

Administrative Review & Restructuring

Procurement Subcommittee

Final Report

April 27, 2010

Subcommittee Members:

Philip M. Abruzzi, Chief Procurement Officer, University Strategic Procurement, UA

Douglas E. Beckmann, Senior Associate Vice President for Business & Finance, UA (Chair)

Michael E. Bloechle, Interim Director, Business Services, UIS

Heather Haberaecker, Executive Assistant Vice President for Business & Finance, UIC

Randall W. Kangas, Associate Vice President for Planning & Budgeting, UA (Staff)

Maxine Sandretto, Assistant Vice President for Business & Finance, UA

Strategic Procurement Summary

Since 1995, the Office of Business and Financial Services (OBFS) has focused on the need to streamline processes and maximize savings in procurement costs while responding to the evolving scope and scale of University activities. By reviewing and implementing recommendations from consultants, incorporating best industry practices, and adding new technology, we have achieved significant success. With the support of campus administrators, and a new centrally-led procurement team, we are poised to achieve new breakthroughs in the coming months and years.

In 1995, Coopers & Lybrand analyzed procurement at the University and concluded we could achieve significant cost savings through process and system changes. They also strongly recommended establishing preferred providers, although the final report noted units would remain free to choose other suppliers. OBFS began initiatives to respond to these recommendations; however, beginning in 1999, significant resources from all areas of OBFS were diverted to support the implementation of the new Banner Enterprise-Wide Resource Planning system.

In 2004, OBFS engaged Accenture to analyze and identify opportunities for commodity savings and to develop a business case and implementation plan. The Accenture study included an analysis of the University's spending on goods and services to determine savings achievable by strategic sourcing of commodities; a high-level review of the University's purchasing processes, practices, measurements and technology; and a recommendation for the structure of the purchasing organization. Accenture estimated the University could save at least \$14-\$28 million per year for a targeted portfolio of supplies and services with an annual spend of approximately \$198 million. (Current spend is estimated at \$300 million per year.)

Both Coopers & Lybrand and Accenture recommended using technology to improve processes and lower costs, increasing the number of University-wide contracts to drive cost savings, and consolidating the campus-based purchasing functions into a centrally-led purchasing organization.

In response to these recommendations, OBFS implemented the iBUY application and began a strategic sourcing initiative. The iBUY application provides departments a requisitioning and catalog shopping application that is much quicker and easier to use than the Banner system. By focusing on strategic sourcing, the University now has strategic contracts covering approximately \$60 million, or 20%, of the University's spend on the targeted portfolio of supplies and services. We estimate department savings opportunities from these contracts at about \$6 million per year. In addition, the data being collected from purchases through iBUY

will enable strategic sourcing to achieve an estimated \$4 million of additional savings in future competitive solicitations.

OBFS is currently pursuing strategic sourcing contracts and employing aggressive contract management techniques for the other 80%, or \$240 million, target portfolio of supplies and services. Achieving a modest 5% price reduction can result in additional savings of \$12 million per year, **for a total potential savings of \$22 million per year.**

There are two keys to achieving these savings goals. First, senior leadership must support a campaign to drive compliance from units in using preferred providers. This is a major culture shift, given that units have traditionally had authority to use providers of their own choosing, particularly for smaller dollar purchases. Second, OBFS must have a streamlined, focused, professional procurement organization in place to provide the necessary analysis, consulting, and advisory support to campus departments.

To this end, during FY2009, Doug Beckmann and his campus Executive/Assistant Vice Presidents developed a procurement improvement project. The project addresses recommendations from past consulting reports, current best practices in higher education procurement, and information from the 2008 OBFS customer satisfaction survey. Attachment A summarizes the vision for OBFS procurement. We must move the elements of this plan forward to achieve maximum savings and support the customer service necessary for the operations of this complex, large research and educational institution.

OBFS Recommendations

1. Implement the elements of the Procurement Improvement Project, utilizing a University-wide Procurement team to provide central leadership.
2. Aggressively develop University contracts that achieve lower costs and/or process savings.
3. Obtain executive support directing to departments to use contracted vendors to achieve projected cost savings.
4. Eliminate campus rules that impede procurement processing efficiency or limit cost saving opportunities.
5. Continue to seek regulatory relief from Federal, State, and Board of Trustees requirements that are obstacles to a competitive procurement environment and the efficient utilization of staffing resources.

6. Reduce the volume of low dollar, low risk requisitions processed by central Purchasing Offices.
7. Require departments to use iBUY as the primary requisitioning application for most procurement transactions.

Sourcing

The University's purchasing power can be leveraged to achieve significant cost savings by consolidating suppliers and negotiating more favorable pricing agreements on high-usage supplies and services. Over the past four years, we have made significant progress in this initiative by improving the portfolio of Illinois Public Higher Education Cooperative (IPHEC) contracts with respect to pricing and offerings, switching some IPHEC contracts to other group purchasing organization contracts available to the University, and soliciting other goods and services by using the competitive bid process.

The University is well positioned with a current portfolio of 40 University contracts (see Attachment B) representing approximately \$60 million in spend to move toward realizing cost savings of approximately \$10 million. At this time, we are managing 20% of the current \$300 million in spending, which means we need an aggressive program for monitoring supplier performance and compliance and identifying opportunities at the department level to utilize existing contracts. Improving departmental participation will require senior executive support, some relief from our regulatory environment (both external and internal), and the transition of our current procurement staffing resources from a transaction processing focus to a professional buyer/negotiator focus. Procurement staff must be able to develop aggressive, favorable contracts and supplier relationships and to provide analytical and consulting services to campus departments in support of their procurement needs.

Technology

Over the past four and half years, we have made significant progress in identifying, deploying, and planning for optimum system applications in support of the procurement process. Technology improvements include the iBUY application, the e-settlement project, a travel expense management system, and a contracts management system.

iBUY

iBUY is a Web-based requisition and catalog hosting application that is more user-friendly than the University's Banner application (Attachment C). It requires less time and effort from

campus staff to formulate the purchase request and from purchasing staff to create a purchase order. Further, it captures much more transactional data than Banner does. Having better transactional data allows the University to negotiate more comprehensive sourcing contracts with better pricing.

