

Bringing Innovation to Procurement

Justine Brown | March 4, 2014



When a mid-sized city in the northeastern United States became frustrated with its antiquated accounting processes a few years ago, officials there decided to seek a modern, technology-based solution. Hoping to capitalize on the latest accounting technology while minimizing the city's investment in new servers and software, they opted to pursue a cloud solution.

Mindful of stringent government procurement rules, the city put together an RFP. But rather than write an RFP from scratch outlining its interest in a cloud-based solution, the city borrowed much of the text from an RFP written years before. The vendors that reviewed the RFP were confused. Here the city was saying it wanted a cloud-based solution, yet its requirements as outlined in the RFP were inconsistent with such a solution. As a result, most of the interested vendors simply did not bid.

The only company that did bid on the project recognized the problem, but assumed the situation could be fixed once the job was under way. It was wrong. The company was awarded the contract, but once its representatives sat down with city officials to begin the project, it became clear they weren't on the same page. Unable to bridge the gap between what the city asked for in the RFP and what the company could provide, the

contract eventually was canceled. Both the vendor and the city spent a great deal of money, time and effort — only to end up back at square one.

Unfortunately this scenario is far from rare. News headlines regularly tout the latest government procurement debacles. Projects like HealthCare.gov can and do go wrong, leaving taxpayers baffled and the government agencies that awarded the contracts scrambling for an explanation. In fact, IT research firm the Standish Group found that 94 percent of large-scale federal IT projects have been unsuccessful during the last decade. Yet the United States has had rigid procurement rules and a system of checks and balances in place to prevent such scenarios for decades. Why are such failures still occurring?

One of the biggest factors preventing successful government procurements today may be the rapid evolution of technology. Purchasing in government is frequently cited as an example of a slow, inflexible and expensive bureaucratic process. But that becomes doubly true when purchasing technology.

“The alignment of technology and procurement has always had a lot of tension to it,” said Dugan Petty, former Oregon CIO and procurement director who now serves as a senior fellow for e.Republic’s Center for Digital Government. “Often, it’s about whether the jurisdiction has met the procurement laws first, and perhaps secondly whether or not they actually achieved the outcomes they were looking for.”

There is no quick and easy solution to government’s procurement struggles. But years of shrinking budgets recently have prompted many organizations to devote more energy to improving the process. The good news is, while procurement reform is a long-standing issue for all levels of government, cities and counties may be in a unique position to lead the evolution.

“Because local governments are more streamlined, it’s often easier for them to make decisions and to move on an innovative path than it is for states or the federal government,” said John Miri, who previously served as director of e-government and Web services for Texas. “Today, local governments are in a great position to help drive reform and encourage more procurement innovation.”

Arcane Processes versus Modern-Day Realities

The modern procurement process was born out of the civil service movement that reformed government contracting and hiring processes during the transition from the 19th to the 20th century. The goal of the procedure was to help ensure accountability and transparency in how government awarded contracts. The process had three main objectives: to prevent corruption and therefore protect taxpayers from fraud and abuse; to standardize processes in order to allow government to take advantage of scale and efficiency; and to ensure equality and prevent discrimination against certain groups like minority business owners.

These traditional procurement policies, many of which are still in play today, serve legitimate purposes. They ensure the procurement process remains open to the public and makes government officials accountable for their purchasing decisions. A built-

in appeal and protest process serves as a check-and-balance in case the procedures aren't carried out effectively the first time.

6 Ways to Shake Up Procurement

1. Join a Group

Pooling resources, adopting standard purchasing specs and issuing cooperative bids using tools like cooperative purchasing agreements and master contracts help drive down costs and improve results.

2. Try Before You Buy

Find a way to test the technology before deciding to invest, by working with a vendor willing to conduct a pilot or a demonstration before the contract is awarded.

3. Business First, Technology Second

Spend time looking at the business problem that the technology needs to solve before issuing a bid, and don't box yourself in to a tech-only solution.

4. Meet Halfway on Terms

Be willing to share some of the risks in the contracting process in order to keep innovative companies interested in bidding.

5. Throw Out the RFP

Consider a simpler alternative to a traditional RFP, like a one-page problem statement.

6. Get Help

Getting some private-sector advice before issuing a bid can ensure that you're asking for the newest and best technology.

But the world that existed when these government procurement processes were introduced was paper-based. Interactions were face-to-face and business was conducted in brick-and-mortar buildings. Back then, when a public procurement officer put together a specification, the only discretionary part of the process was determining who could deliver the goods for the least cost.

