

# The New York Times

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TUESDAY, MARCH 1, 2011

## Saving States the Sam's Club Way

By David Yarkin

WASHINGTON  
Any Sam's Club shopper knows, buying in bulk saves you money. But states and cities have paid too little attention to the costly and inefficient way they buy goods and services. By visiting an office that few of them have likely paid much attention to — central purchasing — governors and mayors could make significant headway in plugging their deficits.

Nearly every state is facing budget problems. A fifth of all states face def-

### How buying in bulk can help narrow budget gaps.

icits equal to 20 percent or more of their budgets, topped by Nevada and Illinois at 45 percent. Gov. Andrew M. Cuomo of New York inherited a deficit equal to 17 percent of the budget.

Pennsylvania faced a likewise daunting deficit, of \$2 billion, in 2003, when I began managing the state's procurement operations, responsible for \$4 billion in annual spending. To help close it, we borrowed an approach used by businesses: strategic sourcing.

Previously, the state purchasing office would set up a master contract with dozens of suppliers and then allow

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agencies to buy whatever they wanted from whichever supplier on the list they preferred.

The result was to break the state's buying power into thousands of pieces. Rather than making a big monthly purchase at, say, Costco, Pennsylvania was effectively making tiny, hourly purchases from 7-Eleven.

Take ketchup. In a state with a former senator and a football stadium both named Heinz, it's no surprise that we use a lot of it. But since every agency was allowed to choose the vendor it wanted, the state paid wildly divergent prices: a hospital in Allentown paid \$23.20 for a case while a prison near Shamokin paid just \$12.66.

Our approach turned this model on its head. Rather than allowing purchasing decisions to be made by each agency, state procurement aggregated purchases while consolidating suppliers, pushing prices down by buying in bulk.

We did the same with technology purchases, requiring that all the state's computers come from a single manufacturer, saving \$19 million annually. We saved \$4 million by closing 13 state-managed warehouses after we switched to a single office-supply vendor that guaranteed next-day statewide delivery, eliminating the need to stock our own supplies.

What's more, strategic sourcing reversed the traditional relationship between agencies and vendors, who had used our decentralized processes against us to drive up their profit margins at taxpayer expense. Suddenly the state had the power and vendors were competing for larger but less lucrative contracts. By the time we were done, we had saved Pennsylvania taxpayers \$360 million annually across dozens of contracts.

The same approach could work in New York and other states and cities facing yawning deficits. New York City is one of the largest buyers in the world,

but it doesn't act like one. The Department of Citywide Administrative Services, for example, oversees 1,100 citywide contracts worth roughly \$1 billion — including 19 separate contracts for plumbing supplies.

By identifying contracts that could logically be combined, the city would increase its buying power, streamline procurement operations and drive significant savings. If New York's procurement director were given the tools we had in Pennsylvania, the city could realize upward of \$100 million savings annually.

True, strategic purchasing won't close the entire budget hole. Finding the way out of their deficits will require governors and mayors to make dozens of difficult, gut-wrenching decisions.

But they can make a serious dent in those deficits with relative ease by just walking a few doors down from their offices to meet their chief procurement officers. □

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