The Illinois Business Consulting group¹ conducted a cost analysis of the three major procurement methods at the University for low-dollar purchases and determined iBUY has the lowest processing cost. The cost associated with processing a purchase under \$5,000 not requiring purchasing staff involvement was:

iBUY:	\$4.31/transaction
Banner Purchase Order:	\$18.47/transaction
PCard:	\$20.65/transaction

E-Settlement

The e-settlement application, which is currently under design and scheduled for phased implementation this summer, will enable a complete electronic payment process that will reduce staff involvement in processing supplier invoices for payment. The advantages are staff savings and better opportunities to manage the University's payment terms.

Travel Management System

The University processes approximately 80,000 travel vouchers per year. All of these are paper-based and involve a significant number of manual interventions. The complexity of the State and University travel policies and human errors lead to approximately 30% of the vouchers needing reworking before final processing. A new electronic travel management system is being installed for implementation beginning fall 2010. This application uses online payment filing and requests for reimbursement, which will bring significant savings in staff time to both departments and the central University Payables Office. In addition, this application will allow the University to collect travel data for use in investigating savings opportunities with vendors for this \$40 million annual spend.

Contract Management System

The University develops and processes over 10,000 contracts per year. Many of these are related to procurement transactions. Hard copies of contracts must be routed for review and

¹ IBC is a student consulting organization in the College of Business, University of Illinois at Urbana-Champaign

approval by multiple offices; it is a very labor intensive, inefficient process. The lack of a central contract database sometimes results in a waste of staff resources to develop a contract with a vendor when one already exists. In addition, contract details are not readily available to departments that may want to use an existing contract for their requirements.

A request to purchase and install a contract management system has been approved for ITPC funding in FY2011. It will bring another important tool to procurement to assist in streamlining the process, saving staff time and resources, reducing risk to the University, and reducing costs associated with the material and service being procured.

Organization

Both Coopers & Lybrand and Accenture stressed the concept of moving away from a campus-based approach to procurement and toward a center-led model. Referring to a strategic approach, the Accenture report stated that none of the advances or savings in procurement they envisioned for the University would be sustainable in the absence of a centrally-led, University-wide procurement function. In addition, the current recognized best industry practice for procurement is the concept of centrally-led procurement.

A successful center-led procurement organization does not require all procurement resources to be located on one campus. For the University, the best structure is one that meets individual campus procurement needs, eliminates unnecessary staff redundancies between campuses, and focuses on achieving all possible savings through University-wide procurements. Staff should be utilized according to their skills and talents regardless of campus location. Procurement business needs at the University of Illinois comprise the sum of needs of hundreds of different types of “businesses” (some large and some very small) that fulfill our educational, research, public service, and economic development missions.

We cannot accomplish effective procurement at the University of Illinois without appropriate campus-based procurement resources managed through a center-led initiative. Two other higher education institutions now moving toward center-led procurement management are 1) the Indiana University system, which has made the decision to consolidate leadership and management of procurement of its seven smaller campuses to its campus in Bloomington and 2) the University of Missouri, which has just completed phase two of its movement to a center-led model. The University of Missouri is also taking another unique step by moving to a shared service procurement model with the UM Columbia campus becoming the center for a statewide procurement structure encompassing all of the state public institutions.

Doug Beckmann and his senior procurement staff have developed a plan to move the current procurement organization toward a center-led approach to planning and executing common

procurement goals designed to leverage spend and provide greater savings to the campuses. The Procurement Improvement Project (Attachment D) captures the vision, planning, and actions that are underway to achieve the results outlined in consulting studies and to match current best industry practices. The approach derives strength from the collaboration and participation of senior procurement leaders on all campuses as well as central sourcing staff. The Procurement Team includes all the key leaders for procurement in OBFS (the Purchasing Directors from each campus, the E/AVPs from the Urbana and Chicago campuses, the Executive Director of University Payables, the Director of University Sourcing, and the Senior Associate Vice President for Business and Finance).

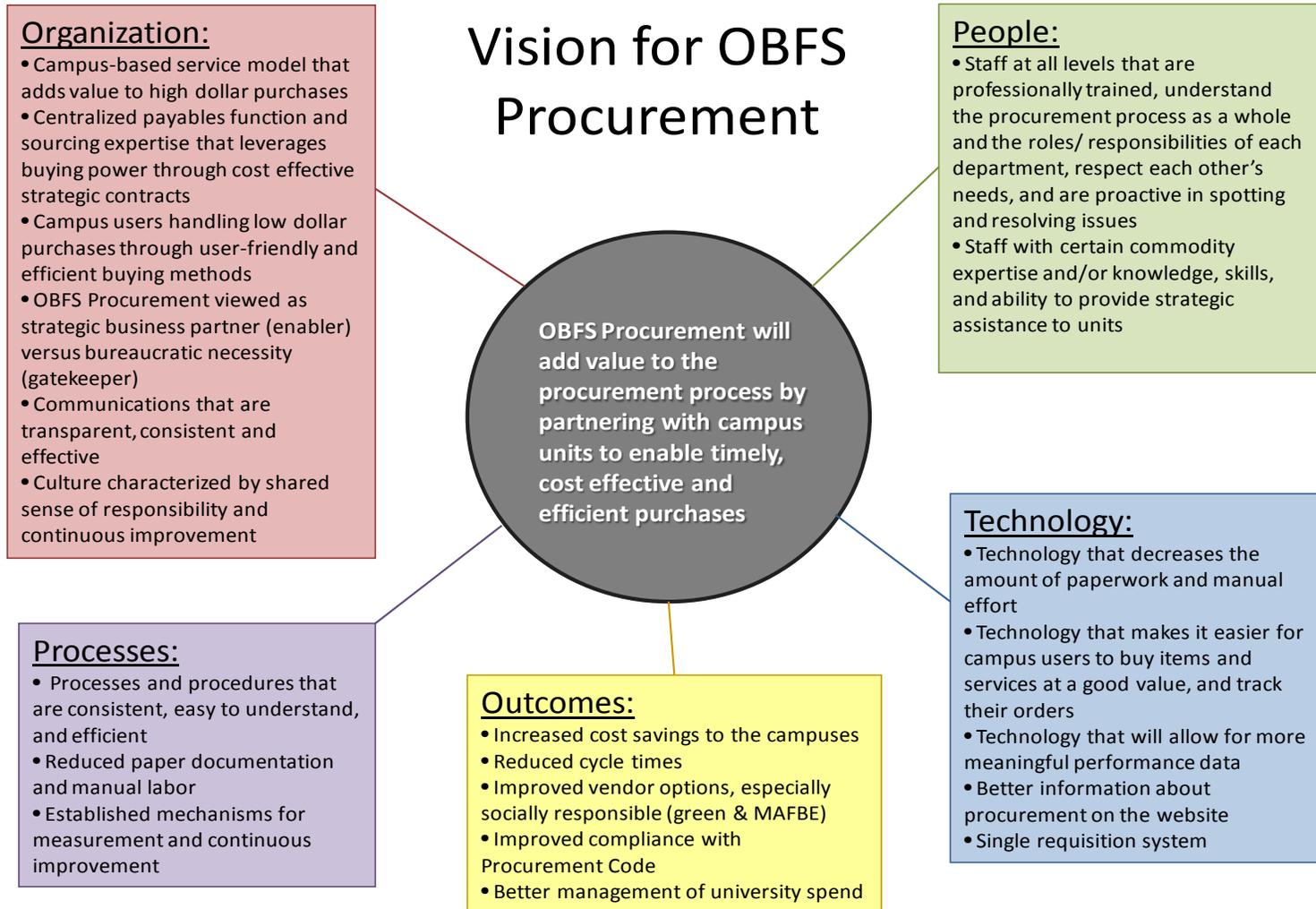
Immediate Action Recommendations:

