

MAY 2010

States Buying Smarter

Lessons Learned from Minnesota and Virginia

EXECUTIVE SUMMARY

States spend nearly \$200 billion annually purchasing goods and services—paying for everything from building roads and bridges to buying desks and computers. Conservative estimates suggest that reform of government procurement practices could save 5 to 10 percent of that total spending.¹

To help ensure that procurement systems are delivering the best value for their purchasing dollars, the Pew Center on the States is exploring ways states can effectively capture cost savings through smarter purchasing and contracting practices. This work builds upon more than a decade of examining management strategies—including purchasing systems—by *Grading the States*, a periodic 50-state report card published by Pew's Government Performance Project.

The current economic climate has prompted procurement specialists across the country to rethink the way they leverage state buying power. In this brief, we explore the innovations of leaders in Minnesota and Virginia, states that have saved hundreds of millions of dollars by enhancing their procurement systems. They have focused needed attention on documenting what they buy and how much they spend, questions many states are unable to answer. Minnesota and Virginia also have changed *how* and *from whom* they purchase goods and services, drawing on best practices, many adapted from the private sector. An exploration of these innovations yields a roadmap for other states.



Successful management practices adopted by Minnesota and Virginia include:

Setting targets for procurement cost reduction and increasing the dollar volume of statewide contracts for goods and services.

- **Aggregating demand.** Minnesota's central procurement agency has aggregated demand by developing multiple statewide enterprise contracts—essentially master contract agreements for goods and services. Virginia's purchasing units also promote cooperative purchasing, through contracts issued jointly by state agencies and a consortium of public colleges and universities, as well as through agreements among state government and localities.

- **Promoting innovation.** Minnesota’s most innovative practices have included placing a greater focus on price, developing statewide product standards and negotiating with vendors throughout the procurement process. Taken together, such practices have generated actual and projected cost savings of \$246 million since December 2005.² Other benefits include quicker delivery of higher-quality goods and services.

Expanding e-procurement, simplifying rules and regulations and negotiating smarter by focusing on the bottom line.

- **Streamlining procurement processes.** Minnesota and Virginia promote the widespread use of purchase charge cards for small purchases, and Virginia’s e-procurement system has moved most state buying online. Virginia saved an estimated \$114 million from 2001 to 2004 by securing lower prices on selected goods and services through improved contracting practices.³
- **Emphasizing price and negotiating smarter.** Minnesota has set standards for assigning a weight to price when evaluating bids: Requiring at least 30 percent weighting of price has saved nearly \$1 million.⁴ Minnesota also requires agencies to report on efforts to negotiate better prices.

Strengthening procurement staff skills and vendor relationships.

- **Providing training.** Both Minnesota and Virginia focus on strategic training and hiring needs and provide extensive procurement training to state officials at all levels as well as to vendors. Minnesota offers leadership training on effective negotiation strategies when making buying decisions. Minnesota’s active approach to vendor negotiations will result in more than \$90 million in savings.⁵ Virginia also provides vendors with onsite, telephone and online training on how to conduct business with the state.

State leaders adopting these procurement reforms will be well-positioned to reap significant cost savings and quality gains. While the experiences in Minnesota and Virginia suggest that efforts to improve procurement systems will face practical and political challenges unique to each state, the successful principles and practices stand as a road map for innovators across the nation.

Procurement Reform Goals

Procurement was once regarded as a rote administrative task. Today, improved business practices offer states significant opportunities to cut costs and improve service quality.

How should leaders assess the opportunities for reforming purchasing and contracting processes in their states? And what lessons can be drawn from the experiences of Minnesota and Virginia?

To begin, agency heads can move quickly to identify the major categories where most state spending occurs, using basic financial information available through current accounting systems. States with solid enterprise-wide information systems can push such a spend analysis even further. The next step is to simplify purchasing categories, reduce the number of vendors and consolidate purchasing volumes to secure the best price for goods and services.

Examining current spending is a critical first phase for any state to undertake. This initial step can generate significant cost reductions. But we believe states can achieve even greater benefits when they pursue the following five interrelated procurement reforms.

