



NY GovBuy

co-sponsored by



Measuring Success in Procurement



How to Identify, Measure, and Work Toward Procurement Goals



April 30 & May 1, 2019

#2019NYGovBuy  @NYSPRO  @nysprocurement



Today's Speakers

Erin Boyce – Assistant Director, Data Analytics and eCommerce

Kylesha Davis – Team Leader, Data Analytics

Annie Gilroy – Team Member, Data Analytics





Agenda

- Defining Success in Procurement
- Lean Process Improvement
- Key Performance Indicators
- Achieving and Quantifying Savings
- Other Measures of Success



Defining Success in Procurement

#2019NYGovBuy  @NYSPRO  @nysprocurement



NY GovBuy



What defines “success” in procurement?

- Customer satisfaction?
- Value / Savings?
- Efficiency?
- Avoiding catastrophe?
- Vendor effectiveness?
- Employee satisfaction?
- Timeliness?
- ???

You can't measure success without defining what success looks like.





Defining success and planning to achieve it

- Strategic planning
 - Establish priorities, common goals, and agreement around intended outcomes
 - Set goals that matter to what you do and how you do it
- Lean process improvement
 - Examine how you do procurement/purchasing and look for opportunities to improve
- Key performance indicators (KPIs)
 - Measure performance in pursuit of goals





OGS Procurement Services' experience

- Benefits case to track savings (2012)
 - Began with strategic sourcing project, 2012-13 through 2016-17
 - Achieved and measured \$755M in savings over five fiscal years
- Lean project for solicitation development through contract award (2014)
 - Articulated over 100 separate steps / milestones in the process
 - IFB template for standardizing clauses and work
- KPI development (2016)
 - Identified metrics and KPIs for Procurement Services
 - Quarterly performance review and report
 - Semiannual customer and employee surveys