Over the next six months:

1. Continue implementation and refinement of the Procurement Team's vision for strategic procurement activities at the University, clearly defining roles and responsibilities of all members.
2. Obtain support from campus leaders for the proposed mission and for requiring units to purchase from University-contracted vendors to maximize the University's purchasing power.
3. Fill current vacancies in the procurement organization arising from departing and retiring staff with professionals who possess the skills and ability to support and accomplish the initiatives outlined in the current procurement improvement project.
4. Implement and refine new technologies to support streamlining of procurement processes and procedures.
5. Aggressively expand the portfolio of strategic contracts available for campus use and develop efficient means of communicating information about the contracts to campus departments.
6. Develop metrics to monitor compliance and savings success.

In summary, we can best achieve cost savings by leveraging the University's purchasing power and maximizing technology within UI procurement operations. The decentralized University environment, the wide-variety of activities conducted by the University, and the highly-regulated procurement environment at the University pose formidable challenges. In light of the current budget environment, we must redouble our efforts to succeed. We believe the

team approach will provide the central leadership and campus responsiveness critical for successful support of the procurement function at the University. Attachments E and F, which are the Executive Summary from a recent National Association of Educational Procurement (NAEP) survey and a presentation on the Strategic Value of Procurement given by the NAEP 2009-2010 Strategic Visioning Committee, support the recommendations we believe are timely for both the University of Illinois and the State of Illinois. We must successfully source, negotiate, and manage vendor contracts to maximize the benefit to the University; we must require compliance across the organization in using these contracts; and we must continue to support the other procurement requirements necessary for meeting the mission of the University.



Actively Managed University Contracts	
Fisher	\$10,211,789
DELL (MC)	\$9,627,907
Apple (MC)	\$5,428,608
HP (MC)	\$4,901,079
OfficeMax	\$4,465,729
EESCO	\$3,504,509
AllSteel (F)	\$3,460,968
Sigma-Aldrich	\$2,659,410
McKesson	\$2,290,223
CDW-G	\$1,535,707
United Visual, Inc (AV)	\$1,522,201
Carl Zeiss (M)	\$1,393,983
MoreDirect	\$1,172,877
AmSan	\$1,107,514
Cardinal Health	\$1,074,595
Krueger Int'l (F)	\$951,437
VWR	\$910,585
SHI (MC)	\$908,941
Grainger	\$753,386
Corporate Concepts (F)	\$721,977
Midwest Computer Products (AV)	\$513,356
Herman Miller (F)	\$507,982
Optical Analysis Corp. (M)	\$350,470
CIM (AV)	\$228,650
Franklin Covey (CT)	\$202,142
OFS Brand (F)	\$161,358
DOT	\$151,948
University Sleep Products	\$147,145
American Airfilter	\$118,579
Barnes & Noble	\$106,943
PDC	\$85,967
Zones	\$73,385
Lukas Microscope Service (M)	\$54,345
Dunn&Bradstreet	\$33,161
Hitschfel Instrument Inc. (M)	\$19,946
Austin-Tetra	\$19,500
Leadership Development Services (CT)	\$8,109
Steelcase (F)	\$649
Kimball Office (F)	\$574
North Central Instruments (M)	\$175
Spend Under Active Management	\$61,387,808

Comparison of iBUY and Banner Requisitioning Tools

Criterion	iBUY	Banner	Advantage
Ease of Use	Single-page form; ability to offer multiple customized forms for unique purchase types; Windows-style graphic user interface	Multiple screens that require cumbersome, keyboard-only driven navigation	iBUY
Department/Unit Processing Time	Shorter, more intuitive input time in requisition creation	More data entry time equals more cost to the requisitioner	iBUY
Purchasing Processing Time	More intuitive interface simplifies the translation of requisitions into purchase orders; electronic PO transmission (versus paper and fax) to vendor; workflow capabilities allow some requisitions to bypass Purchasing	More data entry time equals more cost to Purchasing; POs must be physically printed and faxed to vendor; all requisitions must flow through Purchasing	iBUY
Standing Purchase Orders	Cannot currently create an SPO per se-there is an inelegant workaround	Can create SPOs	Banner
Change Orders	Change orders must still be done in Banner as it is the system of record-to keep iBUY and Banner in sync requires that change orders also be done in iBUY	Change orders need to be done in Banner only	Banner
Workflow	Flexible, powerful engine that can accommodate many purchase types within compliance and with limited or no intervention by Purchasing	All requisitions flow through Purchasing	iBUY
Transaction Visibility	Customers can see the current status, i.e., workflow process step, of their requisition; customers can view comments/updates entered by Purchasing	Customers must call Purchasing to penetrate the "black hole," a practice that is inefficient for both groups	iBUY
Attachments	Can be electronically attached to and submitted with the requisition; attachment, as well as written comments, are designated as "internal" (University use only) or "external" (sent with the PO to the vendor)	Must follow via campus mail the electronic submission of the requisition, timing disconnect that creates confusion and costs productive time.	iBUY