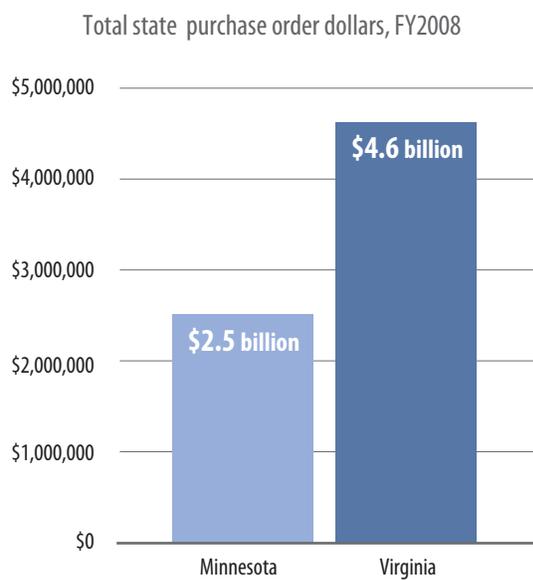
1. Increase the dollar volume of current statewide contracts for goods and services and set targets for cost reductions.

- **Aggregate demand for goods and services—** Minnesota, which acquires more than \$2.4 billion in goods and services annually, has aggregated

demand by developing multiple enterprise contracts for goods and services.⁶ Virginia's central procurement agency, which oversaw the purchase of \$4.6 billion in goods and services in fiscal year (FY) 2008,⁷ promotes the use of state term contracts that establish or limit preferred sources of supply for a specific time period. Virginia also uses cooperative purchasing agreements. These practices increase the size of the contracts and further leverage state purchasing power.⁸

- **Promote innovation in procurement policies**—Minnesota's most innovative procurement practices, including focusing on price in ranking responses to state requests for proposals (RFPs), developing statewide product standards and negotiating with vendors throughout the procurement process, have resulted in **actual and projected cost savings of \$246 million** on everything from computers to office supplies.⁹ Other benefits have included higher-quality goods and services delivered faster.

PURCHASING IN MINNESOTA AND VIRGINIA



SOURCES: Data from the State of Minnesota and the Virginia Joint Legislative Audit and Review Commission.

2. Expand cooperative purchasing across state agencies—and organize for results.

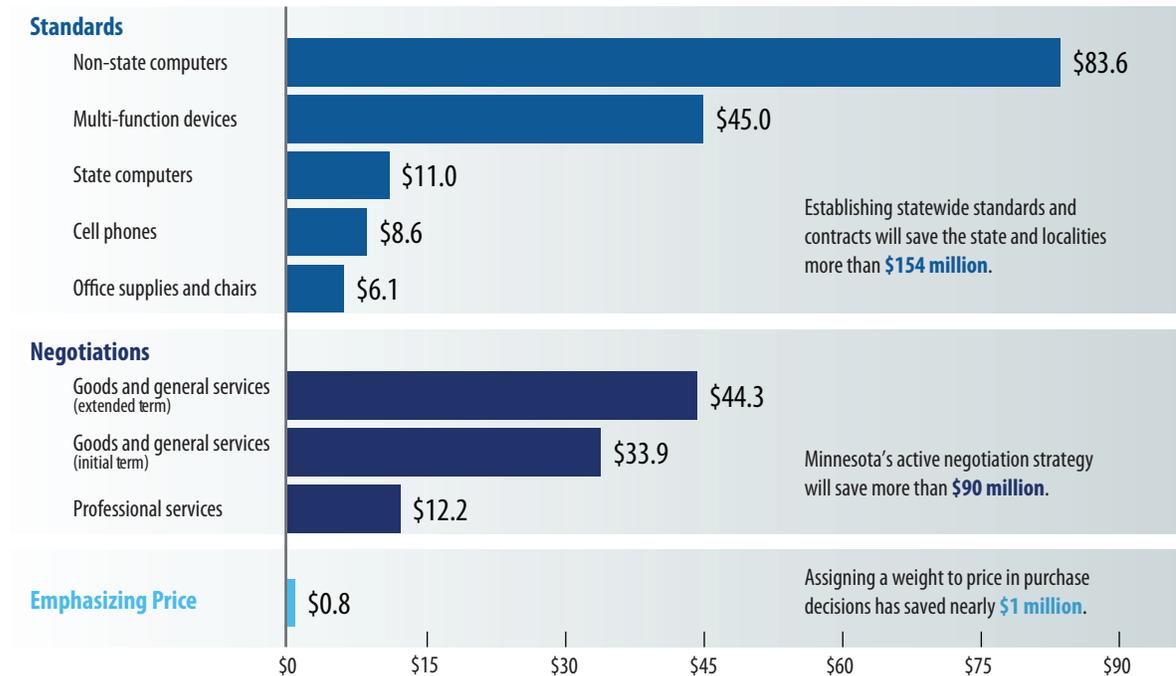
- **Leverage agency expertise**—Minnesota's commissioner of administration works with agency leaders to assess their needs, identify statewide contracting opportunities and establish multi-agency steering committees to lead and oversee contract planning and management. Virginia leaders have worked to build contract administration capacity at the agency level to improve contract management, including implementing cooperative purchasing across state government.
- **Balance centralization and delegation**—Minnesota's centralized purchasing office focuses on opportunities for significant savings and improved quality through standardization and statewide contracting, while delegating relatively low-dollar, low-risk procurement to agencies. (See "Estimated Procurement Savings" chart, page 4.) Virginia's central purchasing agency has the authority to make nearly all state government purchases; craft, alter, amend and repeal administrative policies and procedures; and audit state agency practices. However, it also engages in extensive delegation of procurement authority, with most small purchases made directly by agencies.

