

# Strategic Sourcing in Seven Steps

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May 15 and 16, 2013



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Governor  
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# Strategic Sourcing

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## What is it?

- A procurement approach that utilizes a structured, market-based process to gather data, conduct quantitative analysis and apply expert qualitative judgments to secure the best value in purchasing.
- Applies a total cost of ownership (TCO) methodology to determine true cost.
- Savings are achieved by identifying and establishing the best ways to use and purchase goods or services, and by leveraging the State's substantial buying power.



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# Strategic Sourcing

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## How is it different from what I do now?

- Focuses on upfront data analysis.
- Includes the development of a category strategy to identify usage patterns and needs, including best practices.
- The TCO methodology examines a broad spectrum of cost drivers which may be incorporated in the evaluation of the good or service being procured.

## Why should I do it?

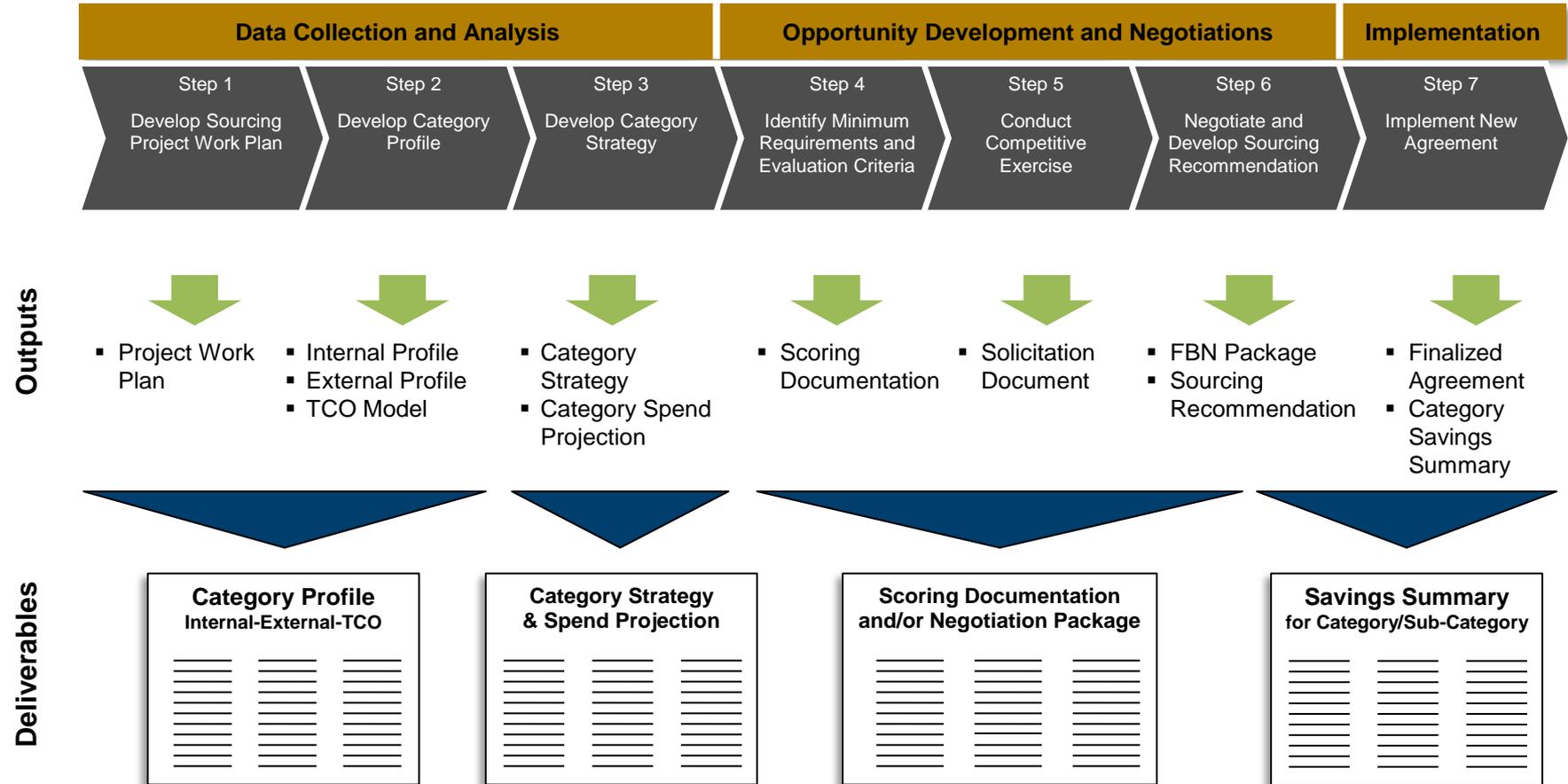
- The process helps you make procurement decisions based on data and facts.
- It will help you obtain better service levels.
- Provides best value contracts for New York State.



