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# Advanced Procurement Best Practices



May 2 & 3, 2018

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# Today's Speakers

**Sean Carroll** – NYS Chief Procurement Officer

**Karen Fowler** – Director, Information Technology and Telecom

**Jill McCabe** – Director, Miscellaneous Commodities and Services

**Erin Boyce** – Assistant Director, Data Analytics and Business Process



# Agenda

- I. AGILE
- II. LEAN
- III. Key Performance Indicators (KPIs)
- IV. Negotiation Techniques
- V. Risk Management

# Agile Procurement

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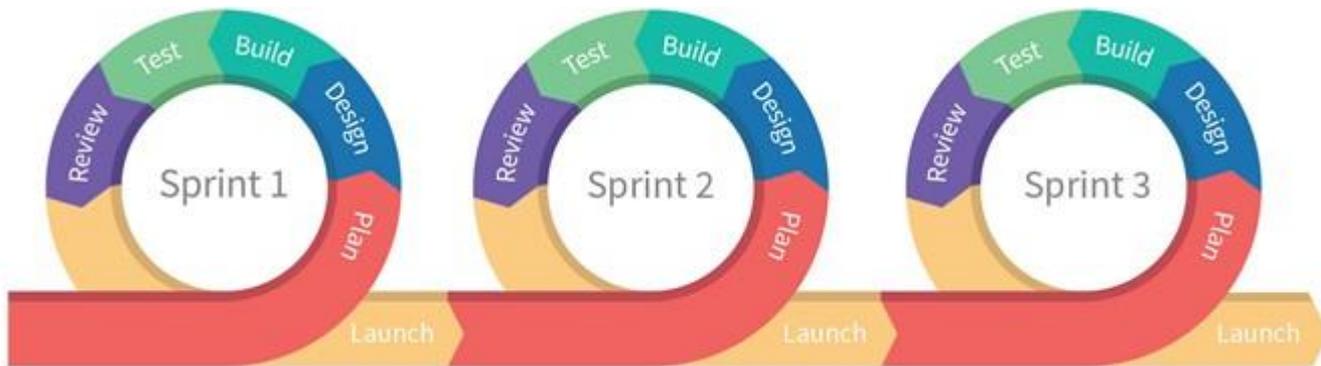
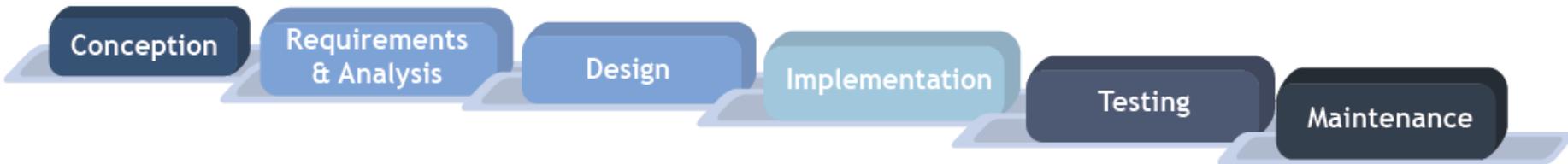
# What is Agile Procurement?

- An approach to procurement that is flexible, adaptable, collaborative, and results-driven
- Agility (def): ability to move quickly and easily
- Complex problems require agility
- Based on Agile project management methodology in IT
- Also known as Modular or Iterative Procurement

“Agile means less tell and more show. Fewer 200-page RFPs and proposals and more working prototypes.”

