

**1. Application Form**

**NASCA 2001 Outstanding Program Awards**

Program Title: Idaho Purchasing Modernization Initiative

Category: Procurement

State: Idaho

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**a. Description of Program and Relative Significance to the Improvement and Operation/Efficiency of State Government**

The State of Idaho's Purchasing Modernization Initiative is designed to fully enable Idaho state government to embrace the benefits of electronic procurement, moving from an environment of paper order processing to one of acquisition management.

Based upon collaborative recommendations by a multi-agency Purchasing Modernization Task Force, and due in great part to prior Purchasing Division innovation over the past several years, changes to Purchasing Statutes in the Idaho Code were proposed and legislation drafted, (SB1025). In January, 2001, the bill was successfully introduced through committees, and unanimously approved by both the Idaho House of Representatives and Idaho State Senate during the 56<sup>th</sup> Legislative Session concluded in March 2001.

Impetus for Idaho's procurement reform effort began with the Department's formation of a Procurement-Purchasing (P-Card) Advisory Committee and development of a P-Card program for the State in January of 1997. Strategic e-procurement activities continued with the state's participation in the Commonwealth of Massachusetts Electronic Mall Pilot Project from October 1998 through November 1999. In April 1999, the Division of Purchasing conducted an activity-based cost study at the request of American Management Services. In May of 1999, the state also issued a Request for Information (RFI) to evaluate the feasibility of introducing Internet bidding.

As a result, the "self-funded" model concept was introduced in Idaho, and other companies have entered the nationwide market with products designed around this principle. The Purchasing Modernization Task Force was organized in August of 1999 and over the course of the next year formulated recommendations, outlined in a special report issued in January of 2001 which served as the basis for procurement reform legislation (SB 1025), passed by the Idaho Legislature and signed by the Governor on March 6, 2001. The new legislation is effective July 1, 2001.

Training on the new electronic purchasing system, *SYSCOM Inc's PublicBuy net* began in March with Division of Purchasing personnel, and is currently in progress for state agency purchasing professionals. Letters were sent to 8,500 vendors regarding the conversion to the electronic purchasing system. Electronic purchasing will be fully operational in Idaho July 1, 2001.

Although other states are already utilizing electronic purchasing systems, Idaho's collaborative approach to implementing e-procurement is unique. For a small state like Idaho, with minimal resources, to enable e-procurement reform and move as quickly as it has toward implementing web-based electronic purchasing is a significant accomplishment.

At the end of 2000, Idaho was one of only 19 states currently having or developing e-procurement or purchasing solutions. (CSG State Trends, fall 2000).

**b. Calculation of actual savings in the short term and/or long term**

The State of Idaho elected to use a self-funded model for its electronic purchasing system. The advantage of this model is the technology can be made available at an affordable cost. The initial investment for the system is \$19,500.00. There is an annual maintenance fee of \$1,500.00. Other costs are related to training for the implementation, mailing and other costs associated with “getting the word out”.

The savings to the State of Idaho are considerable. As a result of participating in the Multi-State Electronic Mall sponsored by the Commonwealth of Massachusetts, Purchasing officials learned the potential savings with conducting transactions electronically as opposed to manually was 72 per cent. This was directly related to the amount of time spent creating/handling/retyping the paperwork required with the manual processes. In April 1999, American Management Systems conducted an activity-based cost study on the costs associated with placing orders against existing contracts manually. The study concluded that for there were three levels of orders to be considered. These were based on the types of activities needed to complete them. They ranged from the very simple to the highly complex. They all had the same basic costs, but depending on the complexity of what was being ordered, other costs were incurred. Because the other costs would be present regardless of how an item was processed, only the basic costs of the transactions will be considered.

The potential savings is 72 per cent; the cost study basic level costs were \$31.77 per transaction. The cost study estimated there were 60,000 catalog-type transactions annually. For that area alone, the potential annual savings could range as high as \$1,372,500.

The bid/quote process offers similar opportunities for savings. In this case, depending on the complexity of the item being procured, the dollar value of the solicitation and the approvals required, as many as nine (9) people could handle at least six (6) pieces of paper in accomplishing up to 12 different actions. The number of these transactions is considerably less than the catalog-type actions and the cost per transaction has not been established. However, if the volume of transactions estimated for the first six (6) agencies to implement the electronic purchasing system were considered and the costs were held to be the same as those for catalog-type orders, the potential savings could be calculated. The number of transactions is estimated to be 10,000 annually. Applying the 72 percent time savings and the \$31.77 cost, the potential annual savings would amount to \$228,700. As the system is rolled out to the other state agencies, the return would increase.