Procurement Improvement Project



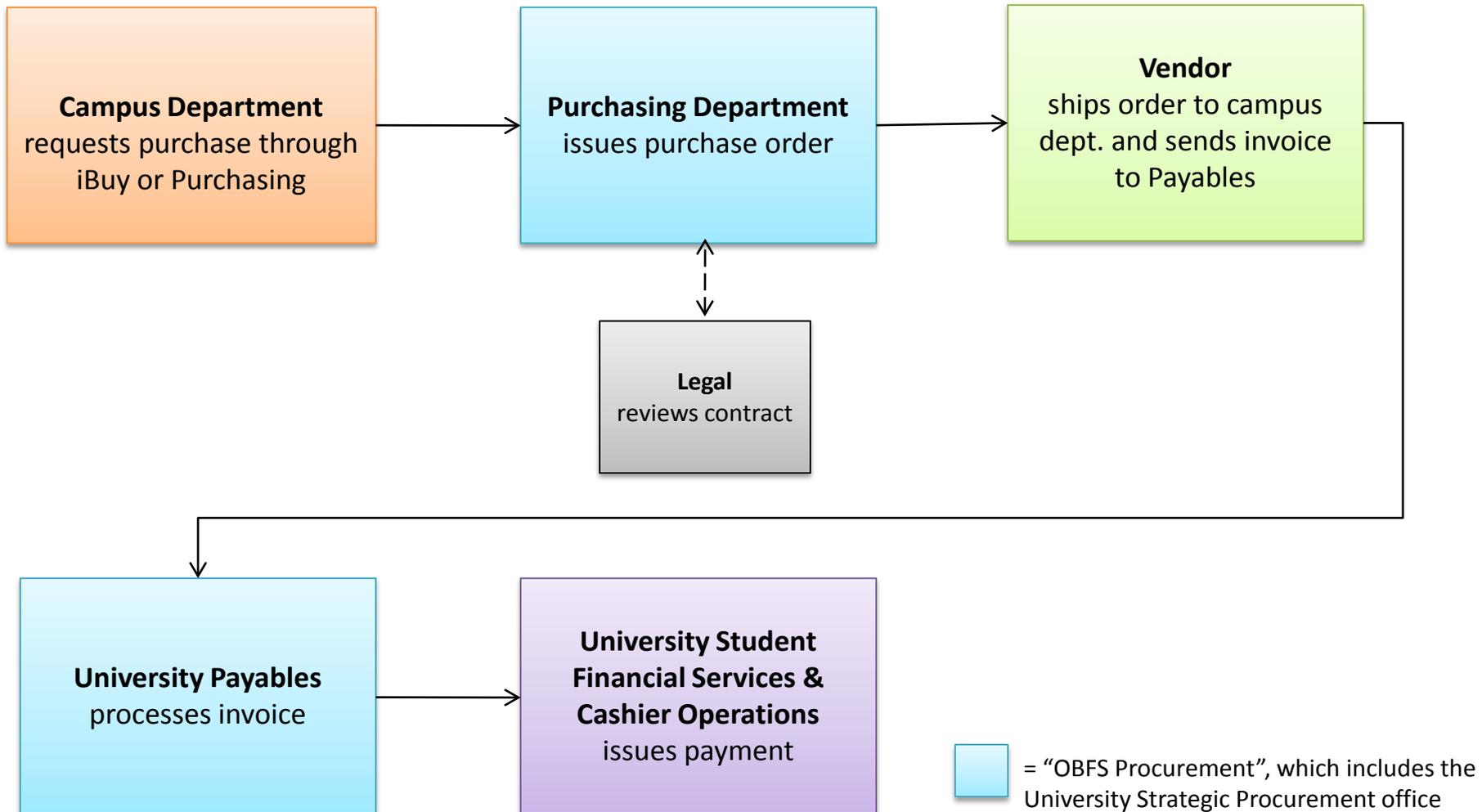
Presentation to the Admin Review Team
Office of Business & Financial Services
January 2010

Objectives



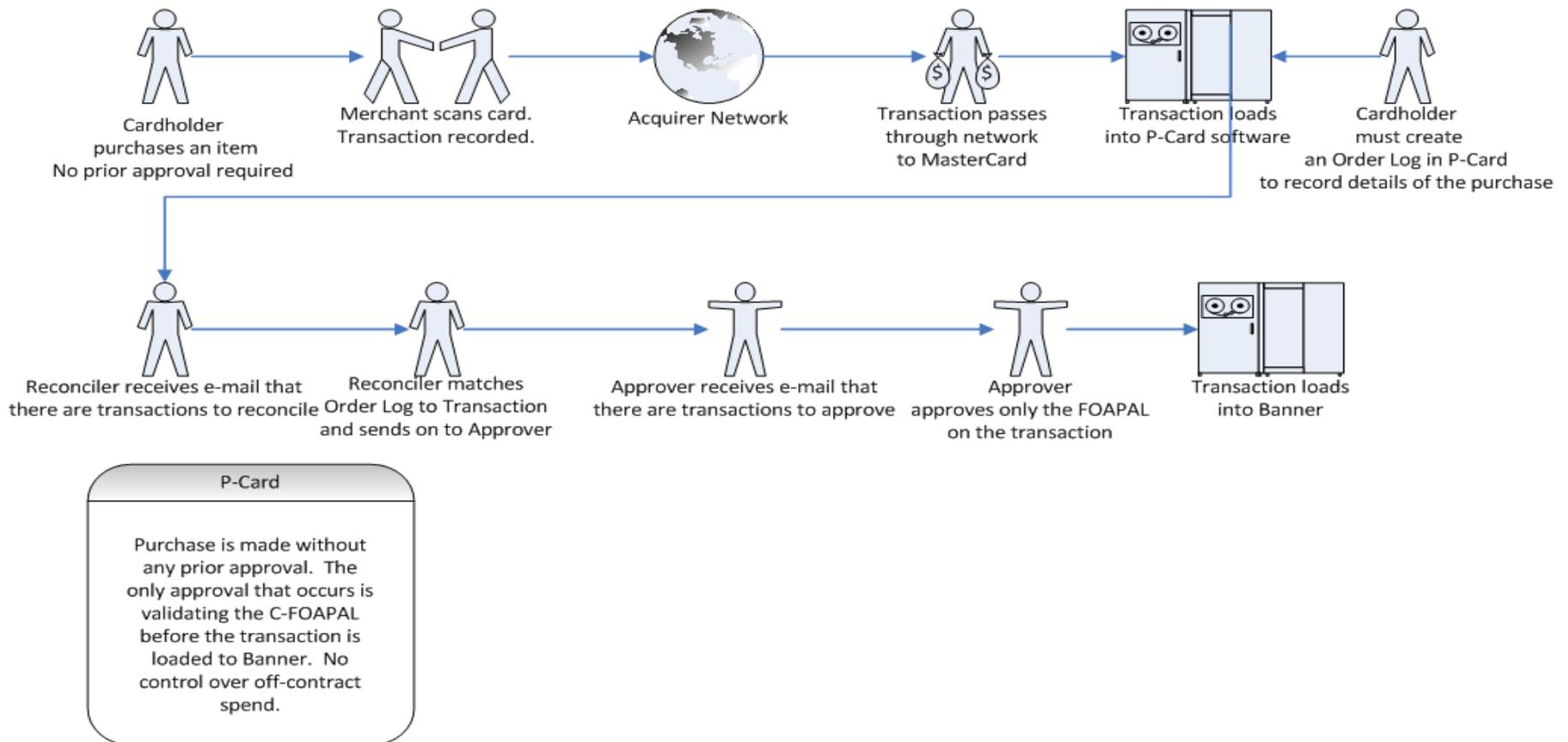
- Provide high-level overview of the procurement operation
- Share assessment of current state and business case for change
- Present desired state
- Give overview of Procurement Improvement Project
- Introduce vision for procurement
- Discuss campus involvement in project