# Agile versus Waterfall

- Waterfall methodology is linear and directional
- Agile methodology is iterative and adaptive



# Priorities in Agile Procurement

- Collaboration over Contracts
  - Complex requirements cannot be fully identified at the beginning, so focus instead on continuous collaboration with suppliers to solve problems
- Individuals and Interactions over Processes
  - The process should be a means to an end, not the end in itself, so focus instead on the people and the communication between them
- Responding to Change over Following a Plan
  - Outcomes-based challenges give more flexibility than traditional requirements-driven procurements, where specificity prevents adaptation and innovation
- Working Solutions over Detailed Specifications
  - Instead of evaluating suppliers on their ability to write a proposal, focus on the strength and demonstration of their innovation, prototypes, or proofs of concept

# Benefits of an Agile Approach

- Traditional procurement processes take so long that by the time you got what you asked for, it's already out of date
- Adapt easily to evolving needs
- Fail quickly and recover quickly



# Using Agile Procurement in Government

- Use firm fixed-price contracts with monthly milestone payments or project milestone payments
- Don't design your own solution with your requirements
- Rely on technical demonstrations rather than prose
- Let the contract be the beginning of the relationship, not the end of the conversation





# Resources

- Emilio Franco – Professor of Public Sector Procurement at Algonquin College and the Director of Electronic Procurement at Public Services and Procurement Canada
- NASPO Modular Procurement – A Primer
- NASPO Agile Procurement in Practice (webinar)
- Agile in Government – Deloitte Center for Government Insights

# Lean Procurement

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# 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 to a set of techniques that can be applied to any business process.



# What is Lean Procurement?

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

# 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

- Value stream map
- Eight kinds of waste
- Five whys / root cause analysis
- Standardized work
- Mistake proofing
- Continuous flow (batches mean waiting!)
- Kaizen

# Eight Kinds of Waste “DOWNTIME”

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

# Key Performance Indicators (KPIs)

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# 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 and 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
- Establish SMART goals (Specific, Measurable, Achievable, Relevant, Time-bound)



# Developing KPIs

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



# Examples of Procurement KPIs

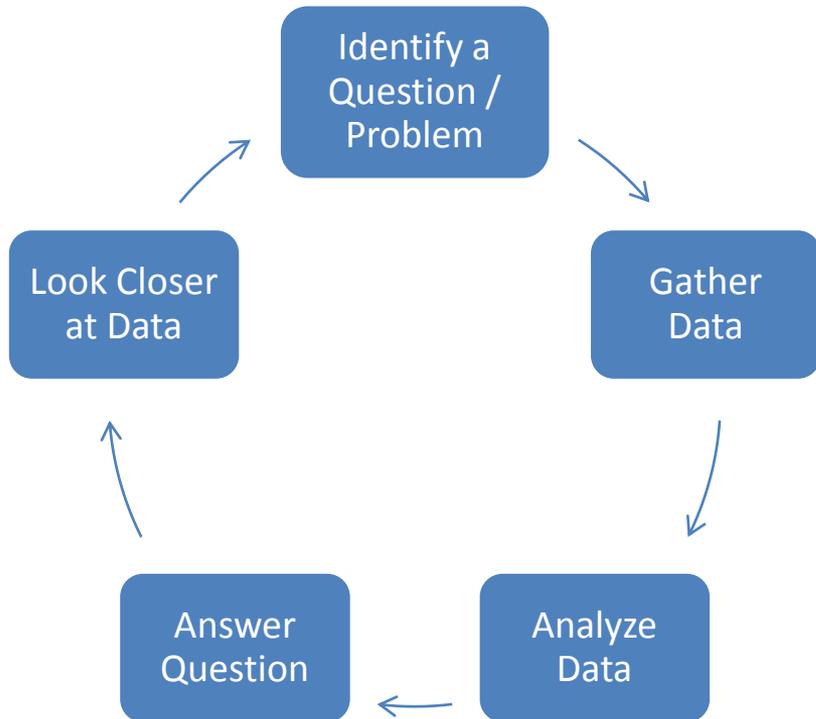
- Operations
  - Length of time to develop, solicit, and award a new contract (goal: reduce time to a standard target)
  - \$ and % of spending on contracts versus discretionary (goal: increase % of on-contract spend)
  - Issue resolution rate and/or time to resolution for vendor or customer concerns (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 RFP, IFB, and RFQ in standard timeframe)

# More examples of Procurement KPIs

- % of spend with 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.