Lean Process Improvement

#2019NYGovBuy  @NYSPRO  @nysprocurement



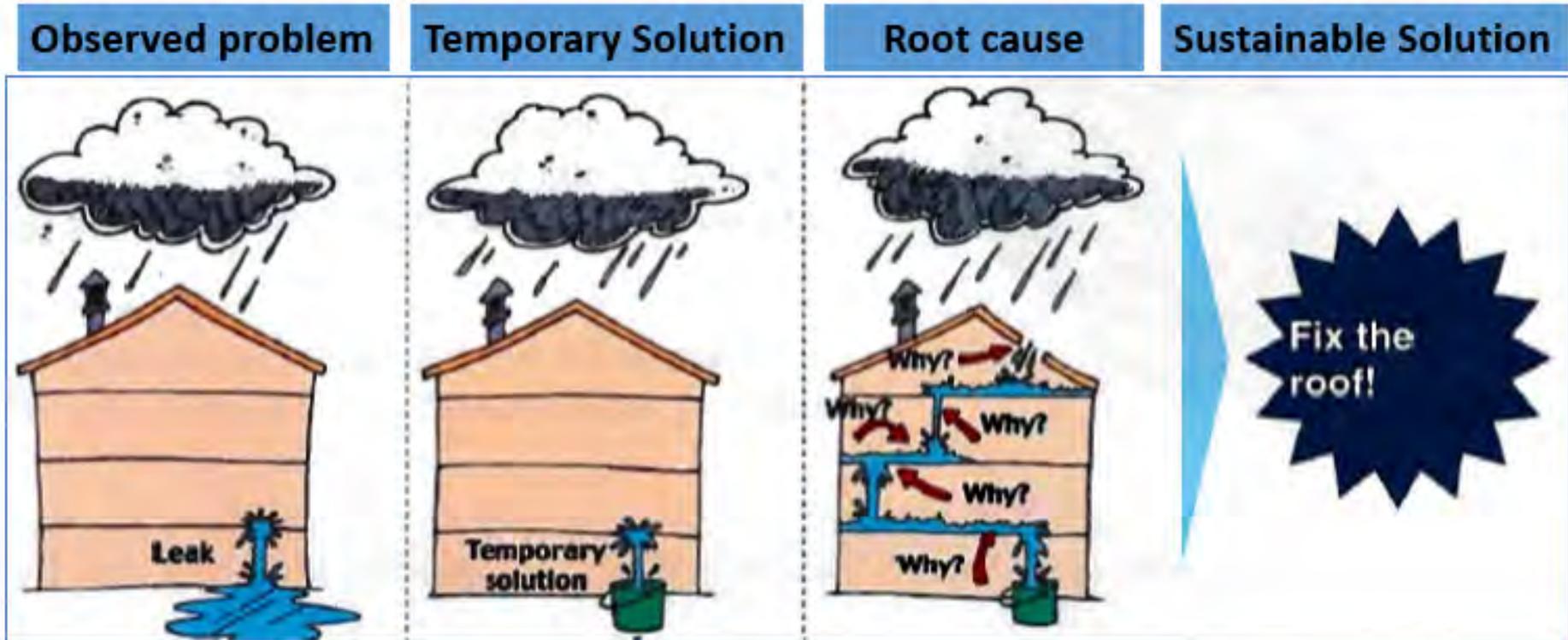
NY GovBuy



What is Lean?

- “Getting the right things, to the right place, at the right time, in the right quantity, while minimizing waste to create an organization where everyone from bottom to top works together every day to continuously improve how work is done for the customer and themselves.”
- Lean and Six Sigma originated in manufacturing but have evolved into a set of techniques that can be applied to any business process.

Organizations have a tendency to jump at temporary solutions to solve problems...Lean helps identify root causes and uses data to produce sustainable solutions with measurable outcomes.





Lean for Procurement

- Lean can help procurement and purchasing personnel provide optimal value to both internal and external customers
- Improve and streamline procurement processes and practices in order to:
 - increase efficiencies and performance
 - minimize transactions
 - eliminate wasteful activities
 - reduce total cost
 - satisfy stakeholders





All work activities can be classified as:

- Value adding – activities that contribute directly to the satisfaction of customers and successful outcomes
- Non-value adding – activities that do not directly contribute to either the satisfaction of customers or to successful outcomes
- Necessary non-value adding – activities that have to be done but do not directly contribute to the satisfaction of customers or successful outcomes

Use Lean tools and methods to identify and eliminate non-value adding activities



Does an activity or step add value?

1. The step transforms the item toward completion (something changes)
 2. The step is done right the first time (not a rework step)
 3. The customer cares (or would pay*) for the step to be done
- If an activity does not accomplish one of these three things, it does not add value and should be eliminated or reduced.

*or would not object to taxpayer money being spent





Lean Tools and Methods

- What are we doing now?
 - Value stream map
 - Voice of the customer
- Identifying waste
 - Eight kinds of waste
 - Five whys / root cause analysis
- How do we fix it?
 - Kaizen
 - Mistake proofing
 - Standardized work
 - Continuous flow (batches mean waiting!)





Eight Kinds of Waste “DOWNTIME”

Defects	Errors, rework of administrative processes, quality issues, lost paperwork
Overproduction	Paperwork in process, processing bottlenecks, large batches of paperwork
Waiting	Shortages of qualified personnel causing administrative delays, waiting for supplier responses, waiting for other departments, waiting for processing of purchase orders (Pos) and contracts
Not utilizing talent	Purchasing personnel spending too much time on administrative rather than strategic tasks
Transporting	Paperwork handling and transporting
Inventory excess	Ordering inventory or services early, shortages, filing cabinets full of paper, backlog of PO and contract requests
Motion waste	Exchange of contract paperwork between contracting agent, supplier, and/or other departments; walking, bending, searching (usually due to inefficient workflows)
Excess processing	Quotations, PO processing, order acknowledgements, invoicing, expediting, returns, signoffs, reviews. Can require additional personnel in Purchasing to process.



Lean 5 Why Example – The Jefferson Memorial



- The marble on the Jefferson Memorial in Washington, D.C. was deteriorating at an alarming rate.
- The team wanted to ask, “*What do we do?*” but first decided to ask a more basic question, “*Why?*”



Every 5 Why (root cause analysis) starts with the problem statement:

The marble at the Jefferson Memorial is deteriorating at an alarming rate. Why?

Then every answer becomes the next question...



Water and cleaning agents were being used more frequently than usual to keep the marble clean.
The team asked, “Why?”

and on...



There were a lot of birds hanging out at the monument, which means a lot of droppings left behind.
Again, the team asked, “Why?”

and on....



It just so happens that birds eat spiders and the monument had a lot of spiders hanging out too.
So, the team asked, “Why?”

and on...



Well, the spiders came for the abundance of insects that also found this to be a great hang out spot.
And again, the team asked, “Why?”