3. Engage other entities (such as public universities, colleges and school districts), jurisdictions (cities and counties) and other states in cooperative purchasing arrangements to expand buying power.

- **Expand buying power**—Minnesota law provides the Department of Administration with broad authority to allow governments in localities and in other states, as well as some nonprofit organizations, to participate in its cooperative purchasing programs. Such authority has expanded participation and increased the volume of cooperative purchasing, driving additional cost savings.

ESTIMATED PROCUREMENT SAVINGS IN MINNESOTA

Actual and Projected Cost Savings and Avoidance in Millions since December 2005



SOURCE: Data from the State of Minnesota

- Promote common use of state contracts and cooperative purchasing agreements**—Minnesota's central procurement agency negotiated or managed more than 1,400 master contracts in 2009. State and local agencies purchased more than \$850 million in goods and services through these contracts.¹⁰ Minnesota leads and participates in regional and national purchasing consortia including the Minnesota Multistate Contracting Alliance for Pharmacy and the Western States Contracting Alliance. Virginia has created more than 300 long-term contracts to reduce prices paid for goods and services and administrative costs.¹¹ The state's cooperative purchasing contracts include those issued by a consortium of Virginia state colleges and universities; intra-state cooperative procurement agreements among state government and localities; inter-state cooperative contracts (such as those offered by the U.S. Communities Government Purchasing Alliance, which includes

state and local governments across the country); and inter-state cooperative purchasing arrangements among peer state agencies (such as the Interstate Corrections Compact).

4. Initiate or expand the volume of e-procurement activities and simplify rules and regulations to reduce the cost of buying.

- Streamline procurement processes**—Minnesota and Virginia promote the widespread use of purchase charge cards for small purchases, thereby reducing the number of invoices processed by the state. Through its eVA e-procurement system, Virginia also has moved most state purchasing online, eliminating numerous costly steps in the acquisition process and making procurement faster and easier for both vendors and state agencies.
- Emphasize price**—Minnesota has set minimum requirements for assigning a weight to price when evaluating proposals to make purchasing award

decisions. State officials estimate that requiring [at least 30 percent weighting of price has saved nearly \\$1 million](#) over three and a half years by ensuring that both state purchasing officials and vendors focus on the bottom line.¹² (See “Estimated Procurement Savings” chart.)

- **Harness technology**—Virginia’s eVA system serves as a single point of contact for state government and vendors. The system benefits agencies by enabling them to submit requisitions and solicit bids electronically, as well as analyze purchasing and spending data. The eVA system also benefits vendors by enabling them to register once with all state agencies, automatically receive solicitations for bids and submit responses electronically. Use of eVA also has increased the number of bids for goods and services. [One estimate suggests that the state saved \\$114 million](#) from 2001 to 2004 by securing lower prices on selected goods and services through improved contracting practices.¹³ Minnesota also makes use of technology to facilitate e-procurement and other process improvements.
- **Emphasize negotiation**—Minnesota focuses on negotiation throughout its RFP processes, when allowed by law. The state also empowers its purchasing staff to conduct strategic sourcing analyses and to negotiate terms, including price, for new contracts and renewals. State officials estimate that [Minnesota will save more than \\$90 million](#) through its active negotiation strategy.¹⁴ (See “Estimated Procurement Savings” chart.)

5. Recalibrate and update the skills of procurement staff—and strengthen vendor relationships.

- **Provide training**—Virginia focuses on strategic hiring needs and provides extensive procurement training, especially related to its eVA system, to state officials at all levels through the Virginia Institute of Procurement. The state also provides vendors with onsite, telephone and online guidance, including how to register to conduct business with the state; respond

to solicitations for bids and proposals; and conduct queries on eVA to determine what goods and services are being purchased by state agencies. Minnesota’s training program has enhanced and certified staff skills by leading, assisting and coaching agency personnel in how to conduct effective negotiations and how to take advantage of other cost saving strategies.

Practical and Political Challenges to Reform

Along the way to reforming their procurement policies and systems, Minnesota and Virginia faced significant practical and political challenges.