# 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



# 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](http://www.BernardMarr.com) (previously Advanced Performance Institute) – articles and research

# Negotiation Techniques

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# What is Negotiation?

- Negotiate means “to confer with another so as to arrive at the settlement of the some matter.”
- In procurement, negotiation is arriving at settlements between buyers and sellers through binding contracts.
- Negotiation is a core competency and key element in the procurement process.
- Negotiation can clarify price, terms and conditions, quality, performance or other aspect of the contract.

# Negotiation in Public Procurement

- Negotiation brings value to the procurement process and government entity.
- Properly used negotiation techniques contribute to best value solutions while supporting the need for a lean, cost-savings government.
- Negotiation allows government entities more flexibility than traditional sealed bids. They can take other factors into account.



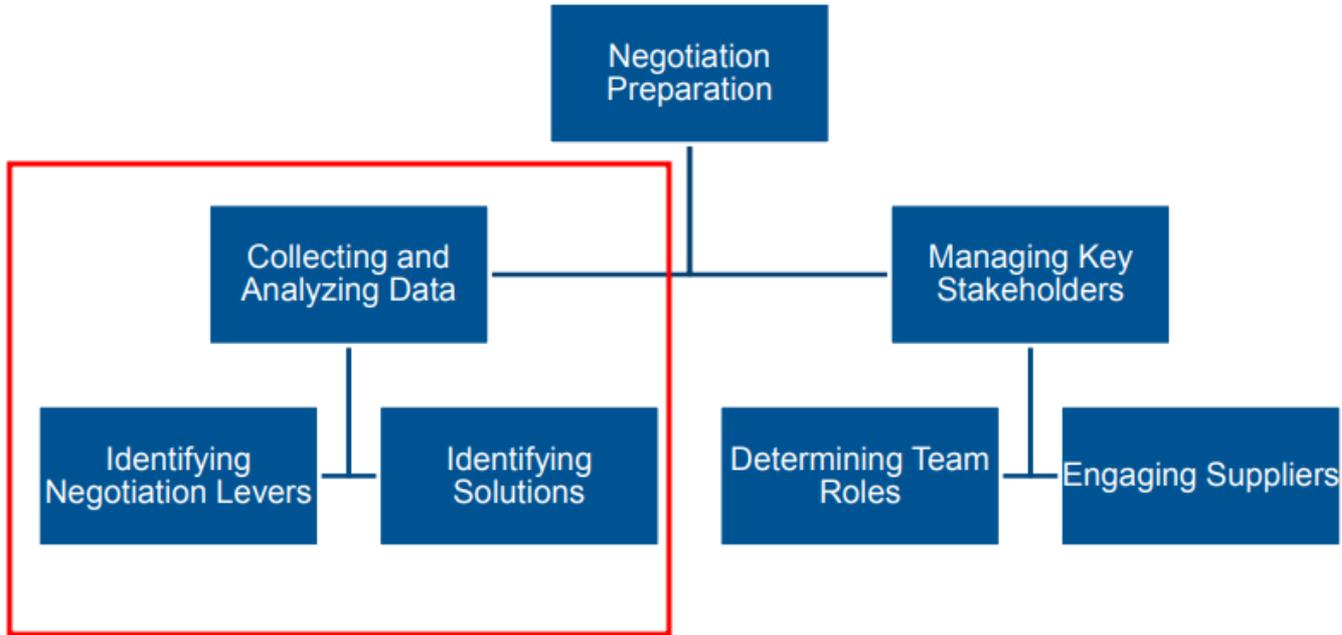
# Benefits of Negotiation

- Can realize best value
- Can achieve savings
- Great opportunity to identify issues and solutions before final contract signing
  - Avoids delays
  - Avoids/limits future amendments
  - Avoids potential need for additional funding
- Positive negotiation sets the stage for collaboration during the contract period