Procurement Overview – How Business is Done



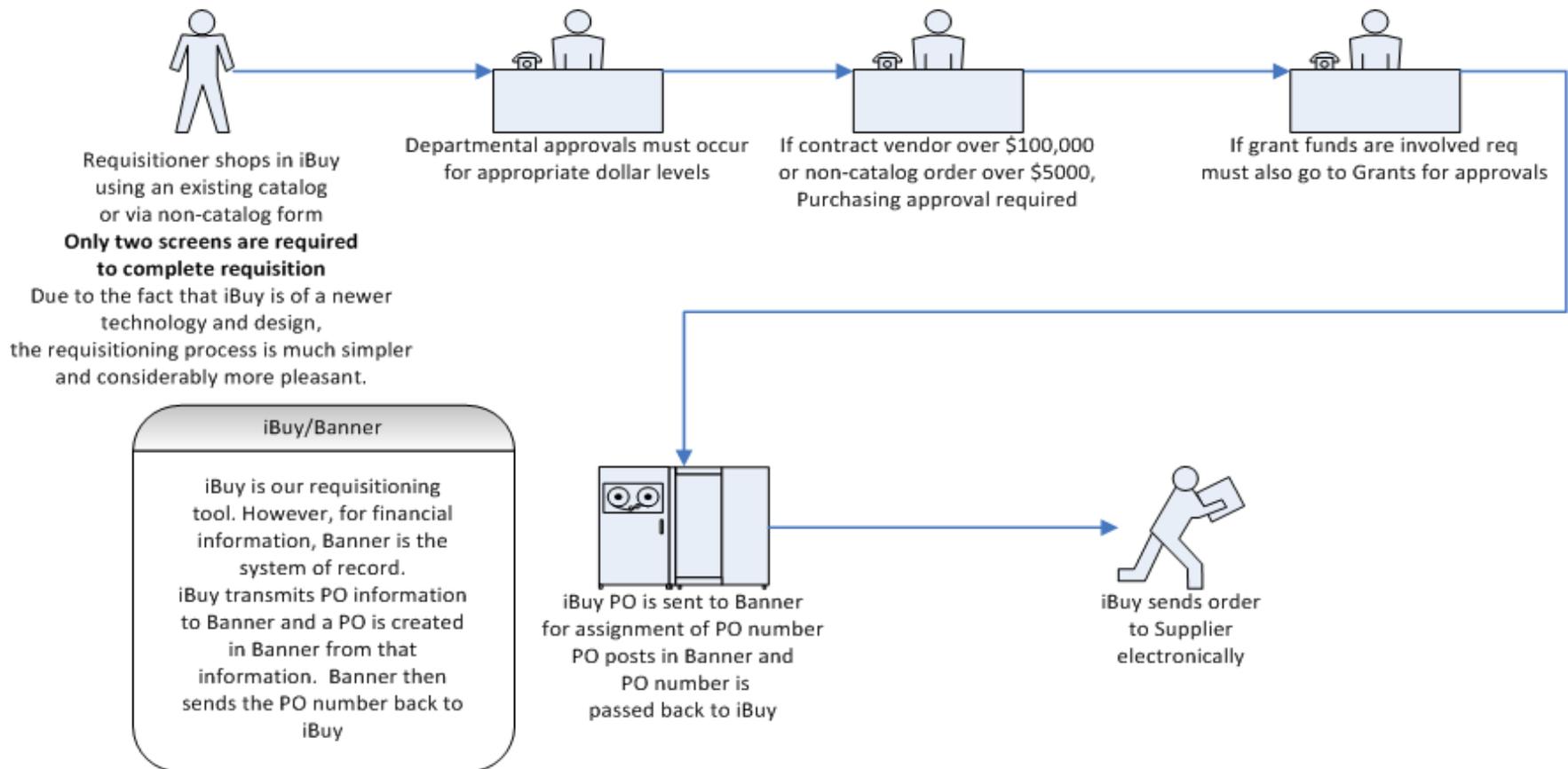
Procurement Overview – How Business is Done