"As long as the bidder was responsive to the specification, and as long as they had the capability of completing it, it was just a matter of determining the lowest price," Petty said. "It was a good process, but it begins to break down in areas where you have to evaluate something other than price."

In the late 1960s and early 1970s, the modern-day RFP procurement method was introduced, opening the door for factors other than price to be considered in the decision-making process. The concept of best value allowed for more clarification and multiple rounds of negotiations to determine who could actually deliver the best response to a need. Yet abuses still occurred, and as they did, more oversight requirements were added and costs gradually increased.

"For years we'd oscillate the dial one way or the other," said Aneesh Chopra, former federal CTO, who is now a senior adviser of technology strategy for the Advisory

Board Co. “The more we’d allow for innovative ideas, the more risk there was of fraud or abuse. Over the years, these additional tensions have been layered on those fundamental tensions. If you combine all of these, it leads to the kind of broken system we have today.”

Perhaps the biggest challenge today is that procurement’s ties to arcane policies not only make the system difficult to navigate, it also stifles innovation and creativity. Because federal, state and local governments fear bad results, they write layers of regulations and rules around contracting, which tends to scare off some of the IT industry’s most innovative companies.

Not only can strict rules put a vendor in a tough spot for proposing the best solution, they also often don’t account for rapid changes in technology. Tomorrow may bring a faster, cheaper solution, but the vendor may find itself tied to what is suddenly an aging technology without an option to change course and employ something better.

“These policies serve a purpose, but encouraging innovation is not one of them,” Petty said. “Startups may have great ideas and great technology, but they’re not necessarily built to make it through the procurement process.”

Instead, the procurement system often favors large, entrenched vendors. As a result, government may be missing some of the most innovative solutions.

Encouraging Innovation

Clearly, reforming procurement rules is necessary to enable government to take advantage of some of the innovative technology solutions available today.

“Buying technology requires nimbleness and flexibility,” said David Gragan, senior procurement executive of the federal Consumer Financial Protection Bureau. “Using a system that was designed to buy pens to buy a complex item like a technology system just doesn’t work, and that’s been proven over and over.”

Gragan says if agencies trust complex IT procurements to traditional procurement professionals, they will likely get poor results because the long-standing position is that the tighter the specification, the better the procurement.

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Designing a Better Way



Several local governments are already leading the way. For example, New York City initiated a major procurement reform strategy under former Mayor Michael Bloomberg designed to reduce procurement cycle times, improve customer service and employ strategic sourcing to leverage spending. The city set a goal of saving \$500 million over the next four years.

Photo: Palo Alto CIO Jonathan Reichental. Photo by David Kidd

Today, New York City has too many contracts that fragment its buying power and force it to pay too much. Managing those contracts also takes up too much staff time. The city therefore introduced a strategic sourcing initiative where procurements are structured and managed to maximize cost-effectiveness. The effort also allows the city to identify opportunities to bundle similar contracts together and use the increased volume to negotiate lower prices.

In addition, New York launched a Lean Six Sigma initiative to reduce the typical procurement cycle, which can last up to 14 months. Lean Six Sigma focuses on every step in a process and eliminates those that don't add value. Using this approach, staff found ways to reduce procurement cycle times by roughly 25 percent.

On the other side of the country, Palo Alto, Calif., is also trying to slim down bloated procurement processes. When CIO Jonathan Reichental came on board in 2005, he naturally expected to find the city, with its worldwide reputation as a high-tech leader, to have a high-tech government. What he found was quite the opposite. Since then

Reichental, a former private-sector CIO, has challenged the status quo, using many lean startup ideas.

Before Reichental's arrival, Palo Alto had procured services for an updated website that was not well received. "People had a lot of issues with it, so it was eventually taken offline and many months were spent rewriting code and fixing things," he said.

When Reichental joined the city, he examined the site and did some quick work to bring it up to par with other local governments in the region. He then suggested that Palo Alto adopt a lean startup approach, rereleasing the site as a beta and getting input and feedback from residents before going live.

"We asked the public to try it and tell us if they could find what they wanted and what was missing," he said. "It allowed us to use a low-risk approach to get an enormous amount of feedback before our big go-live."

Reichental and other Palo Alto officials were so happy with the results, they have employed the lean approach in a number of other instances, allowing them to try out new ideas while also speeding up the procurement and deployment processes.

