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Benchmarking Supply Management Efficiency

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SPRING BRANCH INDEPENDENT SCHOOL DISTRICT

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Why Do We Measure?

To accurately determine how your procurement organization is performing what are the key metrics used to measure and benchmark supply management efficiency and effectiveness. What constitutes excellence in public procurement and how is it measured? How can you demonstrate your purchasing department's value to the organization?

Your Presenter

- Rick Gay, CPPO, RSBO, RTSBA
Director of Procurement Services
Spring Branch Independent School District
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- Award winning Procurement Sherpa with extensive leadership, staff and management experience in the US Military, State and Local Government, Academia, Corporate Business, and Public Education
- 25 years as a school business official with Clear Creek, Plano, Baltimore County, Houston and Spring Branch
- Published author and conference speaker internationally, nationally, and regionally
- BA - Public Administration from Stephen F. Austin, MPA -Troy University, MBA - U of H, Graduate U.S. Army Command & General Staff College
- Lieutenant Colonel, Field Artillery, USAR (Ret)
- Eagle Scout - Boy Scouts of America
- Hometown: Houston, Texas
- Married 43 years to a Texas Girl from Longview – 3 Children & 4 grandchildren
- My wife is a 33-year elementary school classroom teacher, so I get to hear about what's going on in the classroom everyday.



Learning Objectives

1. What are some of the ways to measure purchasing performance as a means of demonstrating the strategic value of the purchasing function to top management.
2. What are the mistakes in measuring and reporting purchasing performance that produce the exact opposite effect.
3. Why actively measuring your performance is the key to continuous improvement across an organization's supply base.

Vision

- Our procurement vision must allow everyone throughout the organization to align with it. It must be one that addresses current bottlenecks and problems that need to be fixed, as well as creating a future state that improves both the role of procurement and The functions we support as a whole;

“Therefore our vision is to become the premier K-12 procurement platform in the nation by demonstrating value and integrity to the District, the Community, and the State and following standard operating procedures that are always Fair, Inclusive, and Transparent.”

Mission

“The mission of SBISD’s Procurement Services Department is to ensure the uninterrupted flow of goods and services needed to efficiently operate the district cost-effectively, the right products and services at the right price, to the right location, at the right time, every time. “

Values

- *Procurement Services will become trusted partners among our schools and departments by providing direct support to the Spring Branch Independent School District for all of its procurement needs in a manner that is ethical, impartial, open, fair and honest that sustains a continuous and measurable improvement in student Performance.*
- *Procurement Services will endeavor to ensure our customers and our community receive full value through total customer satisfaction.*
- *By exhibiting our highest ethical standards consistent with federal and state laws, Board of Education policies, and best business practices, to assure the “Best Value” through the timely acquisition, and distribution of goods and services at the best possible price on the basis of a competitive solicitation process, considering cost, quality, suitability, service and delivery.*

The importance of metrics in Benchmarking Procurement

- When undertaking benchmarking initiatives it's imperative that your method includes reviewing quantifiable metrics.
 - Benchmarking should not be subjective. For most businesses that will mean reviewing performance metrics – bear in mind these metrics need to be easily transferable (i.e. that the measures means the same in each business and that you are comparing “apples with apples”). An example of an easily transferable metric is “on time delivery” – this is a universal measure that all procurement organizations are aware of and one that is usually easy to obtain data for.
- So what other common benchmarking measures should we consider?
 - Purchase Order processing
 - Supplier Performance & Management
 - Supplier Sourcing
 - Purchasing Cost – What Value do I bring to the table?
 - Supplier management
 - Delivery performance
 - Cost can be compared to other organizations

What is Benchmarking

- Benchmarking is the process of identifying and understanding outside practices to help improve your own or your organizations performance.
- This includes comparing your practices and procedures to examples of best practice with your peers.
- Benchmarking helps facilitate the introduction of best practice into your organization by identifying the gap between best practice and your existing processes.
- Such improvements can better help satisfy customer requirements and Cost, Quality and Delivery.
- Benchmarking can be very beneficial to supply chain organizations as it provides a direct and quantifiable comparison of performance.

What are the typical steps in Benchmarking supply chain?

- Identify the process to be benchmarked
- Identify the resources to carryout the benchmarking
- Identify the peers which to benchmark against
- Collect the data
- Analyze data and develop gap analysis

SMART GOALS

- SMART is an acronym that you can use to guide your goal setting. To make sure your goals are clear and reachable, each one should be:
 - **S**pecific (simple, sensible, significant) Meaning it's clear what achieving the goal will look like.
 - **M**easurable (meaningful, motivating) There is evidence of specific action steps and improvement that demonstrates success.
 - **A**chievable (agreed, attainable) stretches the organization toward improvement, but not out of reach.
 - **R**elevant (reasonable, realistic and resourced, results-based) as to it's importance and the progress that can be made in one year or year to year.
 - **T**ime bound (time-based, time limited, time/cost limited, timely, time-sensitive) as to when the goal can be expected to be achieved.
- The definition of the SMART acronym may need updating to reflect the importance of efficacy and feedback. However, it has been recently expanded to include extra focus areas; SMARTER, for example, includes **E**valuated and **R**eviewed.

SBISD Office of Procurement Services

GOALS

When we ask ourselves here at SBISD, “What are the evolving major challenges facing SBISD in public procurement and strategic sourcing, over the next five or more years? We would also ask what strategies are need to be put into place to allow us to cope with those challenges? I believe we need to concentrate on the following specific areas:

- **Growth & Development - Thoughtfully engages with the SBISD community in a mutually respectful, collaborative, and inclusive manner.**
 - Developing Staff
 - Seeks or creates professional learning opportunities
 - Professional Growth
 - Human Relations
- **Culture & Community - Leverages processes, people and technology to pursue individual, team, and district goals and objectives.**
 - Communications
 - Working with the Community

SBISD Office Procurement Services GOALS

When we ask ourselves here at SBISD, “What are the evolving major challenges facing SBISD in public procurement and strategic sourcing, over the next five or more years? We would also ask what strategies are need to be put into place to allow us to cope with those challenges? I believe we need to concentrate on the following specific areas:

- **Operations, Systems & Planning**
 - Managing Operations
 - General Performance Characteristics
 - Manage risks and volatility
 - Inspires trust and respect
 - Digitalization & transparency
- **Leadership & Professionalism**
 - Fosters an environment of continuous improvement
 - Problem Solving
 - Ownership and Responsibility
 - Self-Motivation
 - Assume additional responsibilities

Example Opportunities When Benchmarking Procurement.

- **Numbers of Purchasing Staff**
- **Total Cost Savings.** This procurement KPI measures the amount of money saved by the purchasing department on an order. For example, if the product cost was \$1000, and your purchasing agent was able to negotiate the cost down to \$900, that's a \$100 or 10% Total Cost Saving for your company. This can also be expanded to other cost items, such as the amount of money saved on the cost of ownership of a product over time. For example, if you always buy the same raw materials year over year, your purchasing agent may negotiate the price down for next year.
- **Cost Avoidance.** If you take the last example above (future cost reduction), and make it a standard process of your company, you get the Cost Avoidance procurement KPI. This measures all the active measures your company takes to reduce future costs. This can be done through long-term pricing contracts, or intentional measures to delay a price increase, etc.
- **Managed Spend as a Percentage of Total Spend.** Total Spend is the amount of money your organization spends externally on products and services each year. It does not include salaries. Managed Spend is the amount of spend that the procurement department controls. This KPI measures the degree of trust that management places in the procurement department's capabilities.
- **Cost Savings as a Percentage of Managed Spend.** This KPI measures how effective the procurement department is with responsibilities it has been given.
- **Procurement Operating Costs as a Percentage of Managed Spend.** Procurement operating costs represent the costs the organization incurs for having a procurement department. The cost components may include pay, benefits, facilities costs, equipment and software costs and more. This KPI measures the procurement department's cost efficiency.
- **Return on Investment.** To calculate return on investment, you must first calculate your "return." In other words, by how much does your cost savings exceed your operating costs? Then, divide that number by the operating costs to determine return on investment. This KPI measures the procurement department's cost effectiveness.

Example Opportunities When Benchmarking Procurement.

- **Contract Compliance** – This procurement KPI measures the vendor's compliance to the agreements that were negotiated, such as pricing, terms and conditions, delivery schedule etc. Tracking this for every vendor ensures that the right contract terms are in place, so that unnecessary delays do not occur.
- **Percent of On-Time Supplier Deliveries.** This KPI measures how well the procurement department gets what the organization needs when it needs it.
- **Supplier Defect Rate.** Supplier defect rate can be calculated by dividing number of defective items by the total number of items purchased (or the number of shipments with defects by the total number of shipments). This KPI measures the quality of purchases made by the procurement department.
- **Customer Satisfaction.** Asking internal customers to rate their degree of satisfaction with procurement's performance or to include whether or not they are satisfied can reveal valuable information. When multiple organizations use the same question, benchmarking satisfaction levels is possible. This KPI measures the procurement department's ability to satisfy its internal customers..
- **Procurement Cycle Time.** The average time it takes between requisition submission and purchase order placement is one measure of procurement cycle time. Another type of procurement cycle time that can be measured is the time it takes from the beginning of a sourcing process to the time that a contract is signed. This KPI measures the procurement department's productivity.
- **Value of Supplier Idea Implementation.** Advanced procurement organizations actively solicit ideas from suppliers for cost savings, revenue growth, and the like. They track these ideas and measure the contribution to the organization's bottom line. This type of collaboration is advance by today's standards but is becoming more common. This KPI measures how well the procurement department leverages the intellect in the supply base.

Are All Buyer Performance Measurements Good?

Measuring buyer performance can be tricky. Here are three mistakes commonly made when setting goals against which buyer performance is measured.