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# Strategic Sourcing Approach – Output View

Activities in each of the seven steps are tailored by the nature of the goods or services being procured and the corresponding supply market.



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# Step 1: Develop Sourcing Project Work Plan



Establish your sourcing project team, hold the project kickoff meeting, and establish a project work plan.



### Activities

- 1.1 Mobilize Project Team: Identify Team Members
- 1.2 Conduct Project Kickoff: Hold meeting and identify and prioritize opportunities
- 1.3 Finalize Project Work Plan:
  - Include Tasks such as Industry analysis, Customer analysis and vendor analysis
  - Schedule regular Team meetings
  - Define category scope
  - Obtain copies of existing contracts
  - Identify potential spend for procurement



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# Step 2: Develop Category Profile



Gather data and analyze business requirements to develop cost reduction opportunities.



**Activities**

- 2.1 Conduct Internal Analysis
  - Compile category data/information
  - Present this information to team members and stakeholders
  - Brainstorm and document ideas with team members and SMA (Subject Matter Advisor)
  - Create and distribute detailed data request to internal stakeholders and/or vendors
  - Compile detailed data request information into one cohesive document and Identify addressable and non-addressable spend
  - Revise contractual scope, spend and savings
- 2.2 Conduct Industry Analysis
- 2.3 Build Total Cost of Ownership (TCO) Model



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## 2.2 Conduct Industry Analysis

Industry Analysis answers several key questions concerning potential competition, industry trends and best practices.

Industry Overview

### Determine Industry Structure

- Describe competition
- Develop understanding of vendor /buyer power

### Measure Industry Financials

- Define overall size and growth
- Measure key ratios
- Discern common profit and cost

### Identify Industry Trends/ Dynamics

- Identify key trends
- Assess impact of technology
- Assess impact of State Finance Law

### Identify Industry Leading Practices

- Identify unique solutions
- Find innovative vendors
- Seek success stories

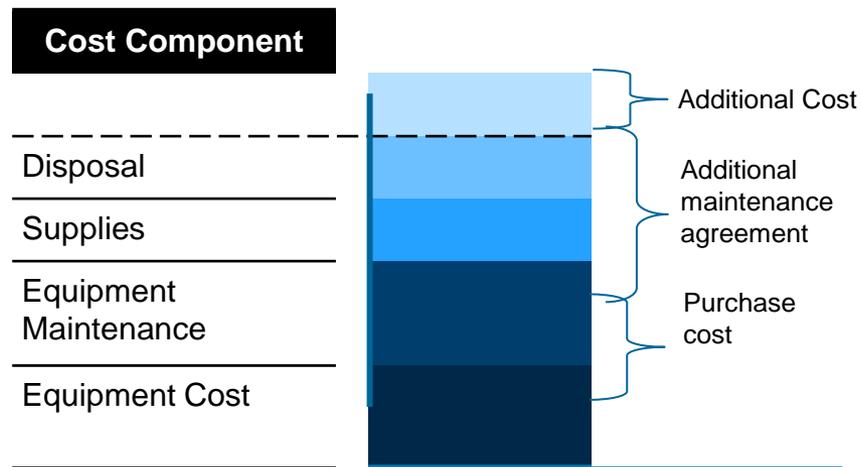
Implications of Industry on Sourcing this Category



## 2.3 Build Total Cost of Ownership (TCO) Model

Defining Total Cost of Ownership enables an understanding of all specific cost drivers for goods and services and the resulting components that can be used to reduce overall cost.

*TCO Model – Purchased Office Equipment*



Illustrative model of the total cost of ownership of purchased copier equipment



# Step 3: Develop Category Strategy



Develop the category strategy based on research conducted in earlier steps to reduce the Total Cost of Ownership.



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## 3.1 Develop Category Spend Projection

TCO cost and annual volume are combined to create an annual spend summary that serves as the category spend projection against which category savings are measured.

Illustrative model of a category spend projection for Multi-Functional Devices.