"We are still at the beginning of this journey," Reichental said. " But even in these early stages, it's redefining how we operate. Palo Alto is a well-run city, but we still tend to approach problems with the typical government mentality — study the problem, bring in consultants, present the information, etc. Very deliberate and very long. With the pace at which we live today, it's not the right approach and it doesn't meet citizen expectations."

Sharing Services

Oakland County, Mich., has been sharing applications and technology among its agencies for more than three decades. A few years ago, officials decided to formalize the process, collaborating with the Southeast Michigan Council of Governments and the National Association of Counties to launch an initiative that's allowing the partners to leverage a shared services model into a national system available to America's more than 3,000 counties, boroughs and parishes.



Photo: *Phil Bertolini, CIO, Oakland County, Mich. Photo by Scott Stewart Photography*

The idea was that, through cloud computing, Oakland County could position its applications in cyberspace, making them available to other government agencies regardless of size, budget or resources. Dubbed G2G Cloud Solutions, the initiative is essentially a government-to-government cloud that, with the help of private-sector partners, provides computing services to other counties and cities using a cloud platform. The initiative therefore creates an opportunity for those local governments to use technology that may otherwise not be within their reach, eliminating infrastructure requirements or upfront costs, and providing a centrally managed information system that reduces redundancy.

Oakland County launched its initiative in the midst of the Great Recession.

“We watched revenue streams come to an end, and we lost 60,000 jobs in Oakland County alone in 2009,” said Phil Bertolini, the county’s deputy executive and CIO. “We realized we needed to find a way to share technology, because none of us was going to be able to do it alone.”

Today, the county provides three applications to other governments that consume them as a shared service.

“The economy may be better, but many locals still can’t procure their own technologies — they just don’t have the resources,” Bertolini said. “If we can procure them and allow others to consume them, then that’s a great way to help. And many governments like to consume from other governments because there’s a level of understanding of what we do. The value add for us is that it lowers our costs too.”

Bertolini said the biggest obstacle they’ve encountered so far is software licensing. The county regularly purchases enterprise licenses, but many of these licenses don’t permit sharing outside the enterprise. The county, however, has successfully renegotiated some of the license agreements.

“We try to make sure the vendor understands what we’re doing, and I think most of them are now starting to figure it out,” Bertolini said. “With the advent of cloud computing, they really have no choice but to create a shared services cloud consumption model.”

The next step for Oakland County is to further involve the private sector through the launch of the new G2G Marketplace. The marketplace will let government agencies quickly procure technologies from a number of companies that have already been vetted and whose products or services have already been competitively bid.

“We are doing the due diligence to make sure each of the companies is the right fit,” said Bertolini. “We are hoping this will lower the costs of the technologies and provide well vetted solutions for other government agencies to use.”

Bertolini believes shared services solutions like G2G Cloud Solutions and G2G Marketplace can help local governments procure innovative technologies faster.

“Local government is where the rubber meets the road,” he said. “Perhaps it’s the locals’ job to be innovative when it comes to procurement, but I would love to see local, state and federal combine on a task force to address these issues. Imagine a federal government agency buying a health and human services system, for example, and then allowing a local government to tag onto it. The economies of scale would be huge.”

Taking a Test Drive

Philadelphia recently launched a new program that encourages entrepreneurs to work with the city to identify community problems and develop innovative solutions. Called FastFWD, the program is expected to address existing problems with the city’s RFP process, such as the lack of early engagement with vendors that can lead to limited solutions.

FastFWD lets the city incubate new startups and run pilot programs before committing to launching a full-scale project. For instance, 10 entrepreneurs will be selected to participate in a 12-week program to develop innovative projects around public safety challenges, with the eventual goal of awarding contracts to several of the projects developed during the program. The initiative should help manage procurement risk, since Philadelphia will have the chance to pilot technologies on a small scale before deploying them more broadly. In doing so, the city hopes to save money and benefit from more innovative technology.

“FastFWD is interesting because it allows for a tremendous amount of innovation,” Petty said. “I think that will give the city some significant breakthrough solutions as opposed to asking those of us who have been wrestling with a problem in government to identify the solution and then contract for it.”

Petty said the program also should help Philadelphia feel more comfortable about investing in IT because the vendor has been involved since the inception and the solution that the city is procuring is tailored specifically to its problem.

