections
- An enterprise approach for the consolidation of purchases—business driven negotiations require vendors to view the State of Texas as a Fortune 500 company
- The use of market intelligence and analytics to drive price reductions and other improvements in the value of state contracts
- Development of better commodity and service specifications through knowledge of the competitive marketplace
- Benchmarking DIR contract results with competitive regional and national cooperative buying options

## **SIGNIFICANCE TO THE IMPROVEMENT OF GOVERNMENT OPERATIONS**

Procurement of IT goods and services is fundamental to achieving both value-for-the-money for taxpayers and in delivering sustainable, world class, public services. Through effective sourcing of technology goods and services, DIR is uniquely situated to be able to drive cost savings for the entities it serves and provide critical IT infrastructure needed by entities to perform their core missions. The DIR Technology Cooperative Contract Program plays a key role in reducing government costs and helping agencies service citizens. Every dollar DIR saves entities on the purchase of technology goods and services is a dollar that can be spent on critical services such providing better education or better health services.

When the Texas Legislature made it mandatory for state agencies to purchase IT commodity goods and services through DIR in fiscal 2006, the agency viewed it as additional incentive to become more aggressive in contract negotiations rather than complacent because of the requirement. The sales through the TCC Program are on track to increase by more than 20 percent since the transformation started, with almost three-quarters of the sales derived from voluntary customers. Each voluntary customer brings additional volume to bear on contract negotiations and statewide government operations benefit from the savings.

## **BENEFITS REALIZED BY SERVICE RECIPIENTS, TAXPAYERS, AGENCY, OR STATE**

DIR's investments in analytics and knowledge-based skills have generated benefits to customer entities, taxpayers, and the vendor community. The TCC Program has saved DIR customers—and therefore taxpayers—more than \$83 million during fiscal 2006 and is projected to save an additional \$110 million during fiscal 2007. For the 56 contracts executed in fiscal 2007 to date (9/1/06–5/31/07), DIR has obtained an average savings of 16 percent when compared to other states and other cooperative contracting programs.

The value provided to DIR customers and Texas taxpayers is reflected in lower contract rates, more efficient contracting processes and improved performances standards and accountability requirements. The specific value and benefits derived from DIR's transition to a knowledge based supply chain vary depending on the scope and nature of the business transaction, but following examples show the impact of this transition to customers and vendors alike.

### **IT Staffing Services**

- *Improved Market Based Pricing* – DIR established the contract rates using a detailed statistical analysis of market prices. Average contract rates paid by DIR customers for IT staffing services have decreased by 8 percent, from an average hourly rate of \$79 in fiscal 2006 to \$73 in fiscal 2007 to date. Based on the projected spend for fiscal 2007, this represents an annual savings (cost avoidance) of \$4.7 million for DIR customers.
- *Improved Service Standards* – DIR eliminated 51 generic job category descriptions and replaced them with 15 new job titles with specified service standards based on market research. The standardized job titles are based on the specific skills and expertise required for the IT services, and aligns with the Texas state employee classification system. As a result, the customer is better able to select a worker with the appropriate level of skills and expertise, and does not pay for greater skill level or an area of expertise that is not needed.
- *Stimulated Competition and Enhanced Opportunities for Historically Underutilized Businesses (HUBs) and Small Businesses* – The revised process encouraged competition and provided opportunities within a field previously viewed as closed by many of the vendors providing IT staffing services. As a result, 96 vendors who had never participated in the IT staffing services contracts were awarded one of the new contracts. Also, the DIR Request for Offer (RFO) was structured to encourage and support HUBs and small businesses by providing the opportunity to propose contracts for one or all of the job categories. During fiscal 2007 to date, 54 HUBs have sold services through the DIR contracts, as compared to 40 HUBs under the previous process.

### **Seat Management**

This procurement was developed with the goal of reengineering the way DIR has historically contracted for these services. In the past, seat management contracts outlined the scope of services included in the contract but did not include pricing due to the varying needs of the customers.

DIR's goal was to develop a contract that provides all services by defining a base service and allowing other services to be purchased as options. By taking this approach, DIR was able to define pricing which allows customers to compare vendors on an apples-to-apples basis. By adding the Sourcing and Analytics team to the process, a detailed analysis of the various pricing elements was completed and this analysis was used to

develop a base service offering that was also used by Contracting and Procurement Services in the negotiation process. **The negotiations proved successful in that DIR was able to reduce the prices on the base services by as much as 63 percent.**

#### **Additional value to customers**

- Frisco ISD, the fastest growing independent school district both in Texas and the U.S., used the savings figures from the DIR customer reports to obtain blanket approval from their school board for all technology purchases, regardless of the amount, through DIR contracts. This allows the district to move quickly and confidently in the technology procurement arena to meet the ever-growing demands of this vibrant district.
- Denton ISD noted that major expenditures they believed were going through DIR contracts were not reported. It turned out that the vendor was not recording the sales correctly, leaving the customer without an adequate audit trail. The issue was quickly resolved and Denton ISD has the needed documentation should purchases be audited.

#### **Internal Efficiencies and Effectiveness in Supply Chain Operations**

- *Improved use of resources* – Each year DIR uses existing sales data combined with population and workforce information to develop a matrix of current and potential customers ranked by population or workforce size and the amount spent through the TCC Program. Sub-sets within each channel—cities, counties, libraries, etc.—are then classified based on this data, as retention, development, or acquisition opportunities. This information is used to determine best use of available resources in customer outreach efforts. Results are that staff concentrates efforts on customers where there is the greatest potential to add value.
- *Improved accountability and performance measurement* – The new IT staffing services contracts include a built-in performance-based metric system which establishes clear performance expectations for vendors and provides a streamlined mechanism for contractor oversight. In addition, the metrics provide a defensible formula to initiate remedial actions against contractors who do not meet performance expectations.
- *Improved efficiency of contracting and Service Delivery processes* – The new IT staffing services contracts provide a streamlined and efficient contracting process that eliminated unnecessary paperwork and redundant procedures from DIR, its customers, and the vendor providing the services. As a result, DIR was able to eliminate and or reassign the equivalent of three employee positions, resulting in an annual savings of nearly \$200,000.
- *Supplier Relationships and Assistance* – DIR also looks for opportunities to help our supplier be more successful and create stronger vendor relationships. For example, DIR provided data to one large supplier that raised questions about the accuracy of sales reported to DIR by the vendor. Based on the analytics and analysis provided by DIR, the vendor investigated its own procedures and identified internal reporting problems which it was able to correct.

#### **CONCLUSION**

The transition to knowledge-based sourcing strategies has significantly improved DIR's ability to leverage the state's volume buying power and maximize the value of the technology commodities and services available through the Technology Cooperative Contracting Program. DIR will continue to look for new opportunities to use knowledge-based analytics and market intelligence to provide innovative and competitive commodities and services to our customers in order to ensure that taxpayer funds are spent wisely.