...until you identify a root cause.



The insects come for the lights!

The insects were attracted to the monument's high powered lights that turned on at dusk. The insects naturally swarm in the early evening and the light replicated their preferred, dusky mating conditions.

Solution:

Turn the lights on one hour later to prevent attracting swarming insects to the monument.



Best Practices & Lessons Learned

- Start with what you have
- Keep moving
- Representation, representation, representation!
- Keep it manageable – people and process
- Be prepared – data and supplies
- Leadership support and communication

Key Performance Indicators (KPIs)

#2019NYGovBuy  @NYSPRO  @nysprocurement



What is a Key Performance Indicator (KPI)?

“A measurable value that demonstrates how effectively an organization is achieving key business objectives”

- Metric + goal + strategy = KPI
- It's a measure of your performance that you then use to improve your performance
- Without goals or action, it's just reporting





Why measure performance this way?

- You can't fix problems you can't see and you can't celebrate victories you can't prove
- No organization is ever perfect. Seek constant improvement
- Use data to summarize, visualize, and expose patterns, trends, and issues

KPIs are central to an organizational performance management program and should be tied to strategic planning





Developing KPIs

- What should we measure? What can we measure now?
 - Do we already capture it? Where? Who owns the data?
 - What process or technology changes are needed to capture info we want but can't measure now?
- Why should we measure X? What does it tell us about our performance?
- What's the frequency and difficulty of collecting this data?
- What impact can we make if we know these things?
- For each metric, set a goal and develop a strategy for moving toward it.
- Establish SMART goals (Specific, Measurable, Achievable, Relevant, Time-bound)



Examples of Procurement KPIs

- Operations
 - Length of time to develop, solicit, and award a new contract (goal: reduce time to a standard target)
 - \$ and % of spending on contracts versus discretionary (goal: increase \$ and % of on-contract spend)
 - Issue resolution rate and/or time to resolution for vendor or customer concerns (goal: establish and meet a time and/or quality standard)
- Personnel
 - Employee satisfaction rate (goal: x% or better)
 - Employee experience with different kinds of solicitations/tasks (goal: experience with request for proposal (RFP), invitation for bid (IFB), and request for quote (RFQ) in standard timeframe)



More examples of Procurement KPIs

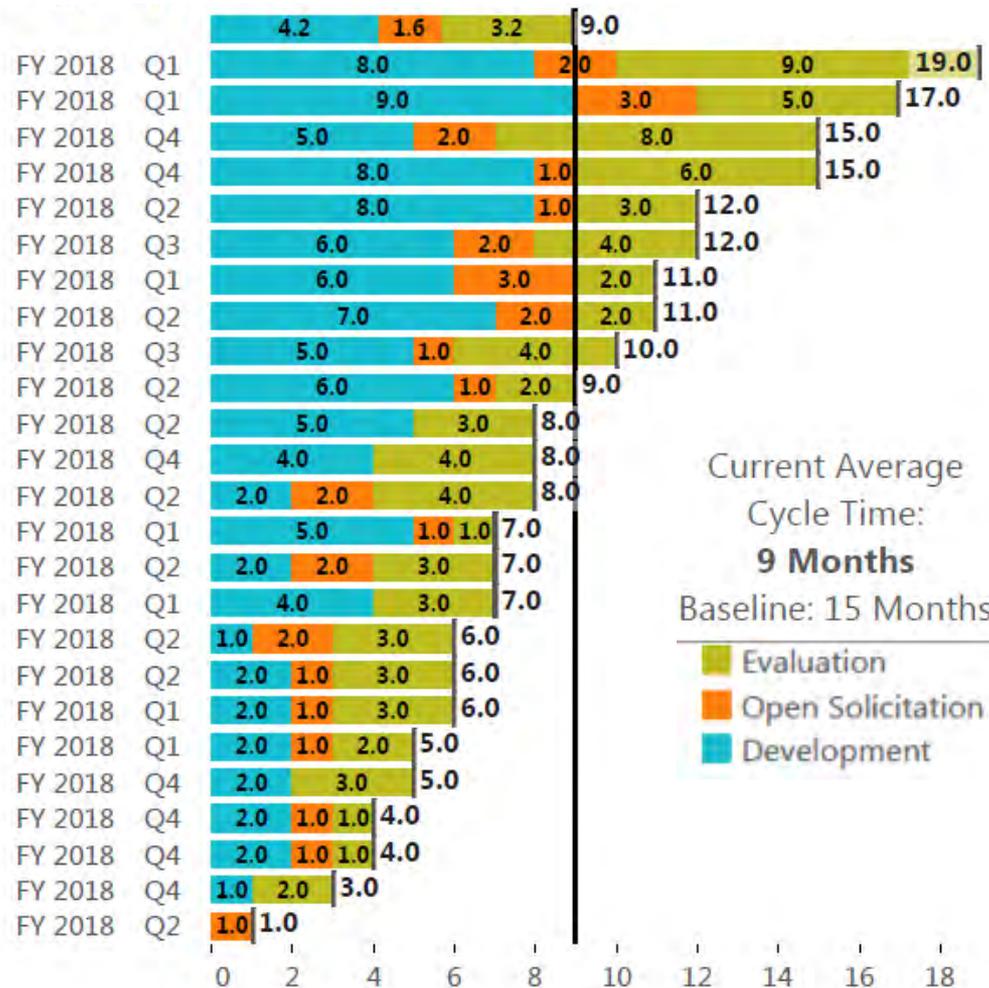
- % of spend with minority- or women-owned businesses (M/WBEs)
- Operational costs as % of contract portfolio value
- Purchase order time to completion
- Purchase order error / change rate
- Savings / cost avoidance
- Customer satisfaction rating
- Employee participation in professional associations
- % of transactions through eCommerce methods