Minnesota’s primary implementation issues included upgrading staff skills, fostering collaboration and building relationships. The state’s leaders systematically addressed matters such as staffing and organizational capacity to conduct comprehensive spend analyses, negotiate more effectively, build new relationships with vendors, and tackle barriers to collaboration across state agencies. Statutory changes and targeted executive orders helped to address key components of the state’s comprehensive management reform strategy.

In its reform efforts, Virginia faced challenges developing, deploying and integrating its innovative and expansive e-procurement system. State leaders continue to incorporate lessons from day-to-day experiences with the procurement system to strengthen business processes and to improve systems integration. State officials overcame a steep learning curve in constructing and continuously upgrading the system while developing effective partnerships with vendors.

Both states also had to overcome political opposition to procurement reform from various stakeholders, including some industry groups and legislators, agency personnel, and other government bodies such as localities and public universities.

Minnesota's leaders faced resistance from some elected officials as well as internal opposition to procurement centralization. Some local vendors and smaller companies raised concerns that best value and enterprise contracting could give large out-of-state companies an advantage. Others were concerned state purchasing officials might have too much discretion.

Experience with the law and active engagement to educate vendors and other stakeholders built greater levels of trust. As elected officials, public employees and vendors became more comfortable with the reforms, building and highway construction were added to the law later. Overcoming resistance to change in Virginia required cultivating leadership and developing a vision for change, winning support from the incumbent workforce and securing sufficient resources to implement the vision.

Policy Changes Needed for Success

In both Minnesota and Virginia, state leaders developed a vision for change and deployed an array of strategic management practices to build on their strengths and overcome internal and external resistance.

Modernizing the states' statutory and administrative frameworks was essential to laying the foundation for improvement. Freeing procurement personnel from constraining rules—such as giving purchasers the flexibility to make decisions based on the best value of an offering rather than merely on the lowest bid—necessitated significant changes to the existing body of law and administrative code. In addition, efforts to streamline, deregulate and decentralize processes required new regulatory and oversight approaches.

Common Principles in Diverse States

Minnesota and Virginia are two very different states that have taken diverse approaches to procurement reform, ranging from leadership to strategy.

- Both states recognized the need for a central lead for purchasing and contracting, but Minnesota's policy makers established a chief procurement officer with substantial independent power to achieve the best value for the state, while Virginia's leaders created the position as a senior-level gubernatorial appointee.
- While Minnesota concentrated on cross-state contracts with collaborative cross-agency governance structures, Virginia focused on automating and modernizing processes and setting up a large number of term contracts for state entities to use, establishing preferred suppliers for a set time period.
- Minnesota primarily managed its reforms in-house, while Virginia built its reforms around an outsourced solution (eVA) that relied on substantial initial investment by a support contractor.

From this diverse set of policies, strategies and tactics, a variety of best practice solutions emerges. Furthermore, while the policy contexts and tactical approaches of the two states were substantially different, the core principles of their approaches—innovation, negotiation, measurement, collaboration and persistence—were consistent and are replicable.

Innovation. Leaders in both states gained substantial traction for their reforms only when they introduced and passed legislation to give them authority to do business

MINNESOTA'S KEY POLICIES

- Statutory authority for procurement reform
- A robust and independent central procurement agency
- Strong joint powers agreement authority, enabling two or more public entities to collaborate
- A statutory commitment to ethics and whistle-blowers

VIRGINIA'S KEY POLICIES

- Standardization of procurement rules and practices
- Extensive delegation of procurement authority
- Policies for promoting small business participation in state purchasing
- Continuous improvement of staff training

differently and to upgrade the professionalism and product expertise of their staffs. The expanded toolbox of possible contracting approaches set the stage for experimentation and breakthroughs.

Negotiation. Both states moved away from traditional “low price, sealed bid” thinking by bringing detailed data and buying leverage to bear in vendor negotiations. They bargained from a position of power and knowledge, lowering prices and improving value for their states.

Measurement. A key component of Virginia’s eVA system was to provide details on what was being bought and who was buying. Both states have a good sense of what they are spending and where, and they are holding managers accountable for achieving measurable results.

Collaboration. Each state’s leaders have worked within their unique social, political and managerial contexts to craft approaches that work. The results: consolidated enterprise agreements across the state in Minnesota; and fast, sophisticated systems with substantial autonomy in Virginia. Each state has found ways to work with external and internal constituencies to forge a sustainable approach.

Persistence. Although the governor and the executive branch were in each case the initial sponsors of reform, both states have garnered continuing bipartisan support for reform, institutionalized the changes they launched, built institutions and procedures that demonstrate value across administrations, and moved their reforms from the political to the managerial realm.