- **Mistake #1 Having Cost Savings Be The Lone Metric.**

- One of the most important metrics a purchasing department can share with top management is cost savings. But just because it is one of the most important only metric. If you only measure buyer performance on cost savings it could incent buyers to sacrifice quality, on-time delivery, and/or supplier service for lower prices. So a cost savings metric should be balanced by measuring these other aspects of purchasing performance to cost and overall company performance.

- **Mistake #2 Not Using Net Cost Savings As A Metric.**

- When calculating cost savings, price increases should be deducted from price reductions to produce a that top management expects reported cost savings to equal actual profit improvement. But also consider buyer motivations. By counting only gross cost savings, buyers may be inclined to ignore opportunities to minimize price increases on large spend categories while focusing their time on less critical categories where price reductions are possible, resulting in an overall lower positive impact on profit.

- **Mistake #3 Not Taking Markets Into Account When Setting Goals.**

- When some purchasing managers or some other arbitrary figure to determine the targets for the next year. This can set buyers up for failure. In the last few years, there has been cost volatility in many markets. If the purchasing department promises year-over-year price reductions in markets where prices are rapidly rising industry-wide, top management will likely be disappointed when actual performance is compared with those goals. So give consideration to market conditions when setting buyer goals.

Can Bad Savings Estimates Hurt Your Career?

Whether setting goals for a year or getting management sign-off on a new contract, you can expect to regularly be asked for cost savings estimates that reflect your procurement work. While you may be inclined to give aggressive savings estimates to look good, if those estimates fail to match the actual savings at the end of the year or contract, your reputation will be damaged.

As you would with any risk, you need a plan to manage this risk. Risk planning means identifying all risks that may hamper your ability to succeed; determining the probability of occurrence for each risk; and developing a plan to avoid, mitigate, transfer, or accept each risk. estimates when switching to a new supplier. But it is up to you to figure out the probability of each risk and how you will plan for them in your own situations.

Risk #1: The New Supplier Perform As Expected.

When replacing a supplier who has performed well for years, stakeholders performance right away. In such it'll be pressured to revert to the higher-priced incumbent.

Risk #2: The New Supplier Will Raise Its Price After Securing Your Business.

Savings estimates are usually based on the new supplier proposed pricing. Yes, you can execute a contract to legally obligate the supplier to honor that pricing. But what if the supplier refuses to?

Risk #3: Your Organization Will Buy A Smaller Quantity Than Expected.

Savings is often calculated by multiplying the year-over-year price difference by the quantity to be purchased. So, if the quantity is less than expected, your savings will be too. How confident are you that you know the demand drivers and that the quantity bought notably lower than estimated?

Risk #4: Members Of Your Organization Will Buy From Non-Contracted Sources.

Most savings estimates assume 100% compliance from their maverick buying can occur. How will you ensure that no one in your organization rejects the new supplier?

BIDS & CONTRACTS PROCESSED

- FY 2001 Processed 245 bids/contracts valued at \$145,808,709 Million
- FY 2002 Processed 214 bids/contracts valued at \$198,452,730 Million
- FY 2003 Processed 236 bids/contracts valued at \$174,878,485 Million
- FY 2004 Processed 200 bids/contracts valued at \$178,644,677 Million
- FY 2005 Processed 223 bids/contracts valued at \$214,775,000 Million
- FY 2006 Processed 227 bids/contracts valued at \$300,196,226 Million
- FY 2007 Processed 225 bids/contracts valued at \$368,720,863 Million
- FY 2008 Processed 288 bids/contracts valued at \$340,969,455 Million
- FY 2009 Processed 321 bids/contracts valued at \$330,703,022 Million
- FY 2010 Processed 291 bids/contracts valued at \$308,450,950 Million
- FY 2011 Processed 248 bids/contracts valued at \$363,550,933 Million
- FY 2012 Processed 170 Bids/Contracts valued at \$213,450,904 Million
- FY 2013 Processed 176 Bids/Contracts valued at \$487,099,293 Million
- FY 2014 Processed 193 Bids/Contracts valued at \$304,204,077 Million

Bid/Contract Workload Comparison

Agents	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007 – 2008	2008-2009
Buyer #1	4	26	28	28	23	32	55
Buyer #2	26	35	43	47	35	50	43
Buyer #3	56	59	52	58	43	68	60
Buyer #4	50	53	39	39	38	43	67
Buyer #5	83	26	55	35	34	43	65
Buyer #6	0	0	0	20	52	52	30
TOTAL	219	199	217	227	225	288	320

Bid/Contract Workload Comparison

Agents	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Buyer #1	82	74	53	30	50		
Buyer #2	60	28	24	37	10		
Buyer #3	41	50	26	31	18		
Buyer #4	35	33	20	16	26		
Buyer #5	42	30	30	24	53		
Buyer #6	41	33	17	38	37		
TOTAL	291	248	170	176	193		

Bid Protest Comparison

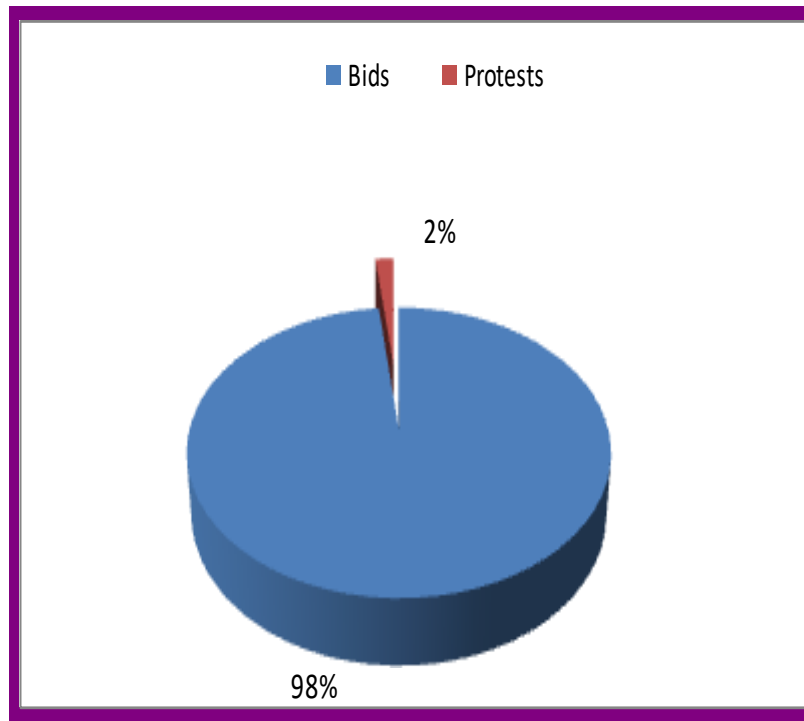
Agents	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006 – 2007	2007-2008
Buyer #1	0	0	0	0	0	0	0
Buyer #2	1	1	1	1	1	0	0
Buyer #3	0	2	7	2	1	2	0
Buyer #4	0	0	1	1	1	1	0
Buyer #5	0	0	0	1	1	1	0
Buyer #6	2	0	0	0	0	6	1
TOTAL	3	3	9	5	4	10	1

Bid Protest Comparison

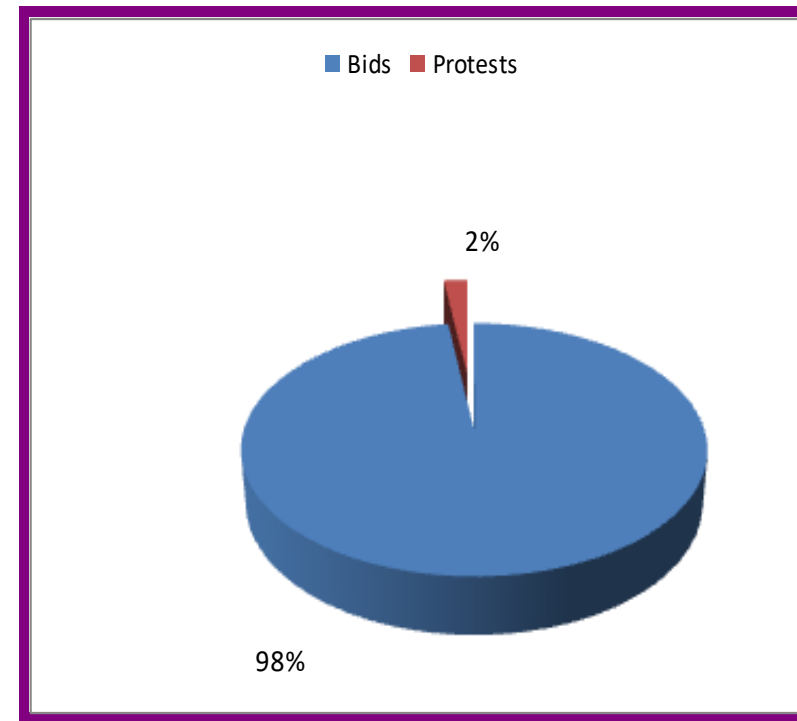
Agents	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Buyer #1	0	0	0	0	0	0	
Buyer #2	0	5	0	0	0	0	
Buyer #3	2	4	2	0	0	0	
Buyer #4	1	1	0	0	0	1	
Buyer #5	1	0	0	3	0	2	
Buyer #6	1	1	3	0	1	1	
TOTAL	5	11	5	3	1	4	

