

CASE STUDY: USING STRATEGIC PROCUREMENT TO DRIVE CONTRACT COMPLIANCE AT THE UNIVERSITY OF MISSOURI



BY WILLIAM M. COOPER

PHOTO COURTESY OF MU PUBLICATIONS

THE CHIEF PROCUREMENT OFFICER AT THE UNIVERSITY OF MISSOURI OUTLINES THE STEPS TAKEN BY THE UNIVERSITY TO ACHIEVE STRATEGIC PROCUREMENT AND HOW THIS IMPACTED THEIR APPROACH TO CONTRACT MANAGEMENT.

OFTEN VIEWED AS A TRANSACTIONAL BACK-OFFICE FUNCTION, PROCUREMENT IS ONE OF THE FEW DEPARTMENTS AT A UNIVERSITY THAT HAS THE POTENTIAL TO BE A MAJOR REVENUE-GENERATING CENTER. AT A TIME WHEN ENDOWMENTS AND LEGISLATIVE FUNDING ARE SHRINKING, WE ARE UNDER INCREASING PRESSURE TO CONTROL COSTS AND BETTER MANAGE OUR CONTRACTS.

The University of Missouri (UM) knew the benefits of strategic procurement could be enormous, enabling the university to reduce the costs of everyday goods and services, engage more strategically with our suppliers, and leverage the buying power of our user community to negotiate volume discounts.

Like many organizations, it was difficult to reduce maverick spending and drive purchasing to our list of preferred suppliers, as well as capitalize on pre-negotiated discount rates. UM offers a compelling case study for how we were able to drive contract compliance through a more strategic approach to procurement.

There were a number of steps we took along the way that ultimately helped us to bridge the cultural gap that separated the procurement function from the university's user community. This was a critical goal—since making the most of our contracts rests upon our ability to align the right combination of technology and processes to address how purchases are made.

The steps taken at UM to achieve strategic procurement—a situation not uncommon to many of our colleagues in other state-funded institutions—are outlined in this article. In fact, our ultimate selection of the appropriate e-procurement solution was greatly influenced by the experiences of other supply-chain management leaders in higher education.

The State of Purchasing at UM

In 2000, the four campus purchasing offices of UM operated independently of each other with disparate policies, procedures, and organizational structures. Although the same legacy purchasing system was common to all, each campus used its own version that fed into the central financial system. And while the four campuses were often buying from a common supplier base, there was little effort to consolidate purchasing power to take advantage of volume discounts.

As a result, campus purchasing operated as a transaction-oriented “order shop,” rather than as a strategic supply-chain support center that could help UM recapture millions of dollars and provide higher-value services, such as pre-negotiated contracts and sourcing assistance for on-demand needs. Instead, purchasing staff often acted as “procurement police,” rigidly interpreting and applying policies to “just say no” without offering alternative solutions to their user communities. As such, purchasing as an organization was viewed as a bureaucratic necessity that faculty and staff tried to maneuver around. The challenge then was to transform UM procurement into a strategic function whose organizational structure, policies, and processes provided exceptional customer service support, and whose recognized contributions to materials cost containment rendered it a “highly valued partner” in the university community.

Step 1: Consolidate Purchasing

The first and most important step we took was to consolidate these dispersed operations under uniform leadership and policies.

To this end, we created a Procurement Review Committee comprised of diverse users across the four campuses as well as associated service support functions. The committee made several recommendations, including the hiring of an executive-level chief procurement officer to bring leadership and accountability under one umbrella, and the hiring of contract specialists who could engage more strategically with our suppliers and implement university-wide contracts. The committee also recommended that we look into how e-procurement technology could be leveraged to create a central marketplace, with online shopping capabilities to engage the university's user community and supplier population.

Our goal was to reduce costs and create a more service-oriented system that would address the needs of every type of user, while supporting the university's core mission of education and research.