Multi-Functional Devices		Annual Equipment Cost	Annual Maintenance	Supplies	Disposal	Unit TCO (p)	Equipment Volume (Q)	Spend Projection (p X Q)
High Volume	Buy	\$1,000,000	\$200,000	\$30,000	\$4,000	\$617	2,000	<b>\$1,234,000</b>
Low Volume	Buy	\$500,000	\$100,000	\$15,000	\$2,000	\$617	1,000	<b>\$617,000</b>
<b>Totals</b>		\$1,500,000	\$350,000	\$45,000	\$6,000		3,000	<b>\$1,851,000</b>



## 3.2 Develop and Summarize Category Strategy

Developing the category strategy entails compiling the work completed thus far, reviewing issues, identifying the strategy that works best for NYS and identifying the tools needed to implement the strategy.

### Sourcing Project Team Task/Activity

- Document sourcing strategy
- Identify barriers and constraints for each strategy (e.g., vendor limitations, technology issues, organizational capabilities, culture, time to implement, financial resources, infrastructure/facility issues, State Finance Law)
- Present to stakeholders and obtain approval

### Potential Sourcing Strategies



# Step 4: ID Minimum Requirements and Evaluation Criteria



Create an instrument and procedure to evaluate the RFP/IFB responses.



**Activities**

- 4.1 Finalize Vendor Evaluation Criteria
- 4.2 Develop Scoring (Evaluation) Document
- 4.3 Conduct Vendor Analysis



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# Step 5: Conduct Competitive Exercise



Develop and distribute the solicitation document and score the vendor responses according to a complete set of decision criteria based on total cost of ownership.



**Activities**

- 5.1 Develop Solicitation Document
  - Share with stakeholders to obtain feedback and revise as necessary.
- 5.2 Distribute Solicitation Document
- 5.3 Evaluate and Score Solicitation Document



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# Step 6: Negotiate and Develop Sourcing Recommendation



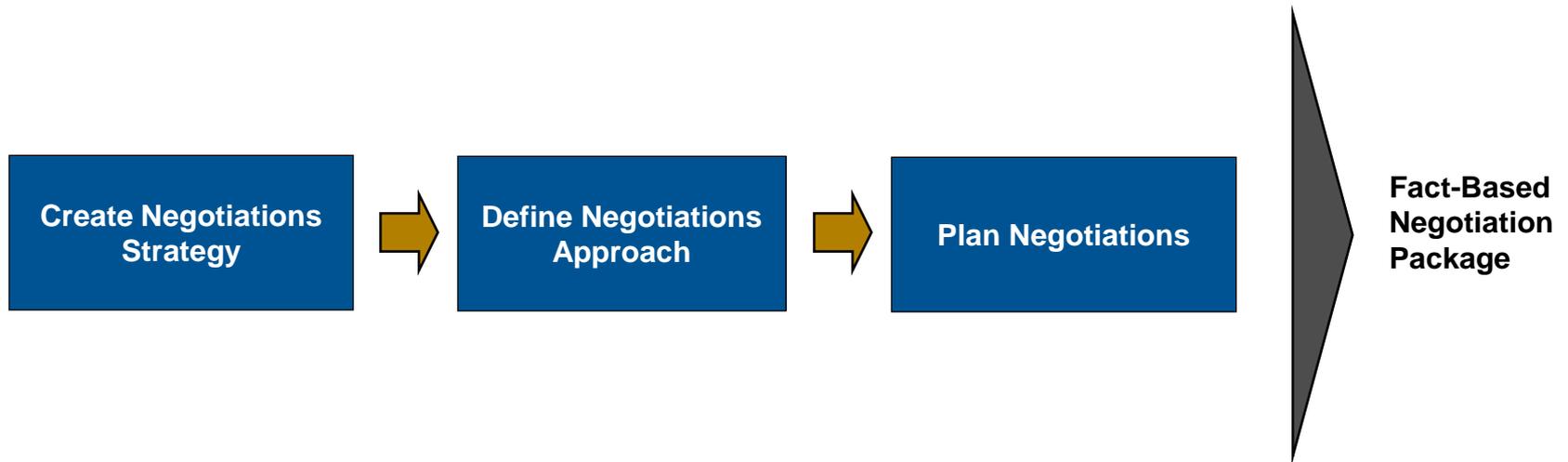
**Fact-Based Negotiation Packages** are intended to prepare and “arm” the negotiating team with the facts necessary to reach the desired outcomes.