Percentage of Bids vs. Vendor Protests Per Year FY 2002 – FY 2014

FY 2002

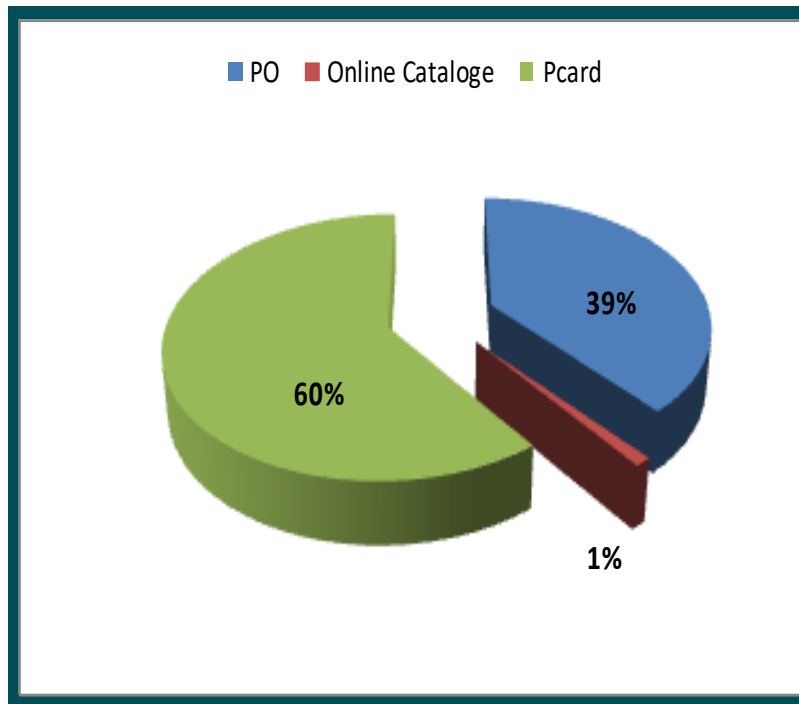


FY 2014

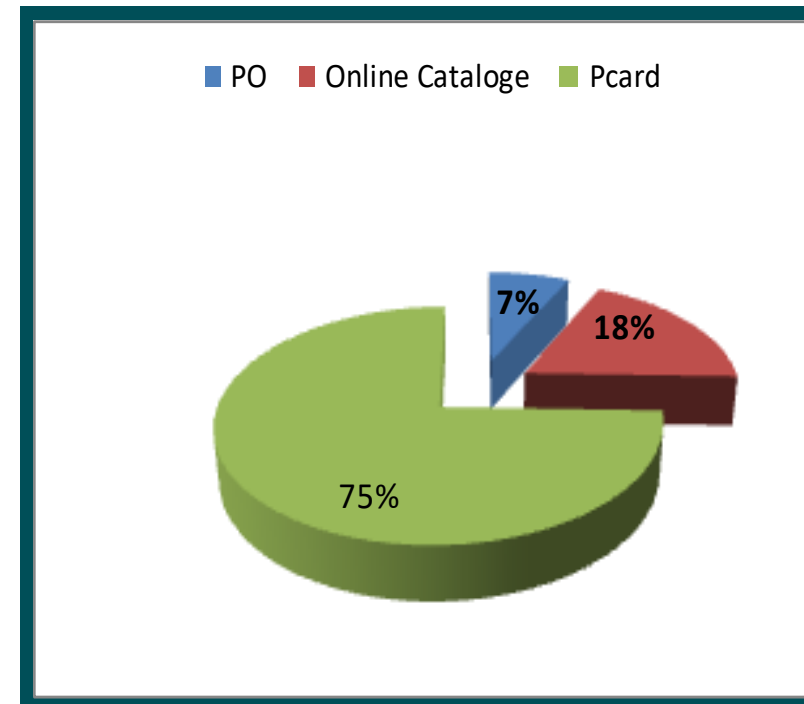


Number of Purchase Orders, Online Catalog Orders and Pcard Transactions Processed Per Year FY 2001 – FY 2014

FY 2001



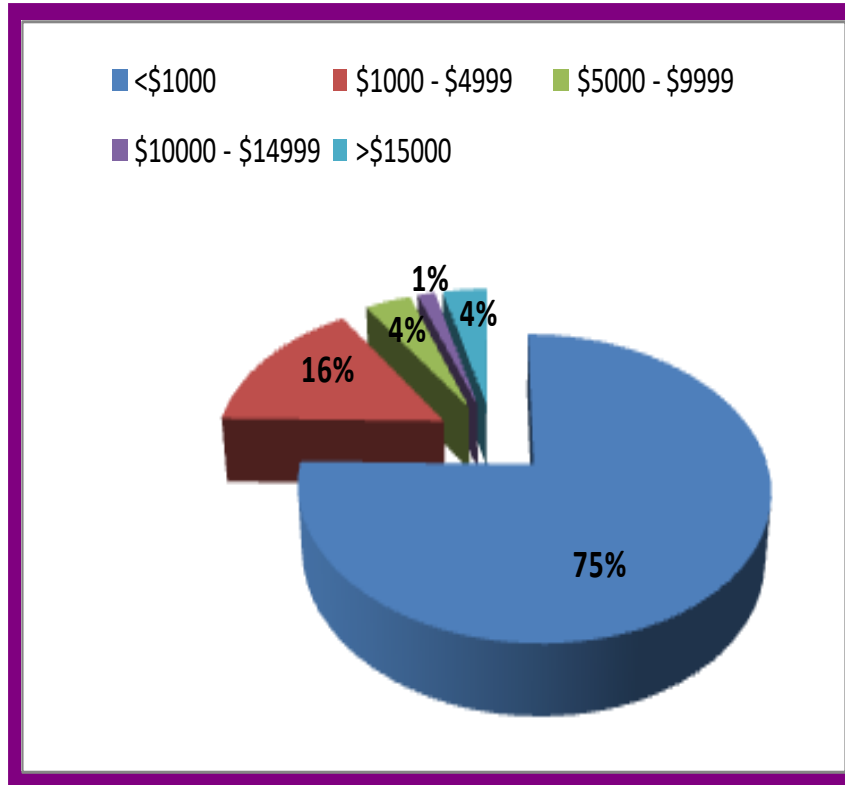
FY 2014



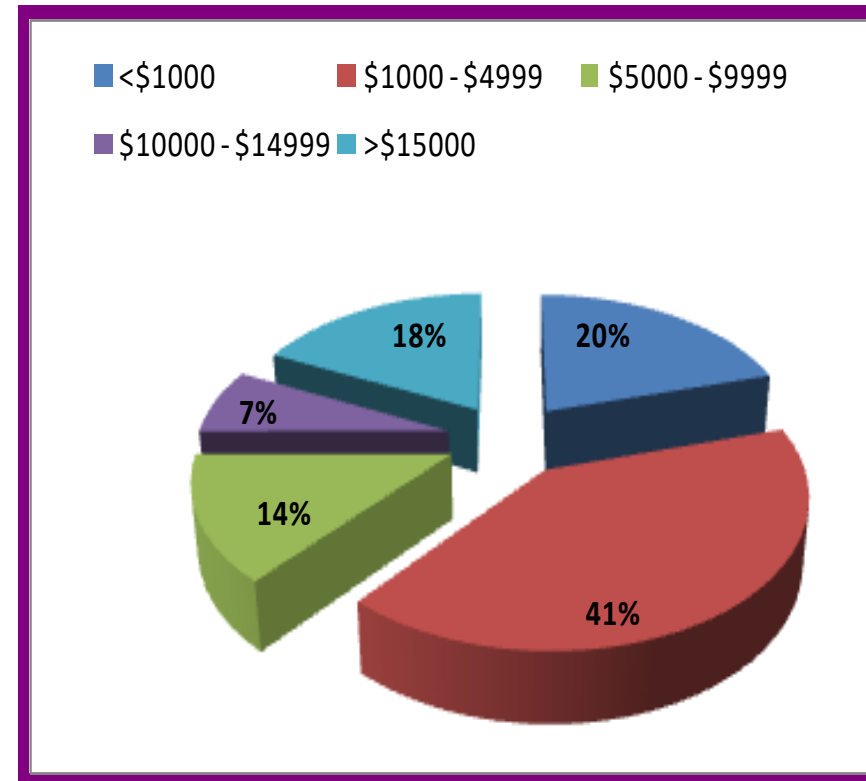
Number of Purchase Orders Processed Per Year

