Procurement Presentation

**Charge:** Review options for reducing cost and increasing purchasing leverage via consolidation at one campus.

**Goal:** Reduce administrative cost by 20%. Implement continuous process improvement in order to reduce costs on an ongoing basis.

August 17, 2016

Team Members

- Debu Misra
- Stacey Lucason
- Monique Musick
- Kari Burrell
- John Hebard
- Mary Beth Cangello-Overturf
- Jim Lynch
- Jenny Campbell
Key Stakeholders

- Vendors
- End Users (Board of Regents to Students)
- Procurement Staff
- Unit Purchasers (PTs and/or Pro Card Users)

Options

- 1 – Centralized office (UAF) with second office (UAA) and use of Procurement Field Technicians
- 2 – Full Centralization
- 3 – Enhance Status Quo with Procurement Council and Dedicated Chief Procurement Officer
- 4 – Maintain Status Quo (baseline)
Further Analysis Needed

- What physical location(s) is most effective for a central procurement structure for full Centralization (Option 2)?
- Define reporting structure and level of autonomy (single or matrix reporting) for full Centralization (Option 2).
- How do you operationalize the Procurement Council (who is on it? How do you include and collaborate with university leadership) (Option 3)?
- How the Chief Procurement Officer position will be structured (Option 3)?

Option 1 – Centralized office (UAF) with second office (UAA) and use of Procurement Field Technicians

A central procurement office with a second semi-autonomous procurement office. All MAUs (major academic units plus statewide) will be populated with procurement field technicians with limited authority. Offices maintain their own budgets, campus reporting structures, and staff management and work assignment responsibilities. Central office will continue to assume the major procurement duties for UAS and Statewide, and will take on standardization and strategic responsibilities. Implementation timeline: Anticipate at least one year to fully implement with another year before savings become apparent. CPO duties can be moved immediately.
Centralized office (UAF) with second office (UAA) and use of PFTs - Key Change Elements

- Development of system-wide strategic sourcing goals, and standardization of procurement forms and practices, update of procurement policies and manual.
- Procurement technicians at all campus locations.
- Investigate E-Procurement system.
- Dedicated Chief Procurement Officer

Pros and Cons of Option 1

Pros

- Best combination of taking advantage of specialization, consolidation, economies of scale, and responsiveness to user community.
- Increased collaboration between campus procurement offices.
- Consistent use of Procurement Field Technicians.
- Creates less disruption for users.

Cons

- May not achieve the goals for immediate cost savings.
Option 2 – Full Centralization

A central procurement structure encompassing system wide procurement activities with centralized ProCards administration. Implementation timeline: Anticipate at least two years to fully implement with another year before savings become apparent. CPO duties can be moved immediately. One year to train procurement field technicians, and two years for staff realignment.

Full Centralization - Key Change Elements

- Development of system-wide strategic sourcing goals, and standardization of procurement forms and practices, update of procurement policies and manual.
- Centralized contracting and solicitation processes.
- Procurement technicians at all campus locations.
- Investigate E-Procurement system.
- Dedicated Chief Procurement Officer.
- Single or matrix reporting structure (further analysis needed).
Pros and Cons of Option 2

Pros

- Potential for simplified management of continuous process improvement.
- Cross coverage training could be provided to eliminate a single source of failure.

Cons

- Largest potential to lose trained people.
- Procurement processes may be impacted due to lack of familiarity with physical and operational uniqueness.
- Most difficult and time consuming to implement successfully.

Option 3 – Enhance Status Quo with Procurement Council and Dedicated Chief Procurement Officer

Procurement offices at each campus with a procurement council created for the purpose of establishing priorities, seeking process improvement, and influencing cultural changes.
Option 4 – Maintain Status Quo (baseline)

Autonomous procurement offices at each campus (UAF/UAA/UAS) with Chief Procurement Officer at Statewide. CPO duties are a small portion of Associate Vice President for Finance’s full time responsibilities. Levels and processes of decentralization vary from campus to campus (i.e. procurement techs, extended campuses).

Q&A
Procurement Report

**Charge:** Review options for reducing cost and increasing purchasing leverage via consolidation at one campus.

**Goal:** Reduce administrative cost by 20%. Implement continuous process improvement in order to reduce costs on an ongoing basis.