Step 2: Understand Your Purchasing Culture

During the first years of our procurement transformation, we focused on consolidating the purchasing organization and implementing an enterprise resource planning (ERP) system. This formed the procurement foundation that enabled electronic ordering from our contracted suppliers and routing those purchases through our financial systems.

However, the culture of how our user community made purchases was still not addressed—which ultimately, did little for us in terms of optimizing supplier relationships and driving contract compliance.

One of the best examples of this arose with the P-Card, a university credit card that is intended to lessen the need for petty cash and provide users with the flexibility to make quick, unanticipated purchases. We needed to provide this option to help faculty and staff pay for unanticipated low-dollar-value materials. However, purchases made with a P-Card also tend to be off-contract.

We noticed over time that P-Cards had the unintended effect of contributing to

maverick spending and ultimately, contradicted our efforts to drive spending to our contracts. Many faculty and staff simply avoided interacting with the often complex ERP system and instead relied almost entirely on their P-Card for purchases. Thus, the P-Card was being used to buy items off-contract, even though there were contracts in place to cover these types of purchases. Furthermore, the inability to report effectively on P-Card expenses and tie them back to contracted items made it impossible to benefit from the pricing discounts created through our strategic contracting program.

It became clear that a meaningful connection between the buying and selling community had not yet been made. Our ERP system had to be integrated with an online shopping environment that felt familiar to users and would provide them with the confidence to order goods and services online, much as they would in their everyday life. This would be the only way to drive

spending to our preferred suppliers, with whom our contract experts had worked to negotiate value-added services and steep discounts.

Step 3: Create a Central Marketplace to Connect Buyers and Sellers

We sought to extend the power of online procurement to the user community from administrative staff and faculty to professors, researchers, and executive leadership. We knew the value of the system we were building rested with the people we serve—a community depending on the goods and services provided by our suppliers—not in the chief procurement officer's office or in the lines of a contract. In order to reap the rewards of pre-negotiated contracts and eliminate maverick purchasing, we would have to bridge the great divide between “us” and “them” with an e-procurement tool that was easy

to use and could offer a comprehensive, yet familiar purchasing experience.

UM began the implementation of an e-procurement system in 2006. We chose SciQuest, a leader in procurement automation and supplier enablement solutions, due to the company's proven track record helping academic institutions gain efficiencies and cost savings. Linked to our ERP system, the SciQuest e-procurement solution provides the “amazon.com-like” online shopping experience we needed to encourage user adoption and drive spending with preferred suppliers, while also tracking university-wide spending.

It was critical that we immediately engage our suppliers—since without their support, there would be no online marketplace. We initially targeted our top 18 vendors that generated the largest volume of transactions. These transactions comprised the majority of everyday items our users purchased, such as lab equipment and office supplies. As soon as many of our suppliers heard we were deploying an e-procurement system, they couldn't wait to join because they knew that their “preferred vendor” status would ensure a large volume of transactions. In fact, one major scientific supplier gave us steep discounted prices while we were still in the pilot phase in order to be first in line as a preferred supplier.

Our contract experts were able to leverage this enormous interest during negotiations. Right out of the gate, we were able to negotiate a \$7 million reduction on our product pricing from these 18 vendors alone. In fact, this \$7 million annualized savings is a highly conservative figure as it is predicated on last year's contract usage with an average compliance rate of 30 percent.

We are now evaluating our second wave of 22 vendors, which we expect to add to the marketplace by the end of calendar year 2008. Ultimately, our goal is to drive 75 percent of our supplier-spend through the e-procurement system.



PHOTO COURTESY OF UM UNIVERSITY PUBLICATIONS

Step 4: Don't Underestimate the Value of Marketing

Despite the fact that the suppliers were enamored with our new online marketplace, we still had to convince our user community that this was the best way to acquire goods and services. We knew that changing old habits and processes would be difficult to overcome—particularly in a collegiate environment where administratively enforced mandates are not held in high regard.