FY 01 – FY 14

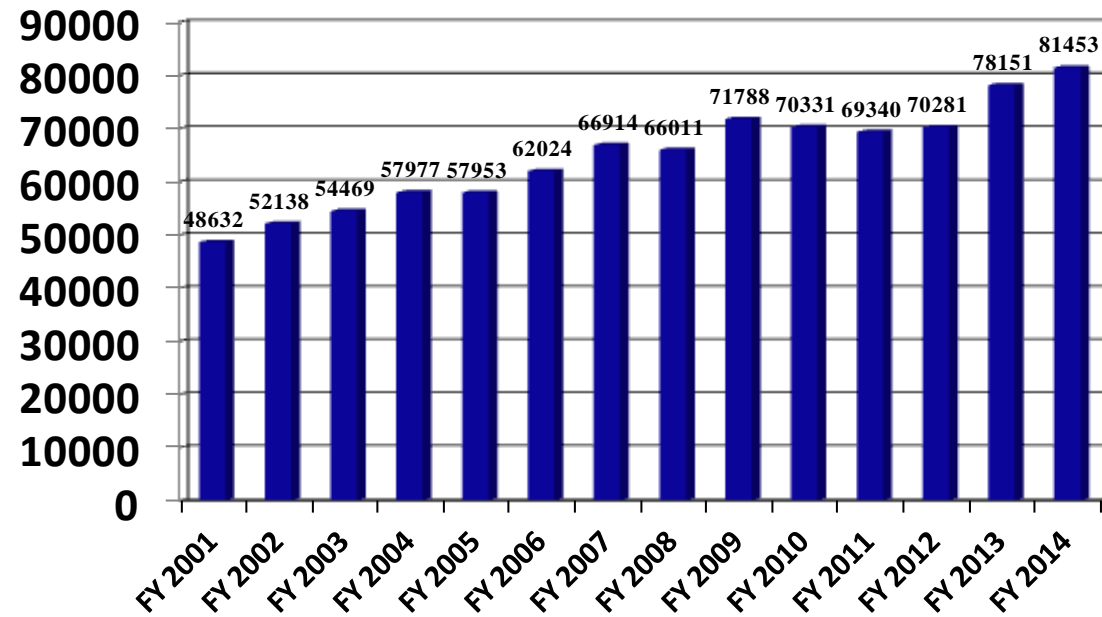
FY 2001
31,189 PO's



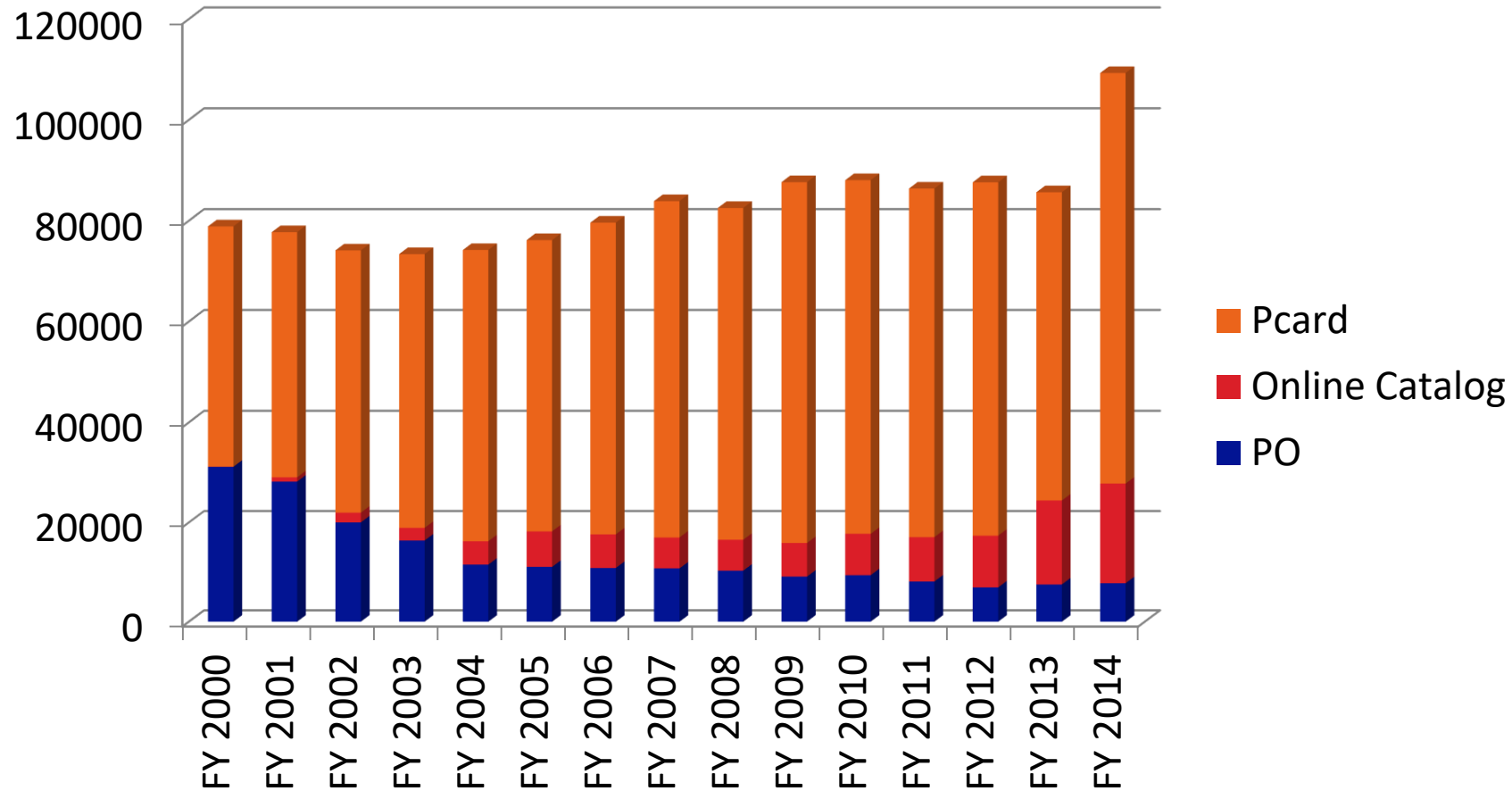
FY 2014
7,743 PO's



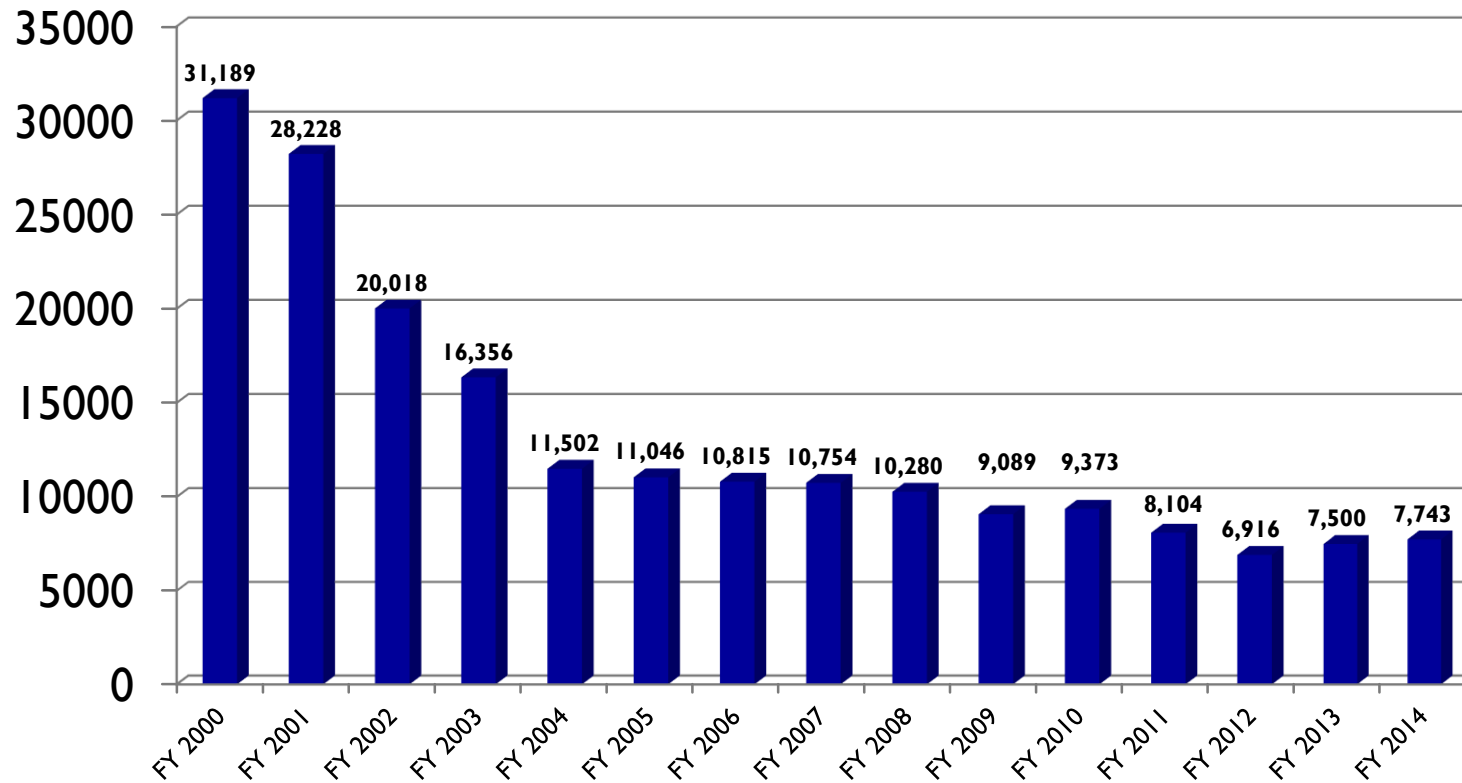
Total Number of Procurement Card Transactions Per Year FY 2001 – FY 2014



Comparison of Orders FY 2000 – FY 2014



Number of Purchase Orders Processed Each Fiscal Year FY 2000 – FY 2014



Workload By Buyer

BUYER	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Buyer 1	8	13	1					
Buyer 2	9	6	3					
Buyer 3	7	2	2					
Buyer 4	0	4	0					
Buyer 5	19	54	21					
Buyer 6	27	18	2					
Buyer 7	36	31	6					
Buyer 8	7	24	10					
Buyer 9	0	0	9					
Buyer 10	68	0	0					
Buyer 11	14	0	0					
Total	195	175	54					

Contract Volume & Value By Month

Month	FY 2019	\$ Amount	FY 2020	\$ Amount	FY 2021	\$ Amount	FY 2022	\$ Amount
Jul	0	0	0	0	10	\$7,415,000		
Aug	22	\$12,221,283	13	\$3,750,185	13	\$12,468,911		
Sep	10	\$9,419,907	9	\$6,540,360	11	\$25,644,628		
Oct	11	\$33,393,505	8	\$36,467,343	6	\$2,999,018		
Nov	12	\$3,470,000	16	\$80,647,810	8	\$23,705,385		
Dec	4	\$560,000	7	\$16,329,653	7	\$23,503,885		
Jan	8	\$10,130,000	8	\$23,932,138	6	\$25,302,692		
Feb	14	\$3,717,420	12	\$44,882,384				
Mar	12	\$22,361,496	15	\$106,616,360				
Apr	25	\$18,535,324	22	\$75,848,964				
May	32	\$18,138,365	31	\$45,814,534				
Jun	46	\$57,961,000	37	\$91,367,059				
Total	196	\$189,908,300	178	\$451,549,447	61	\$121,039,519		