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- Vendors
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Options

- 1 – Centralized office (UAF) with second office (UAA) and use of Procurement Field Technicians
- 2 – Full Centralization
- 3 – Enhance Status Quo with Procurement Council and Dedicated Chief Procurement Officer
- 4 – Maintain Status Quo (baseline)
Option 1 – Centralized office (UAF) with second office (UAA) and use of Procurement Field Technicians

A central procurement office with a second semi-autonomous procurement office. All MAUs (major academic units plus statewide) will be populated with procurement field technicians with limited authority. Offices maintain their own budgets, campus reporting structures, and staff management and work assignment responsibilities. Central office will continue to assume the major procurement duties for UAS and Statewide, and will take on standardization and strategic responsibilities. Implementation timeline: Anticipate at least one year to fully implement with another year before savings become apparent. CPO duties can be moved immediately.

Centralized office (UAF) with second office (UAA) and use of PFTs - Key Change Elements

- Program changes include development of system-wide strategic sourcing goals, and standardization of procurement forms and practices, update of procurement policies and manual.
- Staffing changes include having procurement technicians at all campus locations. Consolidation of procurement functions at the office located near where the products or services are most likely to be used. Identify and utilize procurement officer’s expertise on behalf of the system (thematic purchasing). Cross coverage of ProCard administration to eliminate single points of failure. Potential for future central procurement staff savings once the procurement technician program is implemented system-wide.
- E-Procurement system to fully automate processes, including solicitation and contract development. Optimize available spend analysis for additional savings and continual process improvement.
- Chief Procurement Officer to be located at the central office, responsible for system-wide policies, standardization of forms and policies where appropriate, establishing continuing process improvement goals in conjunction with campus offices, setting strategic sourcing goals for the system. Common electronic records repository for purchase orders, solicitations and contracts.
- Front-end investment would include training of procurement technicians. Purchase and implementation of an E-Procurement system, if affordable. Continued use of a data gathering and analysis tool if not.
Pros and Cons of Option 1

Pros

- Best combination of taking advantage of specialization, consolidation, economies of scale, and responsiveness to user community.
- More consistency across the system.
- Allows for flexibility of the location of specialists near vendors or users
- Streamlines processes.
- Consistent use of Procurement Field Technicians.
- Common forms and documents.
- With Procurement Field Technician’s across state, service should improve and increase efficiency (time and money).

Cons

- Loss of autonomy for some.
- Without increased, consistent communication, benefits will not be realized.
- Time and negotiation required to define the risk tolerance levels for all MAUs.
- Puts more work onto college/dept/unit staff (Procurement Field Technicians).
- Requires monitoring of Procurement Field Technicians work product and results.
- Will require regular training program to refresh and update skills for Procurement Field Technicians.

Pros and Cons of Option 1

More Pros

- Relieves Procurement staff of transactional, low dollar, low value workload, where less value is added.
- Gives user departments greater sense of control
- Good source for skilled labor moving into procurement career path.
- System-wide vision for strategic sourcing and thematic purchasing.
- Potential to achieve some admin costs savings and staff time efficiency for strategic sourcing.
- Increased departmental transparency and accountability for procurement activity with Procurement Field Technicians.

More Cons

- May not achieve the UA Strategic Pathways goals for immediate cost savings.
- Potential for adversely impacting political/legislative support because this change is not dramatic.
Pros and Cons of Option 1

More Pros

- Would allow central office to work on system-wide contracts to save money (economies of scale)
- Substantial interest in Procurement Field Technician and potential for career advancement.
- No disruption in and potential to improve vendor relations.
- Maintaining campus connection and relationships between procurement and clients (departments and vendors) locally.
- Relatively easy to implement successfully.
- Responsive to legislative calls for administrative consolidation.

More Pros

- Benefits from dedicated Chief Procurement Officer.
- Potential for simplified management of continuous process improvement.