Best Practices

In December 2013, the IJIS Institute — a nonprofit organization that focuses on mission-critical information sharing for justice, public safety and homeland security — released its latest procurement report, *Strategies for Procurement Innovation and Reform*. The report, developed by the institute’s Procurement Innovation Task Force, underlined the importance of government procurement reform efforts.

“There has probably never been a time when management of the procurement process has been so important,” said Bob Shumate, member emeritus of the IJIS Institute and one of the project leaders. “With technology evolving at an ever-increasing pace and shrinking public budgets, existing procurement practices for technology projects no longer meet today’s requirements.”

Given the need for change, experts have several suggestions for helping make local government procurement more flexible and receptive to innovation.

Implement Cooperative Purchasing Agreements

In the early 1990s, the Western States Contracting Alliance (WSCA) was formed as a government procurement cooperative. Initially involving 14 small states, the cooperative let them pool their resources, adopt standard specifications for purchasing certain products, and then issue cooperative bids.

“WSCA was a huge step forward for government procurement, and it turned out to be a big success,” Petty said. “There were two key drivers of that. The first was pricing because the states were able to aggregate volume and drive down the price. The smaller states couldn’t get that pricing on their own. The other driver was that they pooled their resources to put out the award. They got a better product because their procurement specs were better.”

Since then, the WSCA has grown tremendously, and today its cooperative purchasing model also benefits cities, counties, public schools, higher education institutions and other eligible entities. Petty said such cooperative purchasing efforts offer a significant upside, especially when it comes to cloud computing initiatives.

“The cooperative purchasing model is really about scale,” he said. “There is a value proposition that comes out of cloud computing, and there is a value proposition that comes out of aggregating your volume through cooperative purchasing. That same notion of scale works in both, so those two things will become very compatible as we head into the future.”

Such cooperative agreements help jurisdictions that simply don’t have the funding or expertise to purchase technology on their own. Master contracts are another approach that can leverage the idea of cooperative purchasing and speed up government procurements.

“Not everyone needs to do their own individual procurement for everything,” Miri said. “Master contracts can satisfy procurement rules, reduce the number of vendors involved and qualify the vendors. Then once the master contracts are in place, it really speeds up the purchasing process.”

Capitalize on Pilots and RFDs

Under traditional procurement rules, conducting a pilot with a vendor often precludes it from bidding on the actual project. That stipulation in some cases discourages government agencies from conducting pilots. Allowing innovation to flourish may require government agencies to figure out a way to run pilots and tests of technology earlier, or to work that process into the procurement.

“Government agencies need to incorporate pilots into the procurement process itself,” said Miri. “Instead of conducting a pilot before you start the procurement, the pilot is a phase of the procurement, so private-sector companies can participate in it without violating any rules.”

A request for demonstration (RFD) is a similar approach, wherein the proposed technology is demonstrated during the procurement process, simulating how an

agency's problem would be solved using actual data and allowing the government customer to "see and touch" the proposed solution. This could also allow the agency to write broader requirements, Miri said.

"You wouldn't need to have 5,000-page RFOs [requests for offers] because you would be able to put your hands on and see some of the technology."

Solve Business Problems First

Traditional RFP processes don't encourage early engagement with vendors, which can limit what companies or entrepreneurs create. Worse, the RFP often prescribes a solution, so there's no opportunity for an entrepreneur or innovator to ensure that the agency is defining the problem correctly.

According to Strategies for Procurement Innovation and Reform, "Many of the practices that still exist today evolved from efforts to reduce collusion and corruption in the procurement cycle. While this continues to remain one of the goals of the system technology, successful procurements demand a different approach. It is not cost effective to create an adversarial relationship between the buyer and the seller by encouraging arm's-length relationships throughout the process."

In addition, traditional RFPs often prevent vendors and customers from adjusting projects as new needs are discovered.

"Jurisdictions may not fully understand their business requirements when an RFP is drawn up," Petty said, "but contractors often can't deviate from the scope of the RFP once the contract is awarded."

This can result in a situation similar to the one outlined in the introduction of this Digital Communities report.

"Sometimes government doesn't really understand what its needs are, we don't articulate them well, and we don't understand what the best technical response is," Petty said. "That's a big problem when it comes to IT procurement because we are trying to apply IT to business processes that we don't understand."

"Too often people on the business side will turn to their technology counterpart and say, 'Just fix this,'" added Miri. "The business side of the agency is not really engaged in the process. And even if they are, they aren't putting on the table the option that the business process might need to change."

