

## State Procurement Contracts Ease Purchasing for Texas Agencies

Andy Opsahl | February 3, 2008

Negotiating contracts can be time-consuming and stressful, especially for local governments with limited experience bargaining with vendors; many lack the resources to develop that expertise. Consequently many cities and counties get the most out of contracts by letting the Texas Department of Information Resources (DIR) do the majority of the work.

The Texas DIR uses what it calls "knowledge-based" practices to negotiate with powerful vendors such as IBM, Dell and Northrop Grumman. These practices include systematic market research, analytics and pricing benchmarks. The DIR hired several experts in October 2006 to fortify its knowledge-based practices.

The process offers local governments hundreds of prenegotiated deals with vendors for hardware, software and contracted labor. If a local government wants to pursue an even better deal, it can use a relevant DIR contract as a starting point when examining new offers, according to Cindy Reed, deputy executive director of operations and statewide technology sourcing for the DIR.

"We developed a contract that provides all the services by defining a base service and allowing other services to be purchased as options," Reed said. "By taking this approach, we were able to define pricing, which allows customers to compare vendors on an apples-to-apples basis."

Vendor sales representatives face formidable negotiations with Texas due to that process, said Reed. The DIR reduced some of its base-service costs by 63 percent by the end of 2006 using its knowledge-based procurement process.

In addition to the knowledge-based practices, the DIR has taken steps to make it easier for public entities to use the contracts to meet their needs.

### **Knowledge and Details**

Stories are endless in state and local government about contracts that failed to deliver because paperwork didn't specify exactly what an agency needed. The DIR remedies that problem by using knowledge-based practices to specify what it needs from a contract.

For example, in past negotiations, agencies listed computer software they wanted without knowing whether the software offered all of the necessary functionality. Now the DIR organizes internal state work groups to establish standard descriptions of state process and information system requirements to submit to vendors.

"So far, we've awarded 16 [contracts] for business IT government software, and those products will be listed on our DIR Web site by functionality, as opposed to, 'Here's X,Y, Z software.' That provides our customers with assurance that if they need a specific type of functionality, they can come look at all the groups of software that fit within that particular area of functionality before purchasing it," Reed said.

## **The In Crowd**

Reed said vendors often complain that state contracts are closed off to newcomers. In response, the DIR's contracting experts re-engineered the department's contracts with vendors that provide in-house IT staff. The new set of contracts includes previously seldom-used vendors. The outcome produced wider vendor participation, as well as a cost reduction. The DIR increased its number of participating vendors by 4 percent, and increased its staff from those seldom-used vendors by 76 percent, said Reed.

In Tarrant County, Rob Cox, the county's assistant purchasing agent, said using the contracts helped the county avoid lengthy bidding processes when the county already knows a certain vendor is the only one for the job. The expanding variety of vendor choices saves Tarrant County from a formal bidding process to find companies to do what a project's primary vendor can't do.

"Few companies possess all of the skills we might need for a particular project. We're able to leverage DIR by coming up with different resources through their contracts. This way, we can do a complete project without having to do multiple bids to try to find these people. They're already in place," Cox said.

Tarrant County saw the hourly rates it paid the in-house employees from those vendors drop by 3 percent.

## **Bagging Bureaucracy**

Some local governments resisted the use of DIR contracts, in the past, because they forced local governments through a cumbersome bureaucratic process. That doesn't happen anymore, said Reed.

"We've provided a streamlined and efficient process that eliminated unnecessary paperwork and redundant procedures from DIR, its customers and the vendors providing the services," Reed said.

Any Texas city or county can make purchases using the contracts, regardless of the quantity.

"If somebody wants to call us and buy one Dell computer, they get the same price as somebody buying 1,000. Now, we encourage the folks who are buying 1,000 to negotiate lower," Reed said.

Local governments often need temporary labor on a contract basis. The DIR recently put more specifics in its selection process that state and local agencies also can use to find the appropriate service labor contract. The DIR replaced numerous generic job titles with more specific functions and service standards.

"The customer is better able to select a worker with the appropriate level of skills and expertise, and does not pay for a greater skill level or an area of expertise that is not needed," Reed said.

Comparing lengthy contracts filled with jargon can be daunting. The DIR recently introduced a document called [DIRect Compare](#), which gives state and local agencies side-by-side comparisons of managed services contracts - a type of agreement in which an agency pays a vendor to bring in its own hardware, software and services personnel to run a project.

The document also divides the contracts into bronze, silver and gold categories, allowing governments with predetermined project scope levels to narrow searches. Each of these three categories represents contracts in a general price range and project scope.

## **Staying in the Loop**

Local government IT workers have heavy workloads, but they also need to stay in the loop on upcoming contracts. The DIR recently released a monthly [DIR Contracts Bulletin](#), a one-page document announcing new contracts, amended contracts and extensions of old contracts. The DIR also recently began announcing in-progress contracts on its Web site so that IT workers can be aware of opportunities on the horizon.

"If I'm a procurement official looking for a certain product, I can go to this site and say, 'Oh, DIR is already working on some contracts related to what I need. This is going to be great because I can wait a couple of months, and I can have a contract through DIR. I don't have to go through my own solicitation,'" Reed said.

## **Out-of-State Buyers**

Reed said Texas encourages other states to purchase off its contracts. Agencies using DIR contracts pay an administrative fee capping at 2 percent to fund the DIR's operations. The vendor collects this fee and remits it to the DIR. The DIR receives no state funding for its contracting operations, and recovers the costs of awarding and managing the cooperative contracts via this administrative fee.

"Even if you're in a smaller state, you can buy off the Texas DIR contracts, and we're really trying to build that because it actually benefits the state of Texas. If we drive more volume, then we can drive prices down - everybody wins," Reed said.

Occasionally other states are interested in purchasing off of DIR contracts, she said. However, procurement officials in those states usually discourage it. They typically complain that DIR contracts don't satisfy requirements in their own state governments.

The DIR isn't giving up on serving other states though. The DIR recently hosted the sales team of a major hardware vendor to discuss how to sell participation in its contracts to other states.

Reed said proof of DIR contracts' value lies in the fact that 80 percent of governments using DIR contracts do so voluntarily. The DIR mandates that all state agencies use the contracts, but local governments can go it alone.

"That's really the best feedback," Reed said. "If these weren't good deals, those local governments wouldn't be using them."

<http://www.govtech.com/policy-management/State-Procurement-Contracts-Ease-Purchasing-for.html>