*To prepare for a successful negotiation there are two primary inputs: collecting and analyzing data and managing stakeholder involvement.*





# Preparing for Negotiation – Collecting & Analyzing Data

- Have the data and facts needed to be educated during the negotiation process, e.g.,
  - How much does your government entity spend?
  - Who are they spending it with?
  - Who are the Authorized Users?
- Do some benchmarking and market analysis around your contract, e.g.,
  - Are peer states or other NYS entities receiving better pricing, terms and/or conditions?
- Developing and presenting recommendations
  - What are the options?
  - What is the recommended strategy?
- Develop some savings calculations
  - What is the historical cost for the good or service?
  - What are the estimated savings ranges for a category?



# Preparing for Negotiation – Identifying Negotiation Levers

- Negotiation Levers are key findings that support the Authorized User's position
- Negotiation Levers are usually determined based on information gathered
- Example negotiation levers:
  - Potential for increased volume (if the supplier does not have all of the existing business)
  - Results of peer state and agency benchmarking (if another state or government entity is receiving better pricing)
  - Competitors offering a similar product or service and the ability to show Authorized Users can obtain these services and/or goods from another supplier

*The intent is to deliver a message that compels the supplier to provide you with better pricing, better terms and/or better conditions*



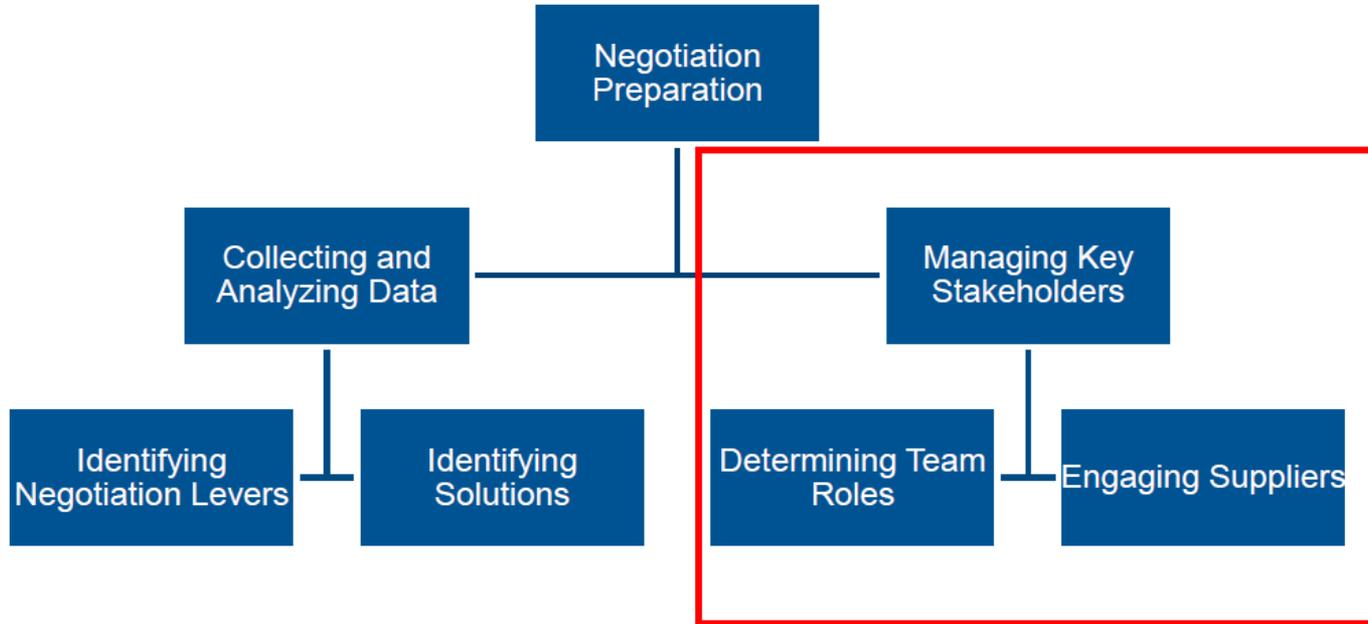


# Preparing for Negotiation – Identifying Solutions

- What outcome are you looking for?
- What approach will be used to meet the goals?
- What are the potential supplier counter arguments? (e.g., We are already giving you a great deal, We'll go out of business, Our legal department will never approve it.)
- Do you have proposed responses to the supplier's counter arguments?
- What concessions are you willing to make?
- What are your Go/No-Go items?
- What is your timing/schedule to complete the negotiations?



*The next component of negotiation preparation involves managing key stakeholders.*





# Preparing for Negotiation – Determining Team Roles

- **Meeting Facilitator**
  - Manages primary discussions with the Supplier
- **Stakeholder(s)**
  - Provides subject matter expertise
  - Offers guidance and insight into your government entity's use
  - May provide insight into past supplier experiences
- **Support Staff**
  - Assists in coordinating and documenting meetings
  - May provide background data and information
- **Legal**
  - Provides legal support and guidance

***Defining participants' roles is essential to effectively communicate your entity's position.***



# Preparing for Negotiation – Engaging Suppliers

## Supplier Representatives

- Usually are those with relationships with your governmental entity
- Represents the supplier's position
