

September 12, 2007

[Yes Virginia! There is more to e-procurement than software! \(Part 1\)](#)

Filed under: [Public Sector Procurement](#) — procureinsights @ 9:12 pm

My recent post on the series of interviews I had with Ariba garnered considerable interest and feedback. By far the most interesting (and insightful) comments came from the Commonwealth of Virginia. What was compelling about the Virginia response was their willingness to provide a perspective from what they referred to as the “other side of the fence.” What was refreshing is that the subsequent interview revealed an extremely capable group of people whose passion for procurement was only rivaled by their commitment to a vision. A vision that was centered on gaining a thorough understanding of the processes that defined the Commonwealth’s procurement practice as well as the unique requirements of a diverse group of internal and external stakeholders.

Now before I start to sound too much like a spokesperson for the Virginia Tourist Bureau, and thereby irreversibly undermine my reputation for uncompromising objectivity, I would like to explain my enthusiasm for the Commonwealth’s eVA initiative. (Note: eVA as defined by the Commonwealth’s web site is a “web-based procurement solution that supports Virginia’s decentralized purchasing environment.” Unfortunately, the word solution is an overused misnomer that usually refers to a particular type of technology. As you read the rest of this post, you will find that eVA and its growing success have very little to do with technology – in this case Ariba, and more to do with methodology. By the way, here is the link to the eVA site: <http://www.eVA.virginia.gov>.)

Why I like eVA

In an article that has appeared in numerous publications such as Summit Magazine in Canada and NIGP’s The Source in the United States, I referred to the “growing realization that process, and not technology, is the main force behind successfully achieving results in terms of efficiency and spend rationalization.” Specifically, it is through process understanding and refinement combined with the ability to adapt to how the real world operates on the frontlines that credible targets are established and ultimately met. What the Commonwealth of Virginia did with their eVA initiative was to simply go out there and actually do it! (For those who are interested I would be happy to provide you with a copy of the article, Technology’s Diminishing Role in an Emerging Process-Driven World. Simply send me an e-mail at procureinsights@rogers.com with “Role” in the subject line.)

When Bob Sievert (Director, eProcurement Bureau for the Commonwealth of Virginia) contacted me via e-mail to schedule a conference call he indicated that Virginia had been “living with SaaS for eProcurement on a broad and deep scale.” He emphasized that “few customers have taken the plunge” as far as they had, especially given the “complexities” of government procurement practices.

While we all acknowledge the challenges associated with truly understanding and addressing the diverse, and some would say competing elements within a decentralized purchasing environment, public sector initiatives for the most part are center-led monolithic undertakings that are driven by legislative control mechanisms versus independent departmental needs.

Bob's statement that government is not just a "single business," but is actually comprised of many different "lines of business" tweaked my interest. This was due to the fact that the majority of e-procurement initiatives are championed by senior level managers who recognize the potential of a technology-centric program but lack a firm understanding of operational challenges and therefore underestimate the impact of a proposed strategy at the department level.

The recognition on the part of Virginia that government goes beyond a mere org chart but is actually comprised of Higher Education, K-12, Corrections, Public Safety, Transportation, Health, Social Services and Construction etc. meant that they really understood the "special needs, special rules and special challenges" associated with the procurement practice of each entity both individually and collectively.

As a result, they avoided the trap of eVA becoming a software project as Bob put it, and were thereby able shift the emphasis from an exercise in cost justification, to one of process understanding and refinement. And while the Ariba application has done the job it was required to do, eVA's effectiveness has little to do with the technology and more to do with the methodology the Virginia brain trust employed. It is when technology (nee software) is seen as the primary vehicle to drive results that it becomes ineffectual and mostly irrelevant. The 75 to 85% e-procurement initiative failure rate gives testimony to this fact.

What does process understanding really mean?

Process understanding starts and ends with the premise of centralized visibility and departmental empowerment.

"It is my position that a true centralization of procurement objectives requires a decentralized architecture that is based on the real-world operating attributes of all transactional stakeholders starting at the local or regional level. In other words, your organization gains control of it's spend environment by relinquishing centralized functional control in favor of operational efficiencies on the front lines. This is the cornerstone of agent-based modeling." (Acres of Diamonds: The Value of Effectively Managing Low-Dollar, High Transactional Volume Spend – fall 2004.)

The key to Virginia's success, which started with an acknowledgement in 2000 that the then-current practice wasn't delivering value to the taxpayers, and the courage of the Governor to admit it and then do something about it, laid the foundation for what became a collaborative effort.

Unburdened by the misguided belief that tighter controls produce desired results, the Commonwealth brought a service mentality or attitude to the project. While there is almost always varying degrees of skepticism whenever, as Bob put it "big brother" initiates a program, the genuine effort to communicate with individual departments was invaluable in achieving the necessary buy-in for eVA's success.

This doesn't mean that Virginia did not ultimately establish a mandate which required individual stakeholder adherence. What it does mean is that by the time the mandate was introduced (which was well into the initiative), the majority of obstacles had been identified and removed. So while participation wasn't "voluntary," by the time eVA had gained critical mass it provided the right measure of departmental flexibility within a centrally established framework. In short, potential issues of compliance were addressed through a productive and meaningful "all-for-one, one-for-all" dialogue.

Santa Clause really does exist

Please pardon my self-indulgent pun, but the opportunities to incorporate popular lore (especially from 1897), is a rare occurrence. What's more, it is even appropriate in that the suggestion of a collaborative effort, or the desire for genuine communication combined with a one-for-all attitude is usually relegated to the ranks of feel good hyperbole.

And it was at this point that I looked for a tangible proof of success beyond the "we are great" rhetoric that I had made reference to in the Ariba posting. To that end, here are the numbers by which the Commonwealth of Virginia's eVA program can be assessed.

In 2001, the first full year in which eVA had been in place, less than 1% of the total "identified" spend was processed through the program. (Identified spend, which represented those purchases for which eVA was likely to generate savings, accounted for approximately \$3.5 billion of the Commonwealth's total \$5 billion expenditure that year.)

In 2007 80% to 90% of the total identified spend was processed through the eVA initiative. This isn't an intended rap against Ariba, but a throughput increase from less than 1% to more than 80% in a 6 year period paints a more effective picture than a nebulous 108% increase over either an unknown or inconsequential point of reference.

And while I do not want to give too much away from Part 2 of this posting (which will provide details of how the Commonwealth's supply base responded to eVA, as well as the SaaS pricing model that every public and private sector organization should use), supplier registration grew from 20,000 to 34,000 over the same period, of which the SME and HUB communities accounted for a significant percentage. This growth in supplier interest was no doubt tied to the fact that the Commonwealth's business improved on the 80/20 supplier revenue mix (see Pareto Principle) that cripples the majority of procurement initiatives from a supplier participation standpoint.

Next Installment: Yes Virginia! There is more to e-procurement than software! (Part 2)