P-Card Transaction Flow and Reconciliation/Approval Process



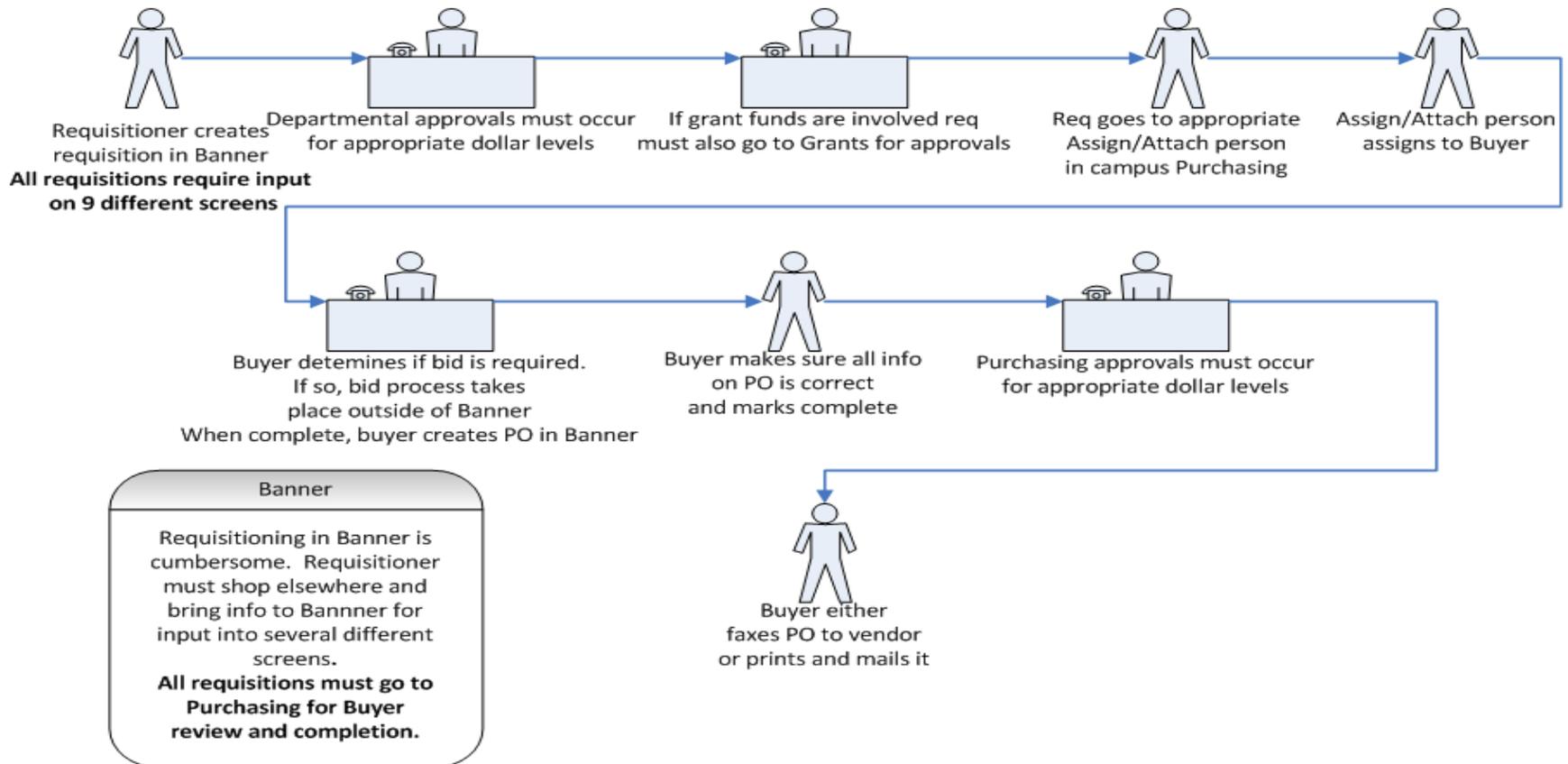
Procurement Overview – How Business is Done

iBuy Requisition Flow and Approval Process



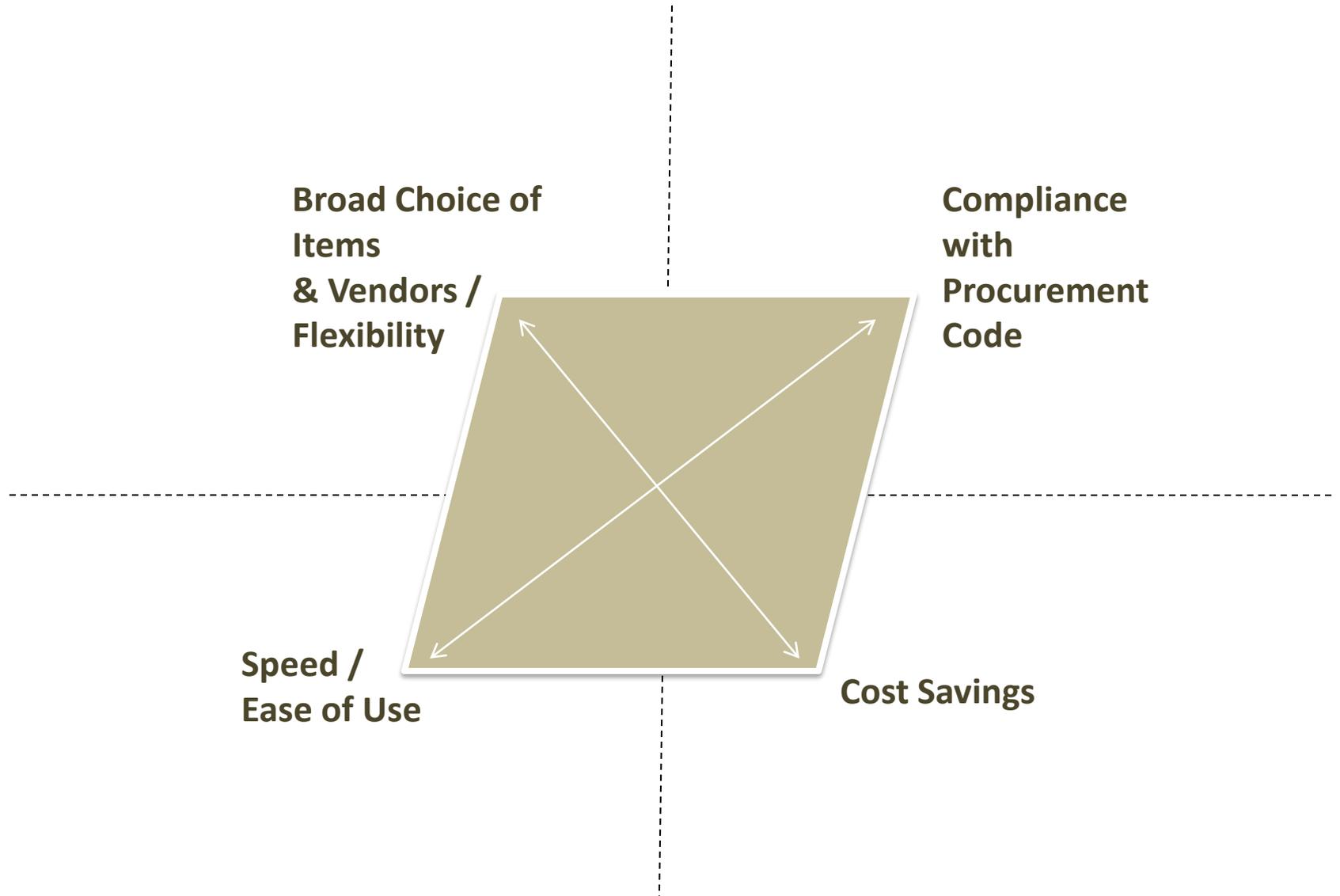
Procurement Overview – How Business is Done