Contracts By Department

FY 2020

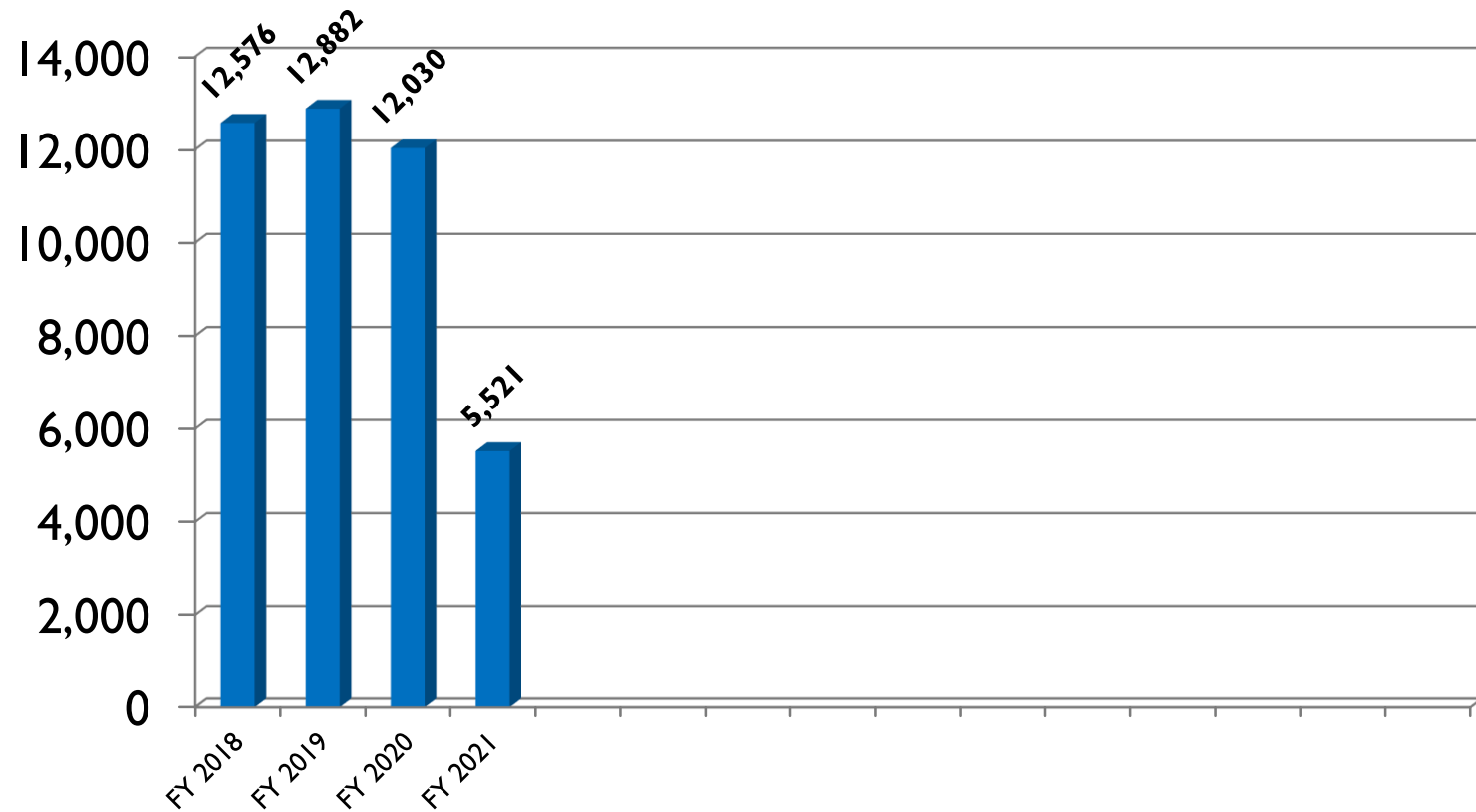
DEPT	# CONTRACTS	\$ VALUE
Academics	39	\$54,844,730
Admin Talent	27	\$30,347,110
Commty Relations	5	\$2,593,474
Finance	33	\$76,229,700
Operations	51	\$326,696,776
Technology	23	\$41,485,000
Total	178	\$532,196,790

FY 2021

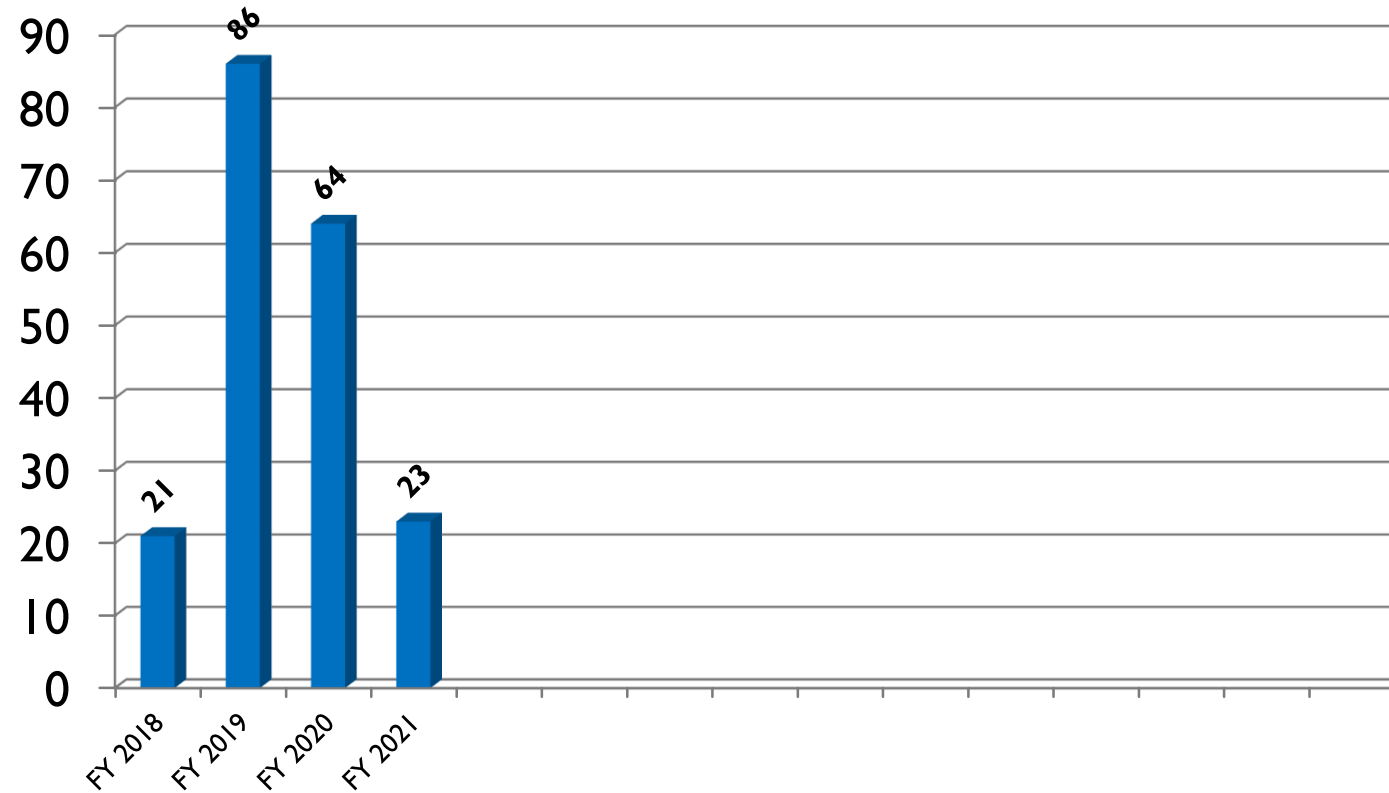
DEPT	# CONTRACTS	\$ VALUE
Academics	7	\$4,490,000
Admin Talent	9	\$5,135,000
Commty Relations	3	\$1,884,000
Finance	4	\$21,400,000
Operations	24	\$29,713,942
Technology	7	\$18,760,000
Total	54	\$78,382,942

