

NASCA 2001 Outstanding Program Awards



Executive Summary

The California Department of General Services Procurement Division and Accenture recently launched CAL-Buy, the state of California's first online procurement system.

Each year, California state agencies purchase \$6 billion worth of goods and services; nearly one-third of those purchases are made through existing contracts, created and maintained by the DGS Procurement Division. The new CAL-Buy system automates these contracts, linking government buyers to thousands of products and helping to streamline the purchasing process.

The CAL-Buy system is easily accessed online, so agencies have no software to purchase and maintain. The Internet-based system quickly connects buyers to a central search engine where they can search for the products they need and add them to their "shopping cart" with a simple click. Once the buyer has completed an order, internal approvers receive an e-mail alerting them of their needed approval. And when the order is ready to go to the vendor, CAL-Buy transmits it electronically by either e-mail or fax.

In the short term, CAL-Buy automates and simplifies the purchasing process, saving state and local government agencies time and money. In the long term, the centralization of state purchases will allow decision-makers and contract managers to better leverage the State of California's incredible buying power, resulting in the negotiation of even better contracts.

In addition, the CAL-Buy system helps state agencies meet legislated contracting goals by flagging recycled goods, and includes indicators to identify certified vendors in the small business and disabled veteran categories. Using these indicators, the state's buyers can ensure they are purchasing "green" as well as offering opportunities to small businesses and Disabled Veteran Business Enterprises throughout the state.

As the system grows, more government users will be brought into the system. The state plans to provide CAL-Buy access to any state or local government or public school with the authority to purchase off the state contracts negotiated by the DGS Procurement Division.

CAL-Buy makes government more efficient, freeing state agencies to direct limited resources toward their core, citizen-centered missions. Accenture is pleased to partner with the Department of General Services to bring eCommerce to the State of California.

CAL-Buy Project Manager

The CAL-Buy Project Manager, Terese Butler, is an Information Technology Manager for the Department of General Services, Procurement Division and State of California. She has worked in the Information Technology field for over 16 years. Ms. Butler serves on numerous task forces in the areas of eGovernment and Project Management. Ms. Butler earned her Bachelor's degree in Organizational Training and Development from the California State University at Sacramento and completed the Project Management Certificate Program through the University of California at Davis. In addition, Ms. Butler has earned the Project Management Institute's Project Management Professional certification.

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Cal-Buy Procurement Category

A. Description of the Program & Relative Significance to the Improvement of the Operation and/or Efficiency of State Government

CAL-Buy is California's new online procurement system. It is a joint effort between the California Department of General Services (DGS) Procurement Division, the state's central purchasing agency, and Accenture, a global management and technology consulting organization. With Accenture's assistance, the state has developed a tool that will help California government buyers spend tax dollars efficiently while making it easier for vendors to conduct business with the state. Based on Ariba Buyer™, CAL-Buy links the state's buyers to hundreds of existing government contracts for goods, lowering operational costs and improving customer service.

Phase 1 went live March 7, 2001, automating 180 existing commodity contracts, and over 3,300 items. In the first 8 weeks of operation, buyers from three pilot agencies --California Highway Patrol, the Department of Transportation, and Department of General Services -- used CAL-Buy to purchase nearly \$1.5 million in needed commodities.

During this first phase, CAL-Buy is encouraging the consolidation of purchasing and the use of existing commodity contracts negotiated by the DGS. State agencies are finding it easier to determine what products are available on state commodity contracts, enabling them to make more cost-effective decisions. In June 2001, an additional 50+ contracts will be added to the CAL-Buy system.

Currently, thousands of pre-negotiated contracts exist in paper and in various databases within the Procurement Division. Despite the efficacy of these existing contracts, government buyers often have trouble identifying those contracts that are currently in place or what items are available for purchase.

CAL-Buy consolidates these existing contracts into one centralized electronic catalog that uses a robust search engine where buyers can enter a simple search term to locate the product they need. For example, a buyer needing to purchase food for a state prison or hospital, could type in a search like "beef" and within seconds the CAL-Buy search engine would inform the buyer that 27 beef products are available on existing contracts, from canned beef stew to beef egg rolls. From there the buyer reviews the product they're interested in to learn contract terms and conditions, price, vendor information and more. Desired items can be added to the buyer's online "shopping cart" with a simple click.

And CAL-Buy's contribution to efficiency doesn't stop at the consolidated search engine. Once a buyer completes a purchase order, the CAL-Buy system electronically transmits it to others in the organization whose approval is required. (Approvers receive an e-mail, informing them of a new order awaiting their approval). When the final approver has OK'd the order, the CAL-Buy system electronically faxes or e-mails the completed order to the supplier.

In summary, CAL-Buy has the potential to dramatically improve the way government buyers do business. This new eProcurement system not only consolidates existing contracts, making it easier for buyers to find the products they need, it automates the approval and transmission of purchase documents.