Option 2 – Full Centralization

A central procurement structure encompassing system wide procurement activities with centralized ProCards administration. Implementation timeline: Anticipate at least two year to fully implement with another year before savings become apparent. CPO duties can be moved immediately. One year to train procurement field technicians, and two years for staff realignment.
Full Centralization - Key Change Elements

- Program changes include development of system-wide strategic sourcing goals, and standardization of procurement forms and practices, update of procurement policies and manual. Centralized contracting, competitive solicitations, and delegation of authority. Procurement Field Techs utilized system wide.
- Staffing changes include having single or matrix reporting structure for procurement staffing. Assessment of staff skills to be done.
- E-Procurement system to fully automate processes, including solicitation and contract development. Optimize available spend analysis for additional savings and continual process improvement.
- Realignment of administration function: Chief Procurement Officer in central procurement office responsible for system-wide policies, standardization of forms and policies where appropriate, establishing continuing process improvement goals in conjunction with campus offices, setting strategic sourcing goals for the system. Examination of procurement administration to include requisition assignment and distribution, backup collection, new vendor setup, management of electronic purchase order, solicitation, and contract files to look for process efficiencies.
- Front-end investment would include purchase and implementation of an E-Procurement system. Resources needed to realign and training staff and admin at procurement. Training of Procurement Technicians.

Pros and Cons of Option 2

Pros

- Potential administrative cost savings.
- Procurement staff cross training and professional development/career path opportunities increase.
- Appears to be the most in line with significant consolidation asked for by the legislature.
- More potential for cost reduction (deeper discounted purchases).
- Standardization and consistency with processes, forms, electronic/technology enhancements (saving time and money, and increasing vendor satisfaction).

Cons

- Potential degradation of service level for those distant from procurement leadership, if applicable (internal and external).
- Reduced ability to provide essential local instruction and assistance (if procurement structure is in a single location).
- Loss of autonomy for some.
- Purchases may take longer if staffing levels are reduced.
- Loss of face time particularly harmful in dealing with resolving conflict between procurement services staff and clients and/or vendors (if procurement structure is in a single location).
Pros and Cons of Option 2

More Pros

- System-wide vision for strategic sourcing and thematic purchasing.
- Maximum potential to achieve some admin costs savings and staff time efficiency for strategic sourcing.
- Cross coverage training could be provided to eliminate a single source of failure.
- Benefits from dedicated Chief Procurement Officer.
- Clarity of common training and utilization of Procurement Field Technicians.
- Potential for simplified management of continuous process improvement.

More Cons

- Procurement processes may slow down due to lack of familiarity with physical and operational uniqueness of each campus as impacts procurement (most impact of options).
- Perceived to be more expensive and difficult for vendors to develop a relationship with Procurement Office (if procurement structure is in a single location).
- Adapting to change requires internal support, time, and patience to enact a cultural shift (cost).
- Largest potential to lose trained people and generate internal conflict (strained relationships).

More Cons

- Most difficult and time consuming to implement successfully.
- Most complex to communicate to clients (vendors and departments).
- Price of an E-Procurement system may offset any short term cost savings.
Option 3 – Enhance Status Quo with Procurement Council and Dedicated Chief Procurement Officer

Procurement offices at each campus with a procurement council created for the purpose of establishing priorities, seeking process improvement, and influencing cultural changes.

Enhance Status Quo with PC and CPO - Key Change Elements

- Each campus would continue to operate its own procurement office. A procurement council would advise on improvements, efficiencies and priorities for all.
- Staffing changes would be minimal; budget driven.
- E-Procurement system to fully automate processes, including solicitation and contract development. Optimize available spend analysis for additional savings and continual process improvement.
- Chief Procurement Officer, location to be determined, responsible for system-wide policies, standardization of forms and policies where appropriate, establishing continuing process improvement goals in conjunction with campus offices, setting strategic sourcing goals for the system.
- Procurement Council advising Chief Procurement Officer and other university leadership.
- Front-end investment would include purchase and implementation of an E-Procurement system. Resources needed to establish a Procurement Council and define, assess, and fund the CPO capacity.
Pros and Cons of Option 3

Pros

- Increased quality, coordination, and cooperation across MAUs (compared to status quo).
- Gives procurement officials and university leadership the opportunity to participate in the decision making process (Procurement Council).
- Improved consistency across systems to reduce costs and increase efficiency.
- Benefits from dedicated Chief Procurement Officer.
- Retain knowledge and skills of current staff with local relationships.