- May include legal representation
- Serve as a decision-maker that is able to enforce and agree to terms in negotiations



# General Rules

- Be prepared and have a plan.
- Use good-faith bargaining; both sides come to the table with positive attitudes.
- Be sincere and realistic in your back and forth.
- Be persuasive. Don't be afraid to put pressure on the supplier.
- Be respectful.
- Listen to the supplier's side.
- Work to get to agreement, not win arguments.
- Be honest and avoid deceptive techniques.
- If you're stuck on one issue, move to the next and come back to it.
- If you make concessions, you should get something in return.
- **Be patient.**

# Potential Roadblocks or Issues

- **Suppliers may find a way to negotiate directly with Internal and External Stakeholders**
  - Ensure you are speaking with one voice.
  - Preparation is key to ensure everyone is on the same page.
- **Can't get past "no"**
  - A supplier may first respond with a "no" or not initially propose the best offer. It's important to find out why.
  - Who is saying no?
  - Why are they saying no?
- **Lack of understanding of the contract terms and conditions**
  - Do they understand what the ask is?
- **Slow Negotiations**
  - Concerned that lengthy negotiations will negatively impact their contract timeline.
  - Time is always an issue.



# Additional Tips

- It's important to know when to walk away.
- Recognize suppliers may attempt to sidetrack negotiations (e.g., introduce other topics) in an attempt to avoid discussions about cost reductions.
- Suppliers may think you will give in due to inherent risks with funding, timelines for approval or budget issues.
- It's okay to stop the negotiations if you are not progressing.
- Suppliers may have a negative perception of the purpose for negotiations.
- Suppliers prepare, and are often trained for, negotiations with their customers. You should do the same.
- Stay on message and observe the time allotted for each negotiation meeting.
- Keep your leadership informed and bring them in as needed.

# Risk Management

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# What is Risk?

- In general, risk is the possibility that an event will occur and adversely affect the achievement of objective.
- Procurement risk involves both strategic and operational components and requires involvement with a broad range of stakeholders.
- Risk identification and management is relevant throughout the procurement development cycle; from development to contract management.



# Risk Management

- Risk management is the approach to assessing and addressing all risks that threaten the achievement of an organization's goals; this includes the procurement.
- Part of this is to understand, prioritize and develop plans to mitigate the risks.
- An example of large risk management would be disaster preparedness. By being prepared, you minimize the risks that occur during a disaster.
- Includes Risk Identification, Risk Assessment, Risk Response and Risk Monitoring.