Number of Purchase Orders Processed Each Fiscal Year

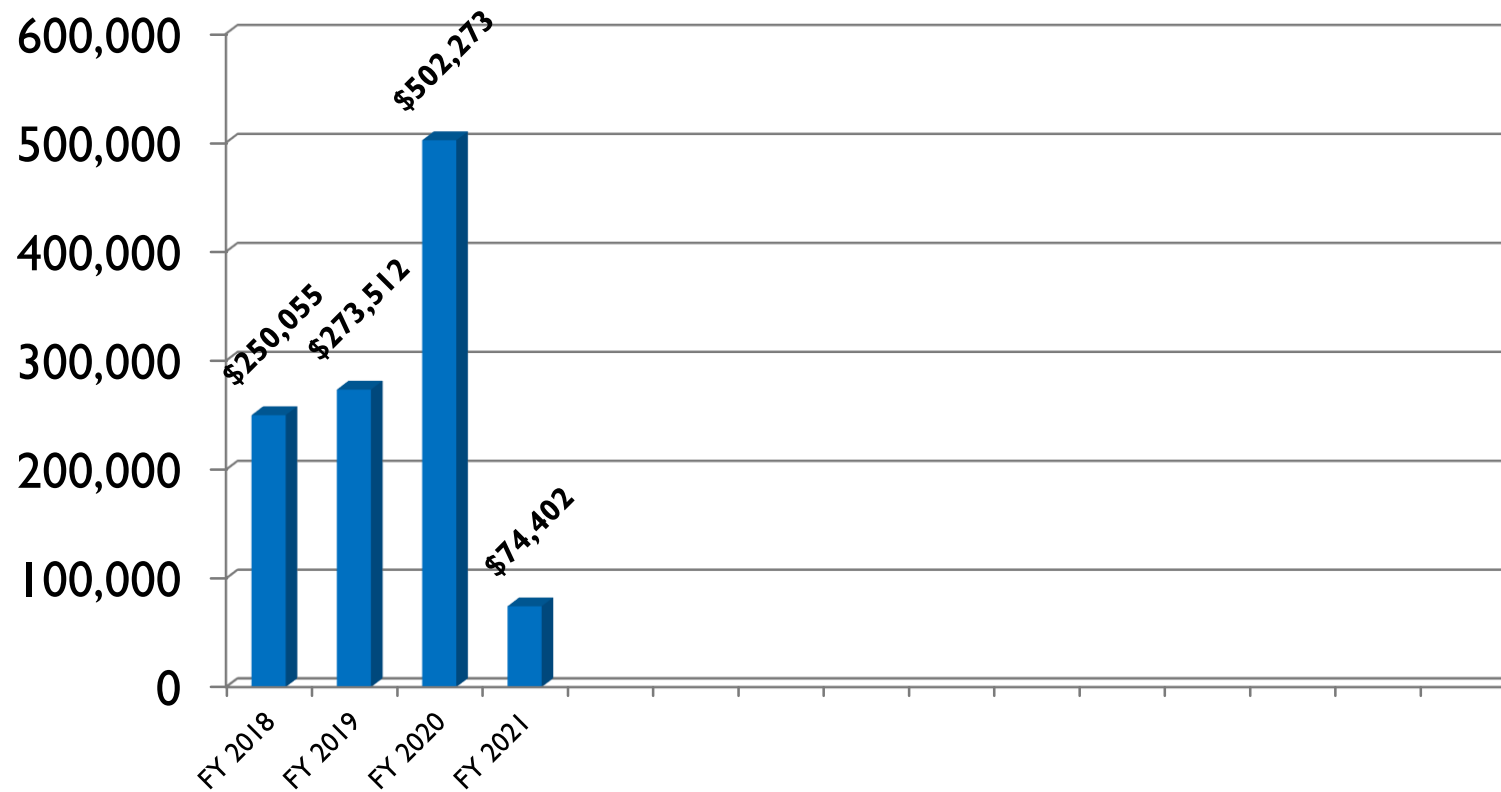
FY 2017 – FY 2019



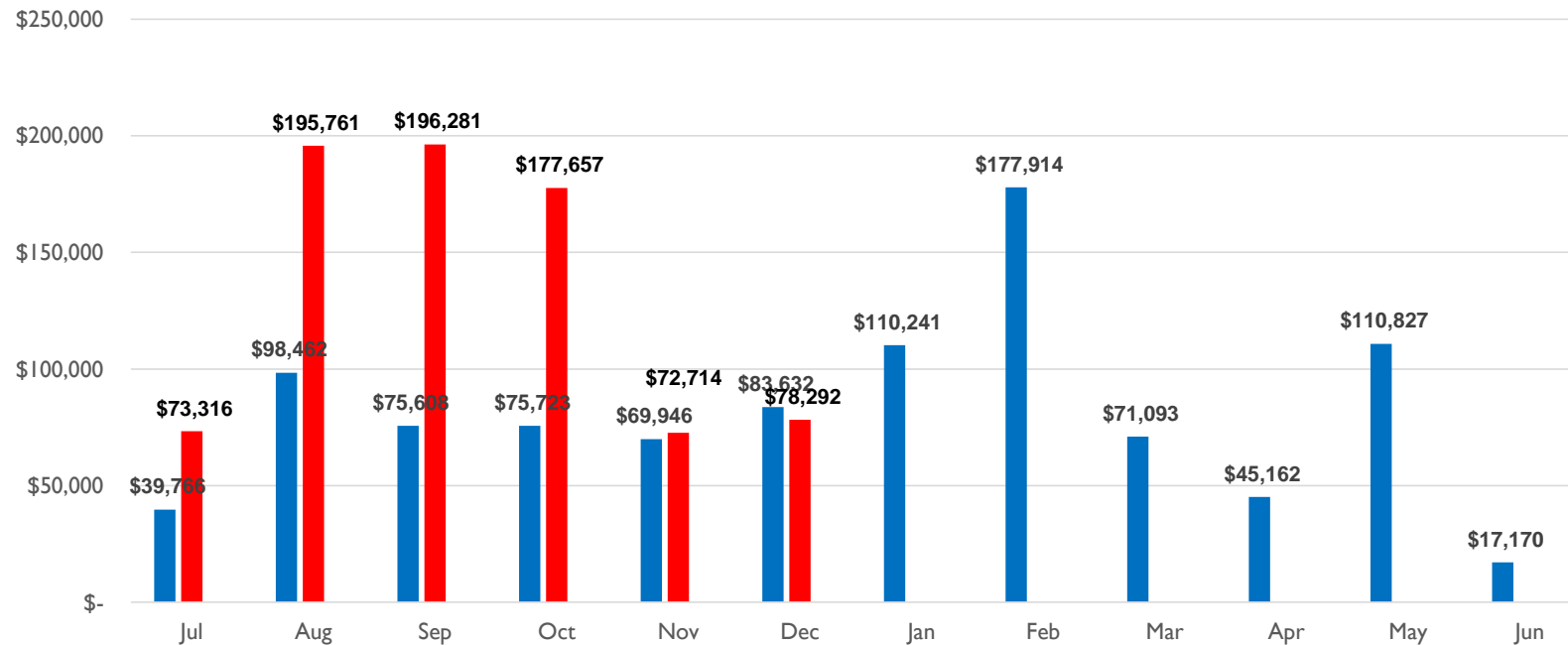
Number of After the Fact Purchase Orders FY 2018 - 2021



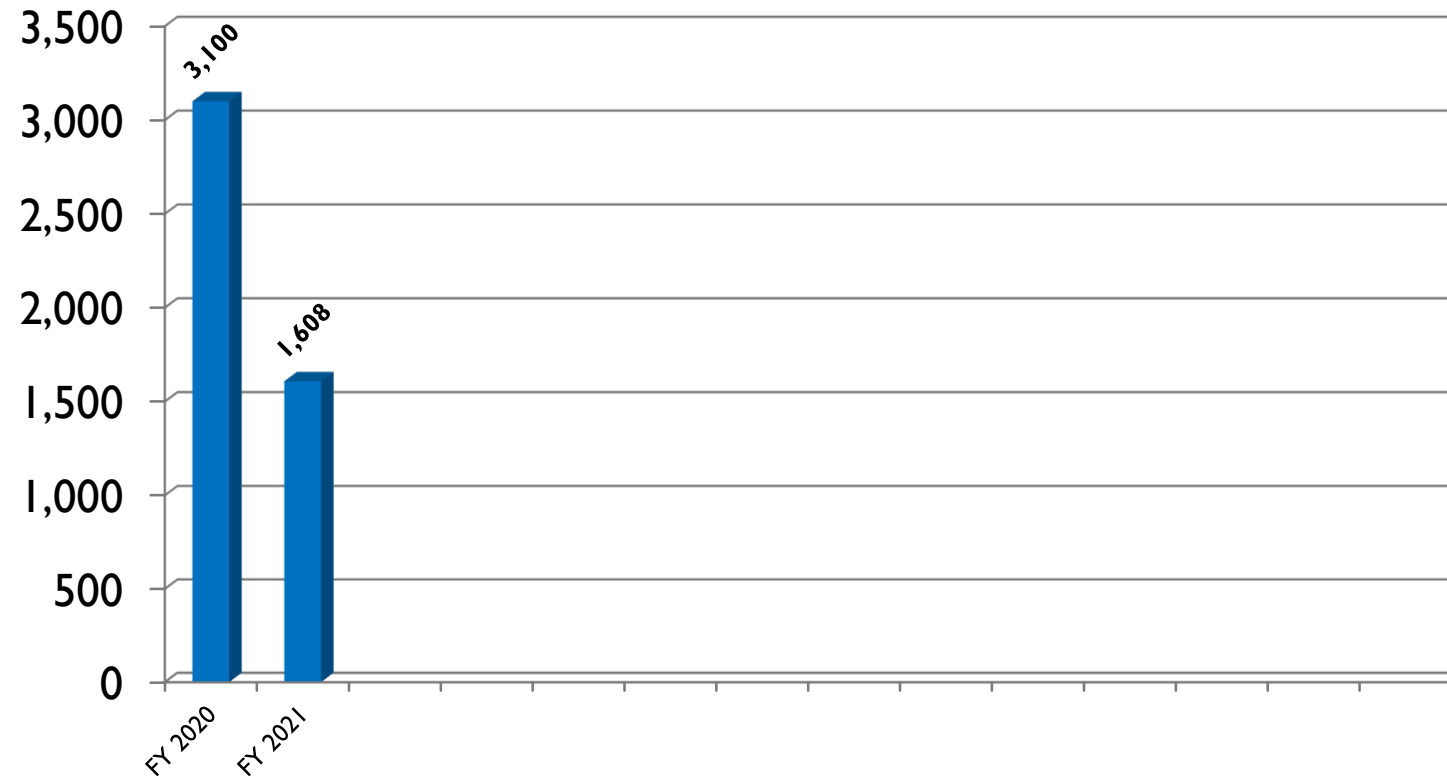
Dollar Value of After the Fact Purchase Orders FY 2018 - 2020