Cons

- Reduced opportunity for continued process improvement due to decentralized procurement staff; greater than status quo.
- More transactional and less strategic due to demands on the time of the current procurement staff.
- Requires engaged procurement council members.
- Few opportunities for immediate cost savings.
- Least appearance of meeting legislative expectations; greater than status quo.

More Pros

- Proactive and strategic participation with university leadership.
- Retained autonomy for Procurement Offices.
- Minimal time to successful implementation.
- Most able to enact cultural shift without resistance to change.
Option 4 – Maintain Status Quo (baseline)

Autonomous procurement offices at each campus (UAF/UAA/UAS) with Chief Procurement Officer at Statewide. CPO duties are a small portion of Associate Vice President for Finance’s full time responsibilities. Levels and processes of decentralization vary from campus to campus (i.e. procurement techs, extended campuses).

Maintain Status Quo - Key Change Elements

- Each campus would continue to operate its own procurement offices. No changes to current practices.
- No change to staffing. After 3 years of reductions further staffing changes are not possible with this model.
- Use of facilities and technology is the same as current.
- Chief Procurement Officer stays at system office. Currently a part time job. No resources are available to perform the policy and manual updates, conduct system-wide training, focus on continuous process improvement, or strategic sourcing opportunities. No known succession plan for Chief Procurement Officer responsibilities within Statewide administration.
- No front-end investment.
Pros and Cons of Option 4

Pros

- No change required.
- No loss of autonomy.
- Systems already in place, no downtime to implement.
- No retraining of purchasers required.
- Status quo is getting the job done despite reduced resources in recent years.
- No change for clients—they feel they have direct contact with local office.
- Does not prevent increased collaboration.

Cons

- Unable to take maximum advantage of specialization, economies of scale and strategic sourcing opportunities.
- Results in inconsistent practices across the system.
- No opportunity for administrative savings.
- Reduced opportunity for continued process improvement due to decentralized Procurement staff.
- No capacity to undertake strategic initiatives or long term improvements.
- Does not meet legislative reduction mandates.

Pros and Cons of Option 4

More Cons

- Least in line with the charge and goals of UA Strategic Pathways.
- Does not have dedicated Chief Procurement Officer.
Further Analysis Needed

- What physical location(s) is most effective for a central procurement structure for full Centralization (Option 2)?
- Define reporting structure and level of autonomy (single or matrix reporting) for full Centralization (Option 2).
- How do you operationalize the Procurement Council (who is on it? How do you include and collaborate with university leadership) (Option 3)?
- How the Chief Procurement Officer position will be structured (Option 3)?

Addendums

- Procurement Group Common Definitions
At our previous meeting, we did not quite settle on the definitions of our options and tended to blend in features like a “procurement council” and “thematic purchasing” that may be desirable or not, but can be part of most any basic structure. This makes it difficult to identity the pros and cons of the various options that we discussed.

It may be helpful to use the following common terminology and descriptions.

Procurement Office – Autonomous office(s) that operates independently within the constraints of a central policy and procedures and determinations of the Chief Procurement Officer (CPO);

Procurement Field Technician (PFT) – A procurement representative collocated with the user community that may report to a Procurement Office or a user department but gets its authority to purchase and level of autonomy through the procurement office management chain;

Procurement Council – Procurement officials that advise the CPO and collaborate system wide with university leadership (for example, to promote efficiencies within procurement: negotiating bulk contracts, utilization of state contracts, setting thematic purchasing needs, strategizing sourcing needs, maximizing surplus property reutilization, influencing cultural changes, etc.).

Thematic Purchasing – Grouping of procurements that have similar processes, issues or specializations (currently utilized to some extent at each of the two major offices);

Dedicated CPO Duties - Setting direction on policy, procedures, and implementation strategies; responsibility to set procurement delegations; overall system awareness and organization of thematic and strategic priorities. Protest, appeal, adjudication is at the system office.

Strategic Sourcing - Analysis of spending patterns to identify opportunities to leverage our economies of scale for savings opportunities.

E-Procurement Systems – System to fully automate processes; to include generating and tracking contracts and solicitations, processing orders, and provides usable spend data for continual process improvement (in procurement and system wide).