Banner Requisition Flow and Approval Process



Current State Values Conflict

Quality vs. Cost vs. Compliance vs. Time



Business Case for Change

- Campus staff are unhappy with service from OBFS Procurement departments as evidenced in the February 2008 OBFS Customer Satisfaction Survey with the lowest scores going to:
 - Speed of transaction processing
 - Consistency in application of policy and procedures
 - Responsiveness to needs
- OBFS staff are frustrated with campus staff for incomplete documentation, not following protocol, and not meeting necessary deadlines.
- There are a significant amount of internal operational inefficiencies due to a large amount of manual labor and paperwork, lack of necessary tools to manage the work load, inadequate knowledge/skill set of staff, and slow turnaround from other central support units involved in the procurement process (e.g., Legal).
- We are not extracting maximum value from strategic contracts (both cost savings and reduced # of transactions).
- There are increasing rules and regulations imposed by the Procurement Policy Board that are very complex, wide in scope, and require additional time and effort to manage. Senate bill 51 is a concern for all of higher education procurement
- Vendors often do not want to do business with the University because of the complex bid requirements, required certifications, and paperwork involved. This reduces competition and availability of options for the campuses.
- There is a heightened sense of scrutiny and accountability from the Board of Trustees, legislators, and general public; we need to demonstrate that we are using funds wisely and operating in an efficient manner. There will be an audit resolution as the January BOT meeting.
- The budget situation creates an even greater need for cost savings. There is a need to reduce non-academic administrative costs by 15%.

Current State vs. Desired State

Operational inefficiencies

Reduced cycle time, easy to use tools, and less paperwork

Insufficient staff skill/knowledge/behavior
(both OBFS Procurement and campus staff)

Staff that have the necessary skill set, knowledge, and behaviors

Not maximizing value of strategic contracts

Maximize value of strategic contracts

Too few vendors bid

Increased # of vendor bids (particularly socially responsible vendors)

Increasing rules and regulations

Rules and regulations will remain a constraint but will be better managed

Heightened sense of scrutiny and accountability

Increased trust from Board of Trustees and general public

15% reduction of non-academic admin costs

Reduced costs associated with administering the procurement function

Not maximizing cost savings

Increased cost savings

Procurement Improvement Project

- Effort designed to close the gap between current and desired state
- Outlines goals and activities in 5 categories:
 - Organization
 - People
 - Processes
 - Technology
 - Operations
- 1-3 year timeline
- Currently working on project execution – setting final priorities and implementation plan
- Will formally launch in 2010

Procurement Improvement Project - Cont'd

Initiatives:

- Catalog Shopping
 - iBuy in place
- UIC
 - “Purchasing on the Go” department training in place
- UIUC
 - Purchasing Payables/ Roundtable in place
- Payables Webinar training
 - In place
- Electronic Invoice Settlement
 - Go Live 5/2010
- Travel & Expense Management Application
 - In Development
- Sixty University Contracts available
 - In Place

Potential Project Activities Within the 5 Categories of Improvement

ORGANIZATION



Develop a shared mission/vision/strategic direction

- Clarify R&R's
- Assess staffing model
- Develop communications plan
- Establish strategic planning process
- Establish performance mgmt process

PEOPLE

- Develop competency model
- Assess gaps
- Establish professional and leadership development plans
- Train staff
- Establish succession planning process

PROCESSES

- Eliminate non-value add activities
- Identify and standardize processes, procedures, and templates across campuses
- Conduct process re-engineering if needed
- Establish perf metrics
- Enhance documentation on processes and procedures
- Streamline change review/approval process

TECHNOLOGY

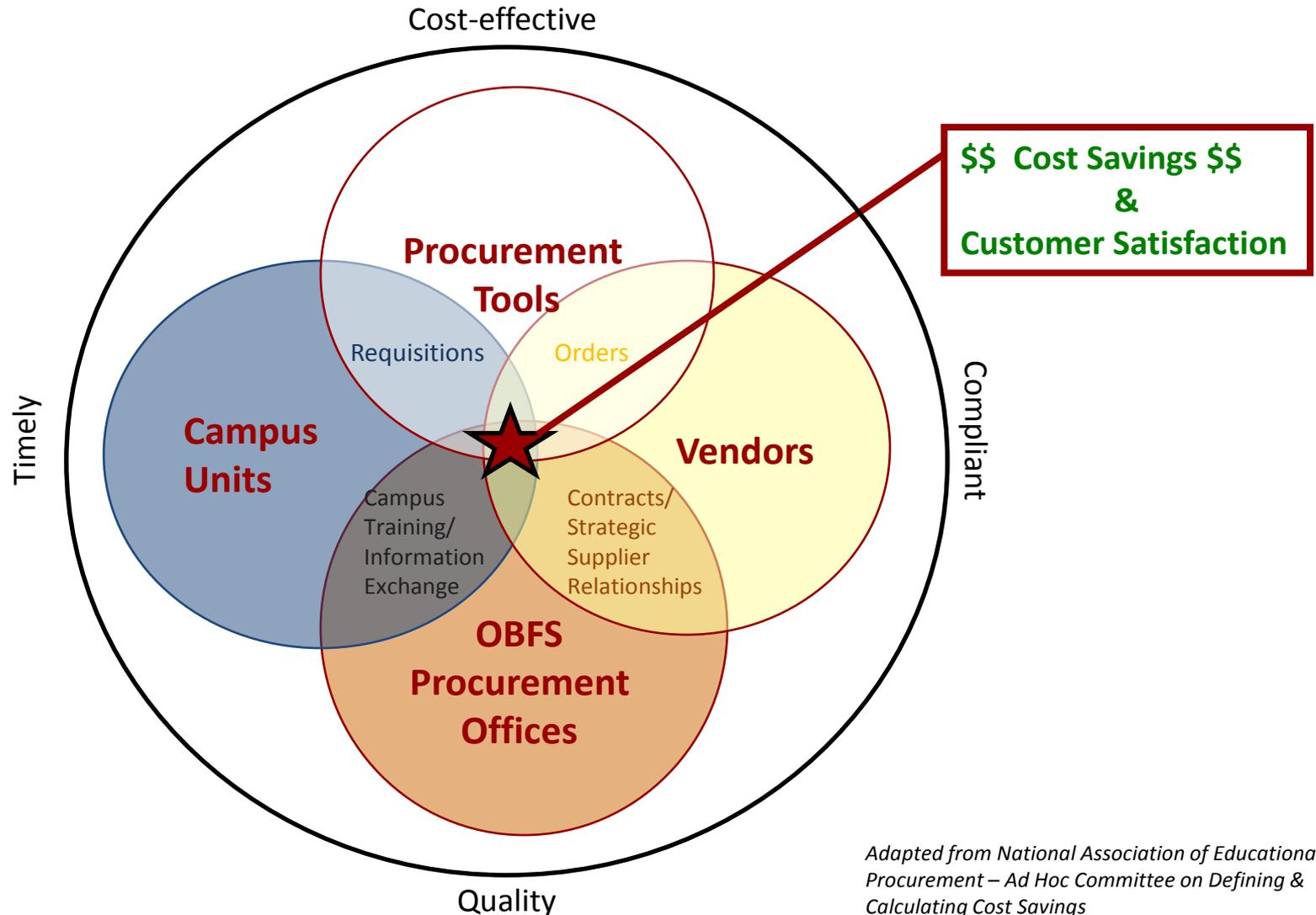
- Conduct gap assessment
- Improve functionality of current technology and/or implement new technology
- Improve website
- Establish iBuy as the single requisition system