B. Calculation of Actual Savings in the Short-Term and/or Long-Term

During this first CAL-Buy phase, only 16 of the estimated 753 buyers statewide are using the CAL-Buy system. Yet, with only 2% of California's buyers online, the CAL-Buy system has seen over \$1.5 million in orders in its first 8 weeks of operation.

The CAL-Buy system was initiated to bring efficiency to the procurement system, and with efficiency comes dollar savings. Because CAL-Buy is still in its infancy, savings calculations are based upon recent studies in the field of eProcurement.

A March, 2001, study by the Aberdeen Group, a leading IT market analysis and positioning services firm, states that e-Procurement reduces purchasing costs and time by more than 70%. Aberdeen end-user research demonstrates that "eProcurement delivers rapid and quantifiable results."

The Aberdeen study estimates the cost to prepare and process a manual purchase order at \$107; and the cost to prepare an electronic purchase order at \$33, resulting in an estimated savings of \$74 for each order placed electronically.

Another example of cost savings by using eProcurement is that of Cisco Systems, which saw their processing drop from an average of \$76 per order to \$37 per order, a reduction of \$39 or 51% for each purchase order issued. In the public sector, an informal study conducted among five states in the spring of 2000 showed a range of \$55 per order up to \$170 per order to complete purchase order. This aligns with a 1994 study of State of California agencies that showed an average cost of \$63 per government purchase order. Based on the Consumer Price Index as of May 2000 this average cost was adjusted to be an estimated \$72 per order.

Estimated Savings in the First 9 Weeks of CAL-Buy Operation

- Pilot buyers have used the CAL-Buy system to place 213 purchase orders:
- 213 orders processed by CAL Buy with a savings of the more conservative 51% per order (213 x \$72 per order = \$15,336 x 51% savings on each order = \$7,821 saved since March 7, 2001)

Estimated Annual Savings With Full CAL-Buy Operation

- The State of California processes more than 265,000 purchase orders annually using the Procurement Division's purchasing vehicles. When fully functioning, the system has the potential to save over \$9.7 million annually in process savings:
- 265,000 purchase orders x \$72 per order = \$19,080,00 x 51% savings on each order = \$9,730, 800 saved by using CAL-Buy

Leveraging Future Contracts

Although the State of California already negotiates hundreds of contracts annually to achieve the best prices available, with all spend going through the eProcurement system, it should allow for even greater negotiating power since total annual expenditures on each contract will be known. Using a very conservative 1% improvement for some of the negotiated contracts, and a higher, yet still conservative anticipated savings of 5% for a different set of contracts, the state is anticipating a cost savings of over \$30 million annually through better contract and purchasing negotiations.

C. Quantifiable Benefits Realized by Service Recipients, Taxpayers, Agencies and/or State

With the launch of CAL-Buy, California joins the ranks of other world-class organizations already reaping the benefits of eProcurement.

CAL-Buy provides California government agency purchasers the following benefits:

- Increases efficient spending of tax dollars, by significantly reducing the cost of processing purchase orders and giving decision-makers more complete information about state purchasing needs and habits.
- Makes it easier for vendors to conduct business with the state. The electronic system generates more accurate and timely orders than a manual system. Plus, suppliers gain increased visibility with government buyers.
- Consolidates hundreds (and, ultimately, thousands) of pre-negotiated contracts, making it easier for government buyers to see "at a glance" the products and services they need and eliminating the need to go out to bid.
- Allows easier tracking of buying activity across state agencies, which will help in negotiating better vendor contracts.
- Automatically allows electronic approval of purchase documents, eliminating paper and increasing efficiency.
- Automatically e-mails or faxes completed purchase orders to suppliers, so buyers no longer need to go to a fax machine and manually fax the order or send the order via post.
- Highlights small business suppliers, disabled veteran suppliers and recycled products, helping state agencies meet their procurement goals.

D. Relevancy of use by Other State, Local and Federal Governments

Many local government agencies have legal authority to purchase from the pre-negotiated contracts negotiated by the DGS Procurement Division. In fact, during fiscal 99/00, local government agencies used the contracts to purchase more than \$107 million in goods and services. Though the state does not maintain figures for local government spend, we believe that these purchases include only a small portion of the purchases made by California's 450 cities, 58 counties, thousands of K-12 schools and various other special districts.

The benefits to local government are similar to those for state government, but those benefits are magnified at the local level. Many of California's local governments are quite small and remote, struggling to provide basic services to their constituents. There is no need for those local government agencies to spend their limited dollars in duplicative purchasing efforts when they could simply log onto the Internet and purchase from the pre-arranged contracts offered by DGS. As it does for all users, CAL-Buy makes contracts easier to find and use. This should be an enormous benefit to local government users.