Measure and track things that matter to you
and that can be impacted by your actions and strategy.



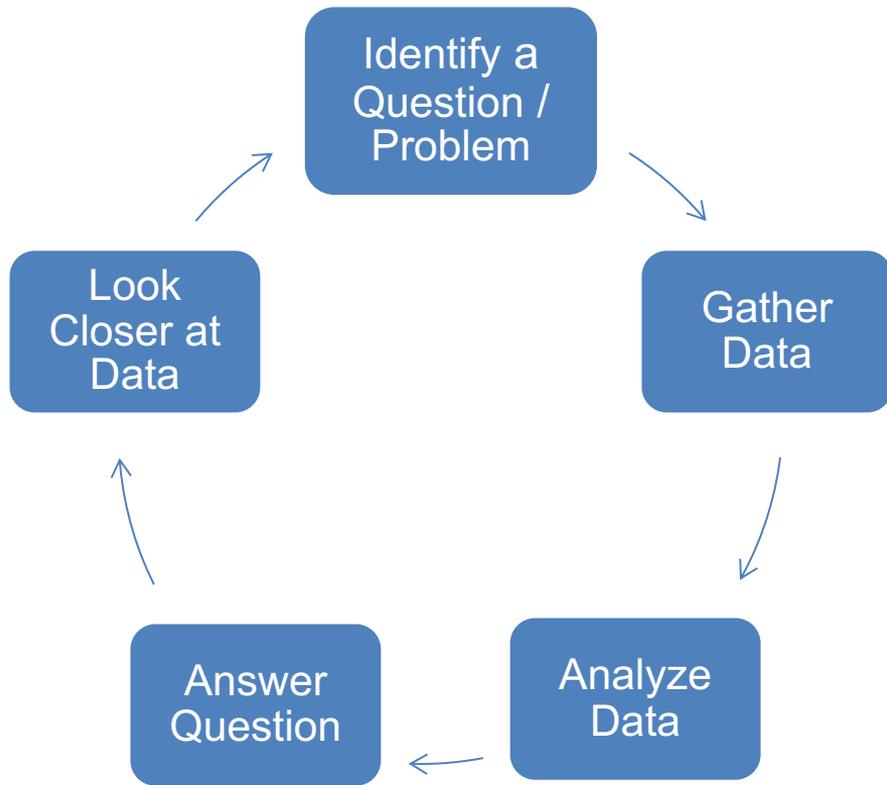
KPI Example

- Average cycle time for a centralized contract
 - Project initiation date
 - Bid release date
 - Bid opening date
 - Contract award date
- Reduced average time from project initiation to contract award from 15 months to 9 months in under 3 years





Using KPIs to Manage Performance



- Gather info and act on findings
- Always look for info you aren't expecting
- Be open to new questions and issues arising
- Adapt your performance management program to measure new things and set new goals

Achieving and Quantifying Savings

#2019NYGovBuy  @NYSPRO  @nysprocurement



NY GovBuy



What do we mean by “savings”?