Both Petty and Miri suggest that agencies in some cases invite a proposal that gets a vendor involved earlier in the process and examines the entire business process to determine the best course of action in ultimately solving the problem.

"Agencies need to start coming into the process saying, 'Not only are we willing to change processes on the business side, but our goal is to achieve a business objective. So we'll do a combination of adding new tools, changing processes, adding training, maybe adding new staff,'" Miri said. "When you have all those options on the table and

you are working in a true partnership between business and technology, not only can you do innovative procurements, but you can buy things for orders of magnitude less money.”

Revise Terms and Conditions

It’s no secret that there is a significant conflict between industry and public jurisdictions when it comes to terms and conditions like indemnification, limitations of liability, intellectual property and warranty provisions that tend to push project risks onto the vendor.

“That’s really where the tension between dynamic evolution in the IT world runs up against reactive evolution in the procurement world,” Petty said. “We are trying to make everything bulletproof, and what’s happening in some cases is vendors simply aren’t competing. Those that do compete may not have the wherewithal in the event that a default triggers some of those provisions that are so draconian anyway.”

When Petty was CIO of Oregon, he took on a mission to negotiate new terms and conditions that apply more appropriately to IT procurements. In January 2009, Oregon’s Department of Administrative Services State Procurement Office and the CIO Council created a state task force made up of agency stakeholders and the industry group TechAmerica. The task force explored terms and conditions commonly used for IT agreements, and discussed alternative strategies to solicit, negotiate and administer IT contracts. Eventually they agreed on more than 100 proposed revisions to Oregon’s IT contract terms and conditions.

“The state backed down its efforts to place all responsibility on the contractor to make it more in sync with what was going on in the marketplace,” said Petty. “That’s a key component that has to continue to evolve because even if you get great solutions coming out of innovative processes, you still have to write a contract between a jurisdiction and a supplier. If you can’t come to an agreement on those things, you have a big problem.”

Petty said getting there requires both sides to work together. “You have to create a dialog between industry and the public. In some cases, it will involve elected officials helping resolve some of those rules.”

Open up the Possibilities

“There is an enormous barrier to entry to working with government, no matter whether you are a big company or a small company,” said Chopra. “The procurement function should be more open to business and more accessible.”

Chopra suggests government explore the potential of abandoning the existing RFP templates in favor of a one-page problem statement.

“We simply say, ‘Here is our problem, we want the most brilliant solutions out there, and then we are going to let you fly,’” he said. “We’d still protect the integrity of the public dollar, but we’d figure out a way to let the private sector be inventive. Clearly none of us are satisfied that procurement as it exists today delivers optimal results when it comes

to technology. Why not let the public money fund entrepreneurial ideas that might prove to be the new way to govern?”

Ask the Private Sector for Help

Numerous third-party companies are available to help government agencies manage procurement issues. These companies can educate agencies and bring them up to date on current trends before they get too far down the road.

“It’s common that requirements in government procurements can be out of date, asking for things the way they used to be done rather than the way they are done today,” Miri said. “In those cases, the vendor has very limited ability to raise that issue and as a result, many just won’t bid.”

Local governments might consider conferring with a third-party organization before they launch a new technology procurement. Asking such organizations questions like “What is the state of the art?” or “How is this type of problem handled in the private sector?” may ultimately save the agency time and money and result in a better procurement.

It’s Time for Change

As the costs of procurement within the public sector continue to rise, it has become critically important to examine ways to introduce reform and innovation. Technology is advancing rapidly, while prices are dropping. It’s now easier than ever for government agencies to capitalize on innovative solutions, yet in most cases, they are not taking advantage of it.

“Procurement is making some progress, but it still is probably one of the single biggest barriers to innovation in government,” Miri said.

It won’t be easy, but government must continue to push the envelope to encourage an approach that enables it to strike a balance between allowing innovation and preventing corruption.

Richard Pennington, who previously served as a Colorado state purchasing director and director of the Colorado Division of Finance and Procurement, released a book in 2013 titled *Seeing Excellence: Learning from Great Procurement Teams*. The book examines skills and behaviors necessary for government procurement teams to succeed. Pennington suggests that, no matter where you start, some kind of action is better than none.

“Public procurement is one of the most hidden and misunderstood functions in all of government,” said Pennington in the book. “Your organization’s approaches may vary. But most importantly, get started using an approach to continuously learning and getting better.”