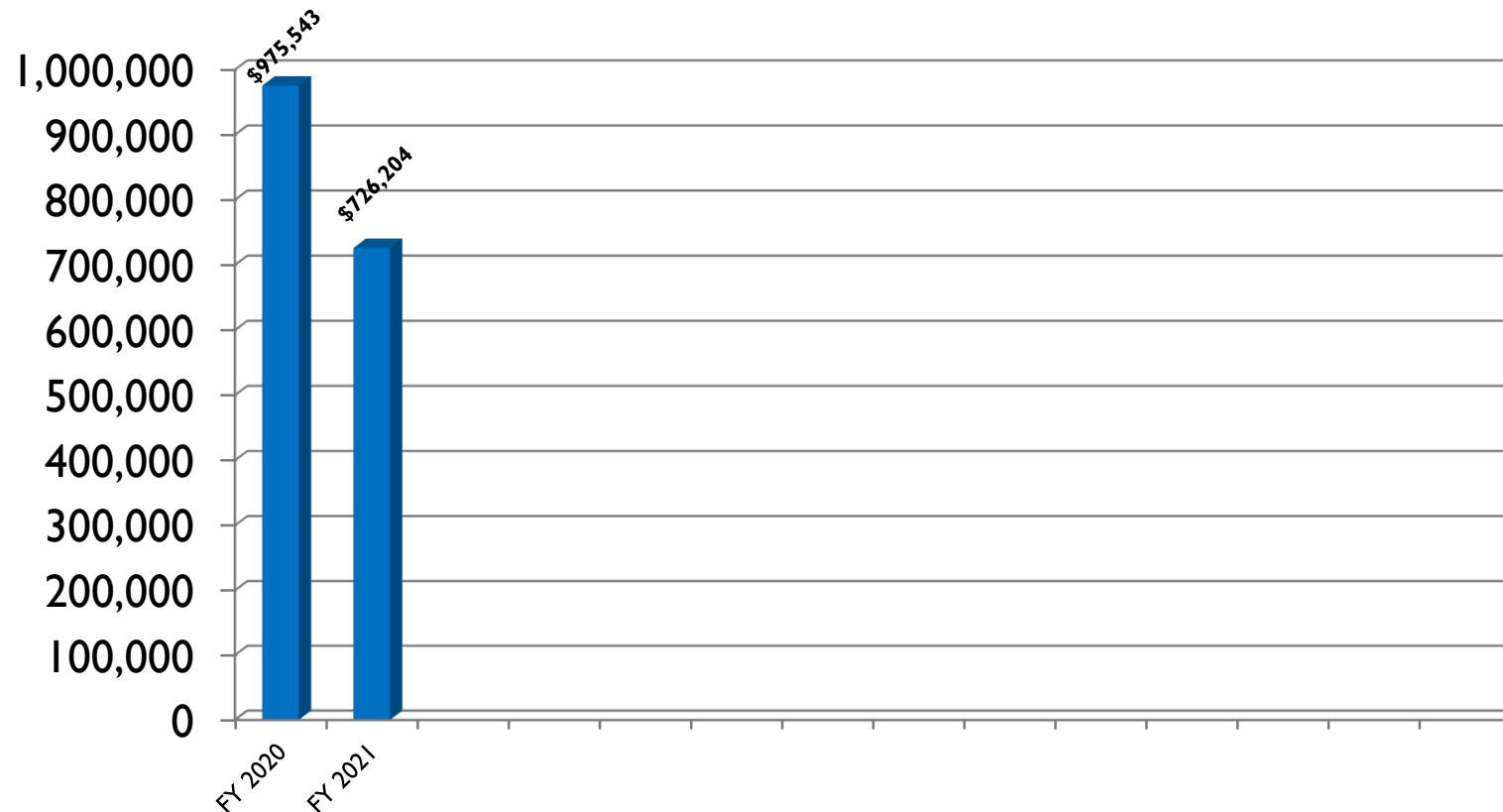
Monthly Usage of AMAZON Platform FY 2020 - 2021



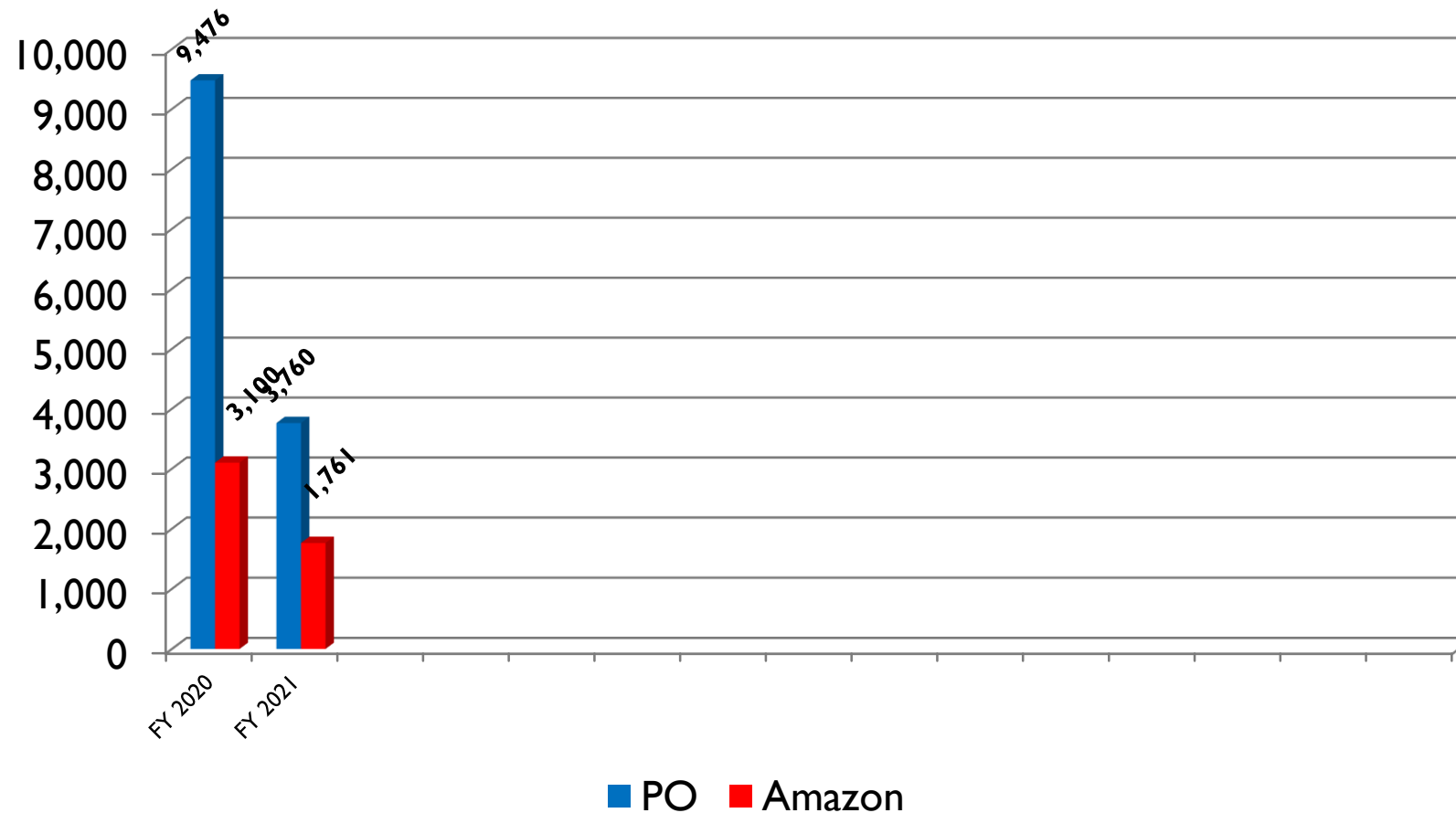
Number of Amazon Online Orders Processed Each Fiscal Year FY 2020 – FY 2021



Dollar Amount of Amazon Online Orders Processed Each Fiscal Year FY 2020 – FY 2021



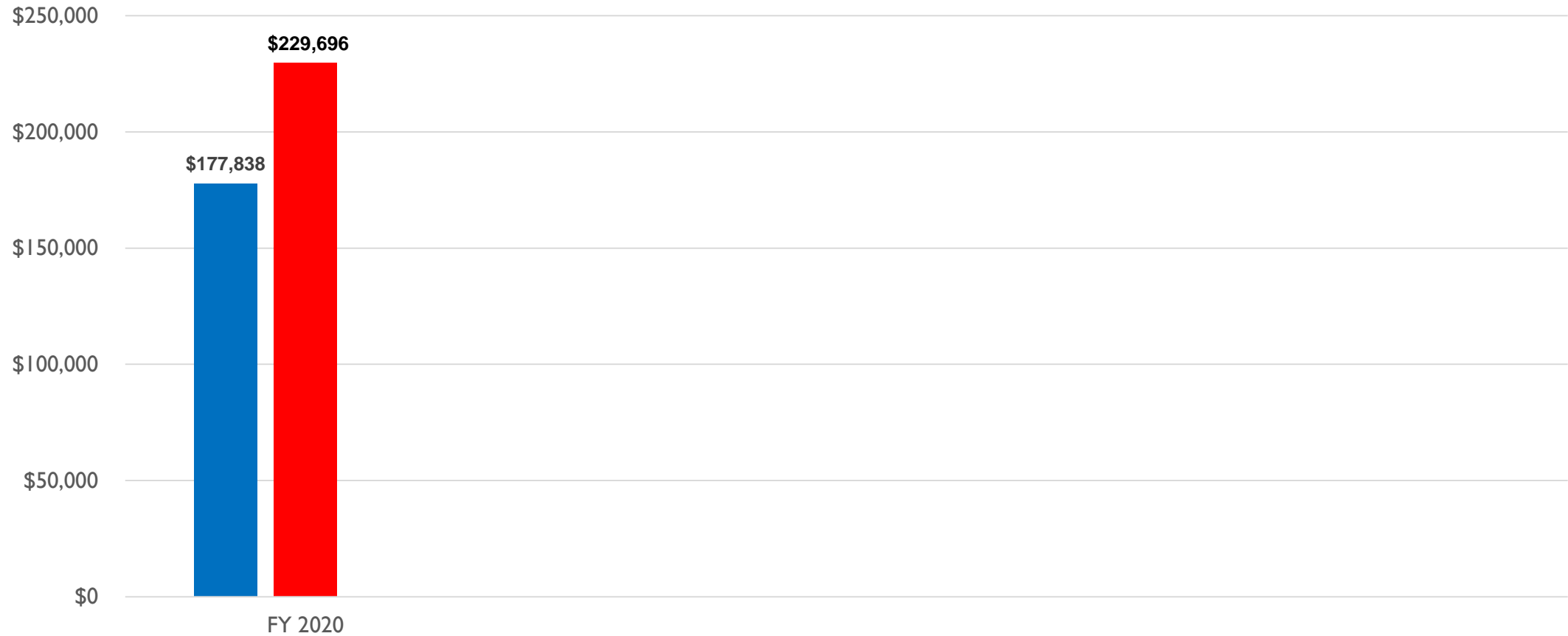
Comparison of PO's vs. Amazon Platform PO's Processed FY 2020