- The benefit or value created in a procurement or purchase as a result of an action or strategic decision
 - Real dollar savings
 - Estimated value
 - Administrative savings
- Can be an indicator of the value procurement adds to the contracting process and creates for contract users and buyers
- Simple example: three quotes, lowest is \$1,000, negotiated for \$950. Savings = \$50.





What counts as savings?

- Any quantifiable benefit achieved, provided we did something to influence or generate the benefit
 - Price decrease
 - Discount increase
 - Cost avoidance
 - Value of a free inclusion (maintenance, service, etc.)
 - Total cost of ownership (upfront and long term costs)
 - Doing better than the market overall
- Actual savings vs. estimated savings



Strategies for achieving savings

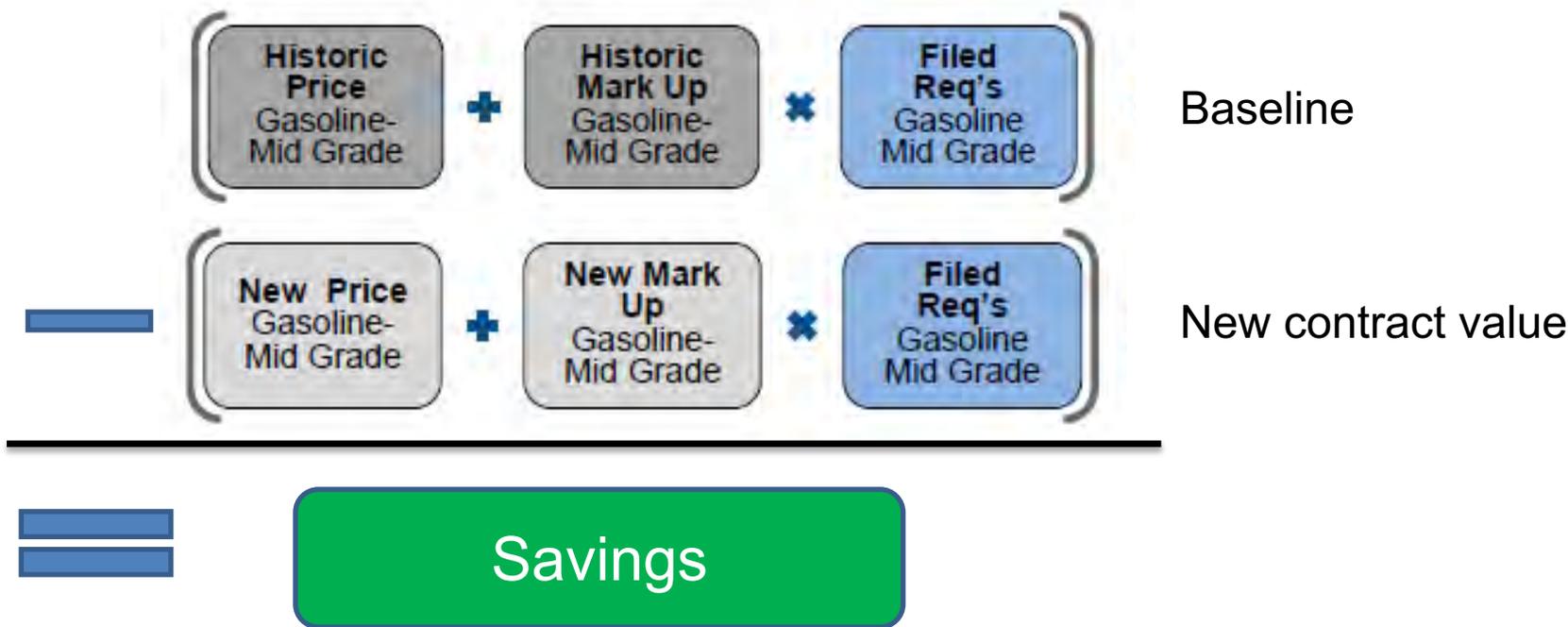
- We have a lot of goals and competing priorities in procurement and purchasing
- Not all goals necessarily lead to savings, but savings can be one of those goals
 - Develop scope, terms, solicitation method, and award methodology with savings in mind
 - Negotiate for better pricing or terms
 - Best and final offers (BAFOs)