As more state leaders move to improve and modernize purchasing and contracting practices, these broader principles can help inform their road map to success.

Strong Results

Our analysis shows that there are compelling techniques that can be employed to achieve successful reform, and that successful procurement innovation is contingent on states’ abilities to establish a clear political vision for needed changes, secure sufficient resources to implement the new practices and execute a sound plan to integrate new processes with existing systems.

As noted, both Minnesota’s and Virginia’s procurement reform investments have resulted in cost savings or cost avoidance on the purchase of goods and services. Also, Virginia’s system improvements have reduced administrative costs by an estimated \$11 million per year.¹⁵ Beyond cost effects, Virginia’s reforms have increased the number of bids and small business participation in state procurement, and Minnesota’s efforts have resulted in higher-quality goods and services, more beneficial contract terms, time savings for staff and improved relationships with vendors.

Despite the many challenges they faced, Minnesota and Virginia persevered to achieve these goals, and they are realizing a return on their investments. Moreover, both states serve as examples of how others can achieve similar or better results by carefully examining their own procurement practices and systems.

Every state can begin employing the broad strategies that launched and sustained the Virginia and Minnesota reforms and that brought savings and better business practices to these states. The diversity of approaches taken in these two states shows a wide array of business improvement opportunities by which other states can achieve substantial savings for their citizens.



Acknowledgments

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For the full report, *States Buying Smarter: Lessons in Purchasing and Contracting from Minnesota and Virginia*, please visit www.pewcenteronthestates.org/statesbuyingsmarter.

¹ Trevor L. Brown, Sergio Fernandez, and Alexander C. Heckman, *States Buying Smarter: Lessons in Purchasing and Contracting from Minnesota and Virginia* (Washington, DC: Pew Center on the States, 2010), 4. In this issue brief, the phrase "goods and services" refers to all goods and services, including professional and technical goods and services.

² Brown et al., *States Buying Smarter*, 23. These savings include state and local government costs.

³ Joint Legislative Audit and Review Commission, *Impact of eVA on Small Virginia Businesses* (Richmond, VA: Author, 2009); <http://jlarc.state.va.us/reports/Rpt390.pdf>.

⁴ David Yarkin, "It Pays to Negotiate," *Government Procurement* (August 2007): 26–29; accessed Aug. 5, 2009, www.state.mn.us/mn/externalDocs/Excellence/Government_Procurement_sourcing_article_082407101407_GovPro_Column_0807.pdf. See also Minnesota Materials Management Division, *State Contracting* manual; accessed Sept. 9, 2009, www.mmd.admin.state.mn.us/pdf/PTmanual.pdf.

⁵ Minnesota Drive to Excellence Web site, www.state.mn.us/portal/mn/jsp/content.do?contentid=536919315&contenttype=EDITORIAL&hpage=true&agency=Excellence.

⁶ Brown et al., *States Buying Smarter*, 10.

⁷ Joint Legislative Audit and Review Commission, *Impact of eVA on Small Virginia Businesses* (Richmond, VA: Author, 2009); [http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/HD72009/\\$file/HD7.pdf](http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/HD72009/$file/HD7.pdf).

⁸ Brown et al., *States Buying Smarter*, 12.

⁹ Brown et al., *States Buying Smarter*, 23.

¹⁰ Minnesota Management and Budget Office, "FY 2010-2011 Governor's Budget Recommendations, Agency Level Narrative for the Administration Department," (January 2009) 45; www.mmb.state.mn.us/doc/budget/narratives/gov09/administration.pdf.

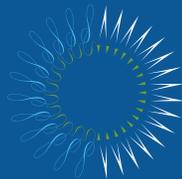
¹¹ Brown et al., *States Buying Smarter*, 21. Data obtained by authors in 2009 from Virginia Department of General Services, Division of Purchases and Supply.

¹² Minnesota Materials Management Division, *State Contracting* manual; accessed Sept. 9, 2009, www.mmd.admin.state.mn.us/pdf/PTmanual.pdf.

¹³ Joint Legislative Audit and Review Commission, *Impact of eVA on Small Virginia Businesses*. (Richmond, VA: Author, 2009); <http://jlarc.state.va.us/reports/Rpt390.pdf>.

¹⁴ Minnesota Drive to Excellence Web site; www.state.mn.us/portal/mn/jsp/content.do?contentid=536919315&contenttype=EDITORIAL&hpage=true&agency=Excellence.

¹⁵ Department of General Services, Division of Purchases and Supply, *Virginia's Enterprise Electronic Procurement System: Benefits and Savings* (Richmond, VA: DPS/DGS, 2009).



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