OPERATIONS

- Increase number of strategic contracts and make them easy to access/use
- Improve P-card management
- Increase outreach to and usage of green and MAFBE vendors

Vision for Procurement at the University of Illinois

OBFS Procurement Offices, Campus Units, and Vendors working together with the help of efficient tools to make timely, cost-effective, compliant, and quality purchases that support the mission of the University.



Adapted from National Association of Educational Procurement – Ad Hoc Committee on Defining & Calculating Cost Savings

Vision for OBFS Procurement

OBFS Procurement will add value to the procurement process by partnering with campus units to enable timely, cost effective and efficient purchases

Organization:

- Campus-based service model that adds value to high dollar purchases
- Centralized payables function and sourcing expertise that leverages buying power through cost effective strategic contracts
- Campus users handling low dollar purchases through user-friendly and efficient buying methods
- OBFS Procurement viewed as strategic business partner (enabler) versus bureaucratic necessity (gatekeeper)
- Communications that are transparent, consistent and effective
- Culture characterized by shared sense of responsibility and continuous improvement

People:

- Staff at all levels that are professionally trained, understand the procurement process as a whole and the roles/ responsibilities of each department, respect each other's needs, and are proactive in spotting and resolving issues
- Staff with certain commodity expertise and/or knowledge, skills, and ability to provide strategic assistance to units

Processes:

- Processes and procedures that are consistent, easy to understand, and efficient
- Reduced paper documentation and manual labor
- Established mechanisms for measurement and continuous improvement

Outcomes:

- Increased cost savings to the campuses by x %
- Reduced cycle times
- Improved vendor options, especially socially responsible (green & MAFBE)
- Improved compliance with Procurement Code
- Better management of university spend

Technology:

- Technology that decreases the amount of paperwork and manual effort
- Technology that makes it easier for campus users to buy items and services at a good value, and track their orders
- Technology that will allow for more meaningful performance data
- Better information about procurement on the website
- Single requisition system

PROJECT TEAM STRUCTURE

Responsibilities:

- Establish the vision, scope, and priorities for the project
- Provide funding and other resources as needed
- Actively demonstrate support for the project
- Approve recommendations from steering team
- Communicate updates to campus leadership
- Revise project priorities as necessary and resolve critical issues
- Ensure linkages with other campus initiatives
- Assume overall responsibility for success of the project

- Develop project proposal
- Develop implementation plan
- Plan and facilitate project meetings/retreats
- Assemble and coordinate implementation team(s)
- Solicit feedback from advisory teams as needed
- Solicit review/approval on key milestones from executive team
- Monitor progress; raise issues/concerns to executive team

- Develop detailed project plan for area of responsibility
- Perform tasks as outlined in the project plan by the specified deadline
- Report progress and raise issues/concerns to project manager and functional lead

- Review project team recommendations and provide feedback
- Communicate with their colleagues to solicit input or share updates

Executive Team
(project owners/sponsors)

Steering Team
(project management team)

Implementation Teams
(subject matter experts)

Campus Advisory Boards
(stakeholders)

Members:

- Doug Beckmann, SAVP OBFS
- Heather Haberaecker, EAVP OBFS UIC
- Miike Bohl, AVP OBFS UIS
- Maxine Sandretto, AVP OBFS UIUC
- Phil Abruzzi, CPO OBFS
- Campus leadership reps?

Core Planning Team:

- TDB, OBFS (Project Manager)
- Phil Abruzzi (Functional Lead)
- Dave Byers (Change Mgmt Lead)

Functional Team:

- Lourdes Coss, Director Purchasing UIC
- Mike Bloechle, Director Purchasing UIS
- Mike Devocelle Director Purchasing UIUC
- Sandy Ehler, Executive Dir. Payables
- Brad Sheriff, Director Strategic Proc.

- TBD depending on implementation approach chosen
- OBFS staff
- Campus staff (where needed)

- UIS Bus. Mngr. Group
- UIUC Bus. Adv. Council
- UIC AFO Group & OBFS Advisory Committee

Where Your Help is Needed

- Support for the vision for procurement
 - Desire is to have this as a campus strategy and not just an OBFS strategy
- Support for the project
 - Recommend 1 campus leadership rep per campus for PIP executive team
 - Encourage participation of campus staff on PIP implementation teams
- Help us to change behaviors by ...
 - Promoting the importance of cost savings
 - Promoting the use of iBuy and strategic contracts
 - Encouraging campus staff to give us a chance to show we can change
 - Encouraging campus staff to take ownership of their role in the procurement process and be willing to change