Measuring savings

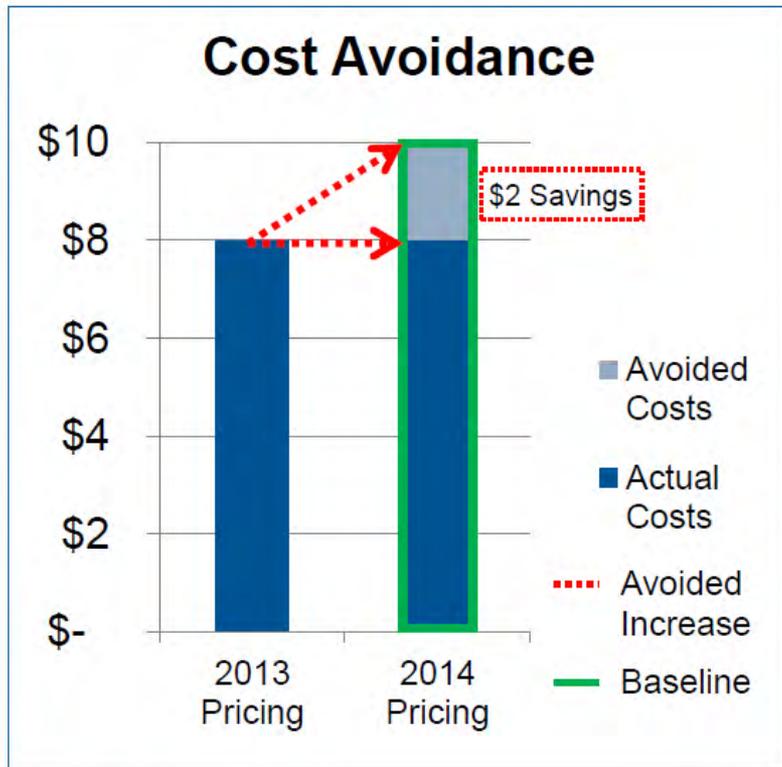
Actual spend	Old purchase volume at old prices (or discount, terms, etc).
Baseline estimate	New purchase volume at old prices <ul style="list-style-type: none">• What you would expect to pay going forward with no action for savings.<ul style="list-style-type: none">- Could be contract price- Could be standard discount- Could be what you paid on a previous purchase
New procurement	New purchase volume at new prices <ul style="list-style-type: none">• Can be estimated or actual
Savings	New procurement minus baseline estimate = savings

Example of a savings calculation





Cost avoidance as savings



- Cost avoidance occurs when savings are produced by avoiding an expense or a price increase that would otherwise occur
- In the event a procurement strategy avoids annual expenses or price increases built into a contract, the savings is equal to the expense or increase that was avoided
- Examples of cost avoidance savings are negotiating out a CPI adjustment or negotiating in free goods/services



Things we chose not to do in savings

- Count savings against manufacturer-suggested retail price (MSRP) or list price
 - We very rarely pay MSRP or list, so it isn't a fair baseline
 - Not to exceed rates: may or may not be good baseline
- Count savings we didn't impact
 - Ex: an easy winter left a lot of road salt inventory so salt prices went down the next year
- Compare against highest bid prices
 - High bid is not necessarily indicative of the market

Your mileage may vary.

Set your methodology and ground rules, then stick to them.

Other Measures of Success

#2019NYGovBuy  @NYSPRO  @nysprocurement



NY GovBuy



Other measures of success

- Savings is one outcome of a multi-faceted public procurement process and only one way of measuring success.
- Other measures of success may include:
 - Increasing vendor participation in contracts
 - Increasing M/WBE, SVDDB, and small business involvement
 - Increasing use of Preferred Source offerings
 - An effective internal controls program
 - A strong training and development program
 - Any metric or goal you believe is important



Measuring success in procurement

- Define what success means for you and your organization
- Examine what you do and how you do it
- Measure and quantify what you can
- Use data to identify problems and call attention to accomplishments
- Seek to make constant improvements



Resources, Wrap up, Q&A

#2019NYGovBuy  @NYSPRO  @nysprocurement



NY GovBuy



Resources

- We Don't Make Widgets: Overcoming the Myths That Keep Government from Radically Improving – Ken Miller
- How to Measure Anything: Finding the Value of Intangibles in Business – Douglas W. Hubbard
- www.BernardMarr.com (previously Advanced Performance Institute) – KPI articles and research
- NYS Lean Learning Day – June 7, 2019 (ESP)