Hard Savings vs Soft Savings

AMAZON Platform

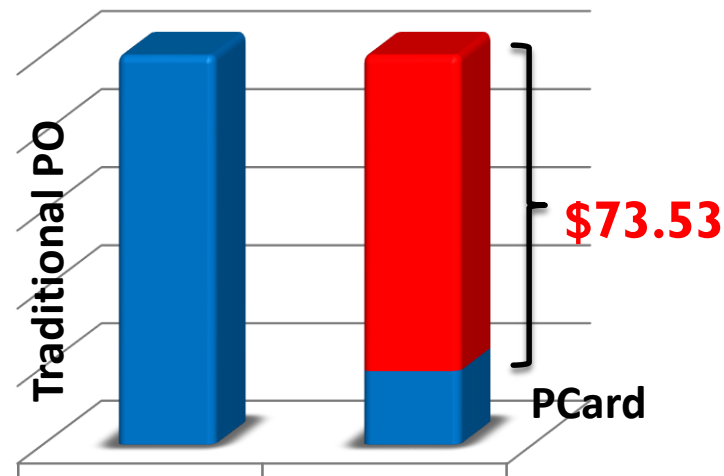
FY 2020



Cost Reduction Per Transaction

The average administrative cost of procuring and paying for a good or service via the traditional purchase order-based process is reported by respondents to be approximately \$91.

The average cost associated with P Card transactions is estimated to be approximately \$17.



- Savings per Purchase
- Cost of Purchase

A net savings of over **\$73** per transaction is attributable to

(Based on the 2012 Palmer Study)

Annual Reporting Results

MBE Participation for state funded construction contracts by Minority Type

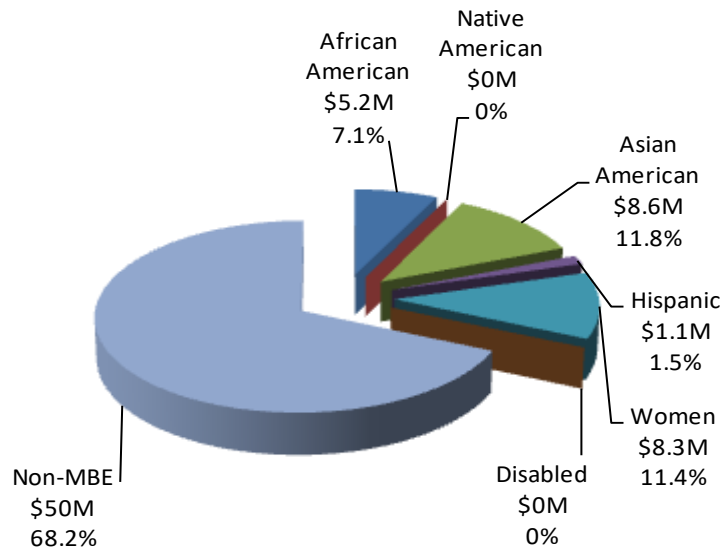
FY2013 MBE Participation

- Amount \$23,252,401
- Percent 31.7%

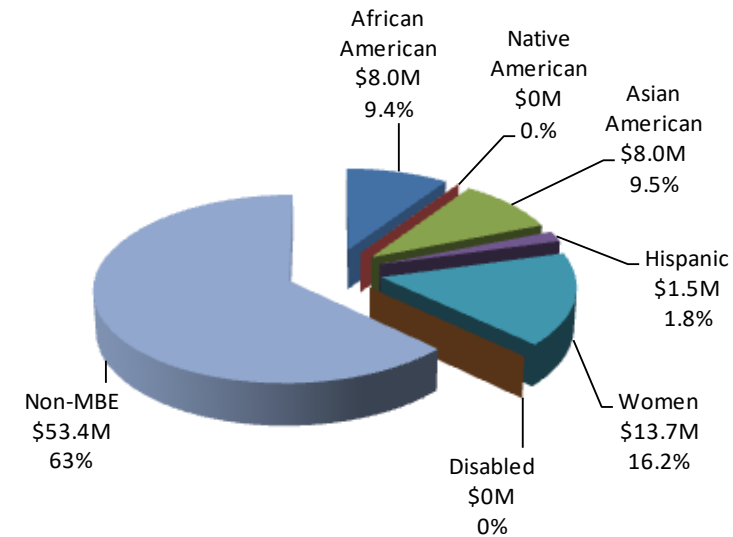
FY2014 MBE Participation

Amount \$31,353,726
Percent 37%

FY2013



FY2014



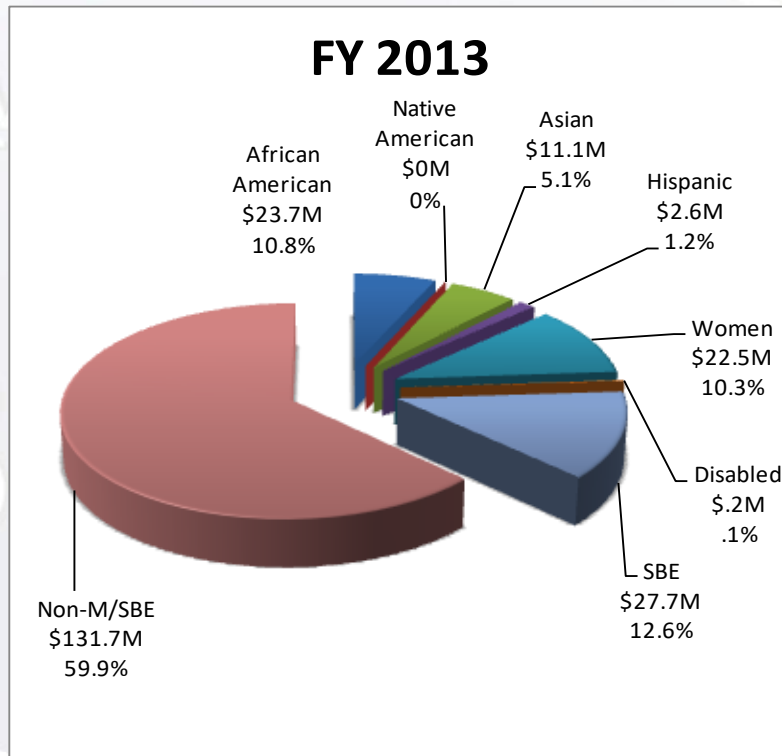
Annual Reporting Results

■ MBE and SBE Participation for All Contracts by Category

FY2013 MBE/SBE Participation

Amount \$87,819,711

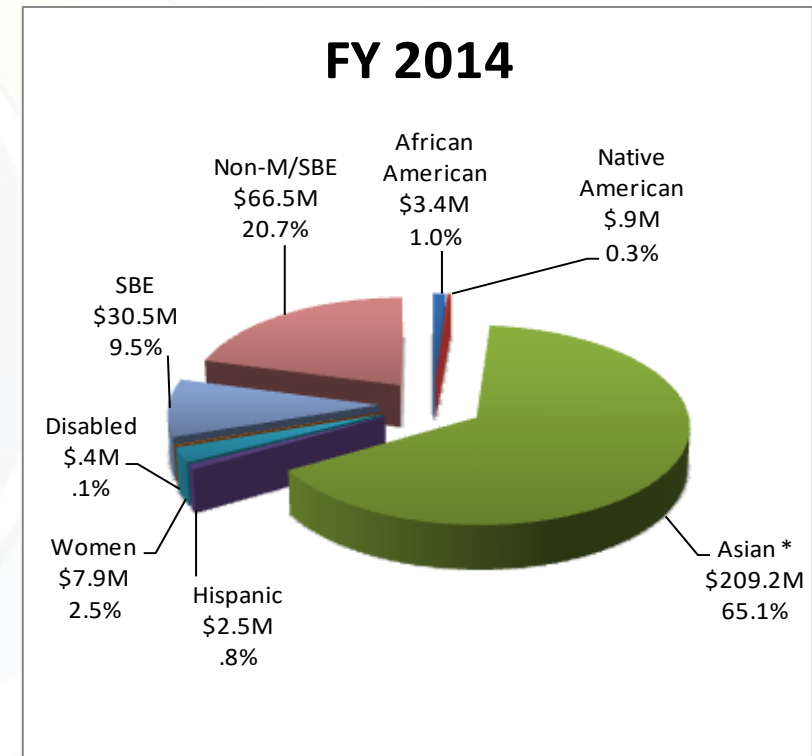
Percent 40.0%



FY2014 MBE/SBE Participation

Amount \$254,854,504

Percent 79.3%



* MBE participation for FY 2014 includes \$205M contract with Daly Computers, an Asian-owned firm.

FY 2020 Award Recognitions

- 2020 National Procurement Institute Achievement of Excellence in Procurement Award Winner
- 2021 Texas Association of School Business Officials Award of Merit in Procurement Operations
- 2020 - 2023 NIGP Accredited Quality Public Procurement Department (QPPD)



Questions?



Benchmarking Supply Management Efficiency
What is Your Mantra?

1. Say what you are going to do
2. Do what you say you are going to do and,
3. Prove it!