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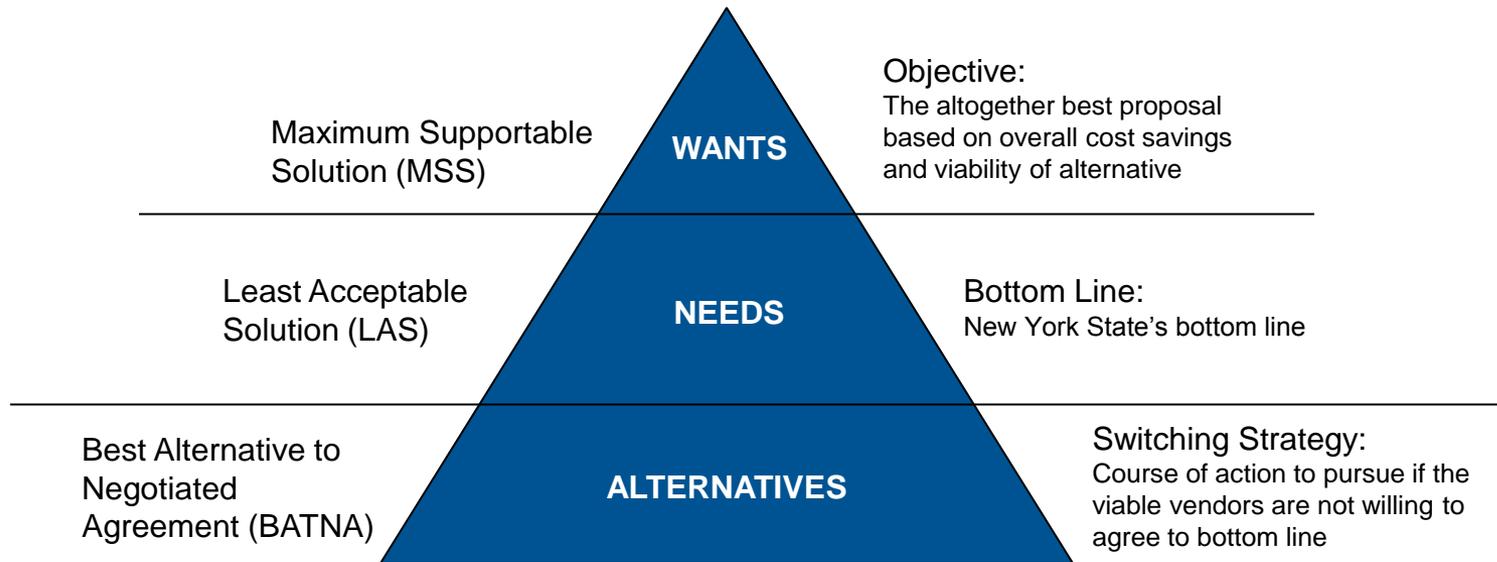
## 6.1 Finalize Fact-Based Negotiation (FBN) Package

Fact-Based negotiations rely on data and analytics to effectively communicate your agency's key messages, rather than relying on personal dynamics and style. Based on all the data and information collected, leverage/discussion points are identified.



## 6.2 Plan and Conduct Fact-Based Negotiations

A key component of Fact-Based Negotiations is coming prepared with a Maximum Supportable Solution, a Least Acceptable Solution and the Best Alternative to Negotiated Agreement, all based upon information from the analysis completed earlier.



# Step 7: Implement New Agreement



As negotiations are carried out, planning for the implementation of the new procurement process should be finalized.



**Activities**

- 7.1 Develop Category Savings Summary
- 7.2 Develop Implementation Plan



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## 7.1 Develop Category Savings Summary

The Category Savings Summary documents the final TCO pricing and savings as an update to the Spend Projection.

### Sourcing Project Team Task/Activity

- Create Savings Summary document
- Present Savings Summary document to stakeholders for review



## 7.2 Develop Implementation Plan

The Implementation Plan addresses those activities that are needed to put the contract in place.

### Sourcing Project Team Task/Activity

- Create Implementation Plan for Change Management
- Execute according to Implementation Plan

**Finalize  
Implementation  
Work Plan**

**Develop  
Communication  
Strategy**

**Implement  
Vendor  
Benchmarking**

**Comprehensive Implementation Plan**



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**Information on Strategic Sourcing can be found at the following link:**

<http://www.ogs.ny.gov/BU/PC/SourcingFAQ.asp>



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