# Benefits of Effective Risk Management

- Greater confidence in your procurement (i.e., market, suppliers, schedule, etc.)
- Better control of uncertainty
- Reduced impact of risk
- Improved decision making
- Realistic estimates
- Stronger team communication
- Lower probability of a failed procurement



# Risk Identification

- Risks can be Internal, such as personnel, process and technology
- Risks can be external, such as market conditions, political or technological
- Procurement risks can include:
  - **Technical risk** – incomplete, vague or unclear specifications
  - **Schedule risk** – short timeframe
  - **Cost Risk** – limited by a budget
  - **Proposal risk** – approach proposed by the contractor; unrealistic delivery of services or performance schedules
  - **Contract risk** – terms and conditions
  - **Supplier risk** – lack of experience or personnel by the supplier



# Risk Assessment

The analysis of risk assessment requires two estimates:

- The **likelihood** of the risk occurring:
  - Low = Rare chance for event occurrence
  - Medium = Event may occur
  - High = Almost certain the event will occur
- The **impact** of the risk occurring to the project/procurement
  - Low = May affect
  - Medium = Possibly affect
  - High = Almost certain the event will affect

Then a risk factor is assigned to each event: **Low, Medium or High.**





# Risk Assessment

- A simple 3x3 Risk matrix can assist with organizing the risks.
- There are numerous risk models and matrices available. Choose the one that best suits your procurement, e.g., construction.

<b>IMPACT</b>	High	Medium	High	High
	Medium	Low	Medium	High
	Low	Low	Low	Medium
		Low	Medium	High
		<b>LIKELIHOOD</b>		

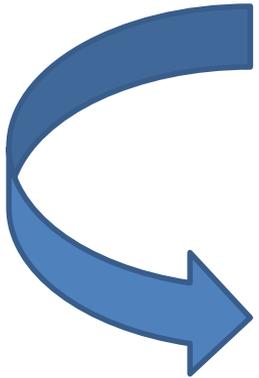
- A matrix can help set priorities for your risks.
- Complex projects may require additional risk-management modeling.





# Risk Template

A template can be helpful in identifying a procurement's risks.



Risks	Risk Assessment		Risk Identification
	<i>Likelihood of Happening (Low, Medium, High)</i>	<i>Impact if Event Occurred (Low, Medium, High)</i>	<i>Low, Medium, High</i>
Bad Specifications	High	High	High
Short Timeline	Medium	High	High
Legislative changes	Low	High	Medium
Vendor selected - lack of experience	Medium	High	High



# Risk Mitigation

- There are four general categories of risk response:
  - Avoidance
  - Reduction/Control Sharing
  - Sharing
  - Acceptance
- The contract involves some amount of sharing or transferring of risk.
- Standard terms and conditions usually represent the entity's approach to dealing with certain risks.
- In some cases risk management can be quantified, e.g., purchase of certain insurance or bonds.
- Suppliers sometimes propose risk management considerations in their proposals, and government entity's can evaluate and negotiate if they find beneficial.



# Risk Template

After identifying the risks, you can add the risk mitigation strategies to your template.



Risks	Risk Assessment		Risk Identification  <i>Low, Medium, High</i>	Risk Mitigation Strategy  <i>i.e., Avoid, Reduction, Share or Accept</i>
	<i>Likelihood of Happening (Low, Medium, High)</i>	<i>Impact if Event Occurred (Low, Medium, High)</i>		
Bad Specifications	High	High	High	Avoid or reduce through research and terms and conditions
Short Timeline	Medium	High	High	May have to accept and manage through effective project management
Legislative changes	Low	High	Medium	Accept risk
Vendor selected - lack of experience	Medium	High	High	Avoid - research the market, Reduce - good terms and conditions, and good project planning



# Risk Monitoring

- Effective contract management is the most important element of risk monitoring.
- With projects (e.g., IT project), careful monitoring of the project schedule through status reports, resolution plan of contract issues, routine meetings, etc., can manage and minimize risks.
- Good communication between the supplier(s) and authorized users of the contract can minimize risk.
- Risks can change and/or be added throughout a contract, e.g., Natural Disaster may cause a reduction of availability of goods, or delivery issues.
- May identify that an amendment in the contract is needed to manage risk(s).