Marketing through effective communication vehicles became a critical aspect of our implementation program, an essential step that we would recommend to any other institution considering a similar project. Without a communications strategy, it is impossible to maximize contract compliance among users. Ongoing communication is especially important in organizations and departments that experience a high volume of turnover, as well as to help the academic community stay attuned to the needs of administration. We wanted to make the procurement function not only easy to use, but also completely transparent to everyone involved. Unlike with our suppliers, where the monetary benefits may be obvious, we had to convince users why our new online marketplace would save them time and save the university money.

To this end, we conducted a number of activities to market the system, including supplier fairs. We held several fairs on each of the four campuses just prior to the pilot of our e-procurement system to create a buzz in the user community. The suppliers showed off their wares during the fair, and many conducted raffles that encouraged people to visit their booths.

Another outreach tactic we used to engage the university community was soliciting their ideas for the name of our e-procurement Web site, as we felt it would be important to personalize the online shopping experience with a name they chose. Each campus submitted their proposed names online, and we created a lot of hype and excitement around the winning name, the Show Me Shop. This online shopping destination, which was rolled out in January 2008, also

promotes our preferred suppliers. This type of free marketing is invaluable to them and creates a positive relationship among the buyers and sellers. It also helps our contract negotiations team as they look to bring new suppliers onto the system.

Strategic Procurement Pays Off

The university has already realized more than \$24.3 million in savings from the successful transformation of our operational model and service strategy for procurement—which ultimately has positioned procurement and our department as a “high-value” function at the university. With the rollout of our e-procurement system recently completed—the final stage of our multi-year plan—we expect to save millions more by providing the mechanism through which our strategic procurement strategy can be achieved. UM saved more than \$7 million just through better negotiated rates from the first wave of suppliers, which we expect to multiply as we increase our marketplace supplier base.

The e-procurement system has enabled us to truly bridge the culture gap between the procurement function and the university's user community by providing an easy-to-use shopping tool that facilitates their purchasing needs while saving the university money and allowing the procurement group to focus on more high-level strategic activities.

Our strategic approach to procurement has enabled us to make adjustments along the way to solve issues, such as those we experienced with the P-Card's unintended contribution to maverick spending. Users are discovering that purchasing goods and services through the online marketplace is even easier and faster than using their P-Card. All they do now is log into the Show Me Shop, browse the online marketplace filled with goods and services from our preferred vendors, and add items to their virtual shopping cart. The items are automatically ordered and routed through the appropriate channels through the ERP system—providing a true one-stop shopping experience.

The P-Card is now being used for its intended purpose of allowing users to make unanticipated and immediately required purchases. The Show Me Shop can now become the online shopping destination of choice that drives the bulk of the university's purchases to preferred suppliers and the pre-negotiated contracts they offer.

Our continuing efforts to automate the procure-to-payment process have provided the procurement group with more time to remain focused on strategic activities. We can spend time visiting each of the campuses to determine their needs and assist with the acquisition of big-ticket items through strategic sourcing initiatives that free users to focus on their jobs, while we concentrate on attaining the items they need at the best possible price. In many cases, our professional negotiation expertise results in significant savings that faculty and staff members can then reallocate to further strengthen their programs and initiatives. This is where procurement and proactive contract management becomes much more valuable in the eyes of the people we serve.

The potential for vast savings has already been proven, and our projections are even higher. We expect to achieve as much as \$17.9 million annually at full system maturation. What other “back-office” function at a university can create such a financial impact?

The steps we took to achieve these savings by ensuring spend occurs on-contract through preferred suppliers have proven beneficial for the entire university community. From better service for end users to bigger bottom-line results, this is an approach that other state-funded systems can benefit from as well. **CM**

ABOUT THE AUTHOR

WILLIAM M. COOPER, C.P.M., is the associate vice president of management services and chief procurement officer at the University of Missouri.

Send comments about this article to cm@ncmahq.org.