# Conclusion

- Risk management is key to preserving the integrity of your procurement.
- Identifying, Assessing, Responding and Monitoring risks are key to managing a successful procurement.
- There are tools for identifying risks in a procurement.
- Effective contract management can continue to minimize and manage risks after the contract is signed.

# Resources

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# Resources

- [New York State Procurement Guidelines](#)
- [Request For Proposal Basics – The Road To Success](#) (OSC)
- [Dispute Resolution Policy](#) (OGS)
- [How to Protest a Contract Award](#)
- [Test Your Request For Proposal Knowledge](#) (OSC Training)
- [The Request For Proposal Handbook](#) – Michael Asner

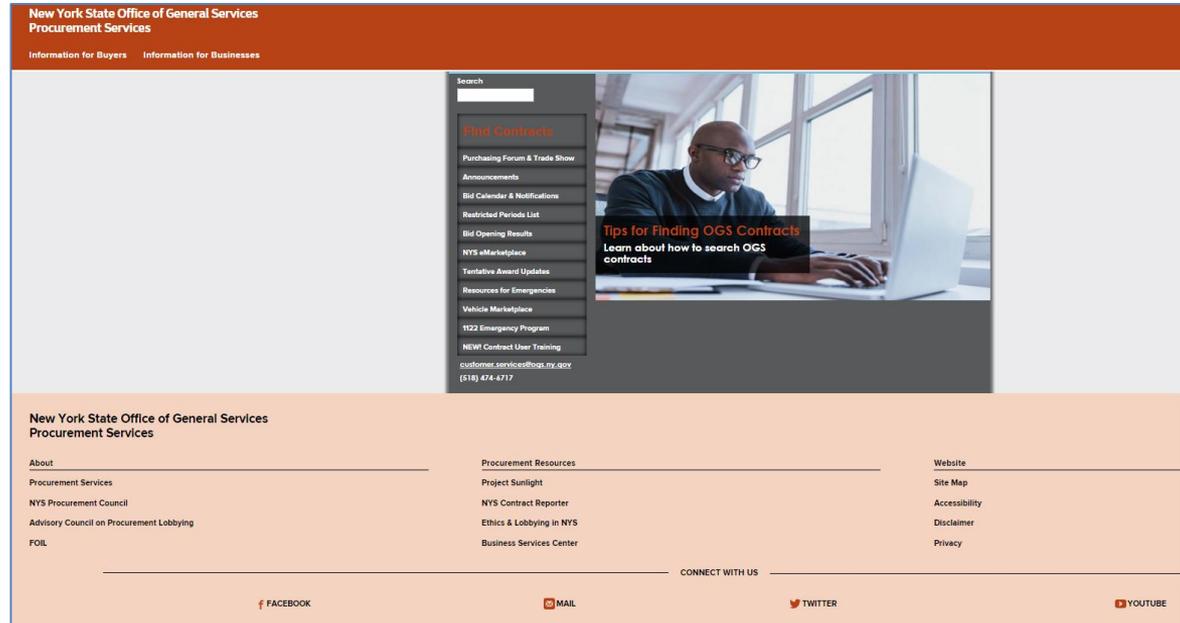
# Procurement Services Website

## Where to find it:

- [www.ogs.ny.gov](http://www.ogs.ny.gov)
- [www.nyspro.ogs.ny.gov](http://www.nyspro.ogs.ny.gov)

## What it offers:

- Information for buyers
- Information for businesses
- Contracts portal
- Contact information
- Links to other websites





# We are here to help!

Contact us today

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Make sure to check out our website at [www.nyspro.ogs.ny.gov](http://www.nyspro.ogs.ny.gov)!



# Questions

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