Because this is a self-funded model, the State of Idaho recognizes there may be some costs that are passed back through pricing. This cannot be calculated at this point. However, other states, Connecticut to be specific, indicate they have not seen cost increases as the result of using a similar system.

The costs to the vendors are found in two areas. The bid/quote system is basically free. Everything the vendor needs to do to participate can be done without cost. However, there are a number of value-added services that are available to the vendor for a monthly subscription fee. This fee depends on the level of service desired and ranges from \$9.95 to \$29.95 per month. The electronic catalog system uses a percentage of the value of the transaction. This fee is 2 percent, with a cap of \$2.00 per transaction. The net effect will vary from contract to contract depending on the value of the orders received. For small orders, under \$100, the impact would be greater. For large orders, the impact would be minimal.

There are things of value to the vendors that could offset any of these costs. These include receiving information from the buyer that is based on the information in their catalogs. This saves on customer service costs because fewer orders have problems. Orders can be routed to the appropriate receiving location electronically, saving clerical time. Orders can be processed faster increasing customer satisfaction. Marketing is made easier. Paper catalogs are not necessary and the costs of printing and mailing are eliminated. It is also easier to market to the various state agencies, reducing marketing costs. Costs associated with sending bids by mail or express carriers are eliminated. These, and others, combine to reduce or eliminate the impact of the conversion to the vendors.

**c. Quantitative Benefits Realized by Service Recipients, Taxpayers, Agencies and/or the State**

Once fully operational July 1, 2001, Idaho's new electronic procurement system will afford many users a variety of benefits:

- Idaho state government agencies will benefit by having electronic catalogs to order from, this requires vendor participation.
- Vendors' interest will be higher as more agencies begin using the system.
- The state as an enterprise benefits because of the dynamics associated with doing business electronically. Transactions are faster and less time consuming. The occasions where users fill out forms only to have that information transferred to another form by buyers only to have the information on that form keyed into a computer, will become a thing of the past.

Information will be created once and passed electronically along the purchasing/approval chain. It will exit electronically at the appropriate point according to the business rules established by each agency.

- Vendors will benefit by reduced costs associated with placing bids.

With the traditional methods, bids had to be delivered by a date and time in order to be considered. This meant mail, express delivery services or someone physically bringing the bidding documents to the office. Even that did not guarantee the bid

would be received in time. It also meant that if a problem was discovered within a day or two of the bid the firm submitting the bid had a big problem.

Electronic bidding removes those problems. Bids can be submitted right up to the last minute. If there is a mistake that needs to be corrected, that can be done up to the last minute as well. Costs associated with mailing, express or personal deliveries also will be a thing of the past. Vendors will also know that their electronic bid was received.

The system will generate two electronic notices to assure the vendor the transmission was successful. Orders placed from electronic catalogs will be based on the vendor's own catalog information. Problems with wrong item, quantity or type will be significantly reduced. After sale customer support costs will be reduced as well. Because the customer has been able to order the right item and have that information transmitted accurately, the number of returns will be reduced. That will save both parties the time and effort involved in that type of problem.

In virtually every area of concern, time required and the costs related to that time will be reduced, ultimately resulting in overall cost-savings to Idaho taxpayers.

#### **d. Relevancy of Use by Other State, Local and Federal Governments**

The Internet and e-commerce are changing the way business is done. The smartest governments and savviest businesses are rushing to the Internet. Forrester Research projects that consumer business over the Internet will increase by 50 percent within the next ten years. For example, the number of web sites grew from 26,000 in 1993 to over 13 million in 1997 (The Public Purchaser, March-April 1999). Goldman, Sachs and Company estimate that business to business spending is expected to grow from \$39 billion in 1998 to \$1.5 trillion by 2004 (Government Technology, November 1999).

Public Purchasing is moving, step-by-step, into cyberspace. The GartnerGroup projects government to business spending will expand from \$1.5 billion in 2000 to over \$6.2 billion in 2005 (Government Technology, July 2000). Government purchasing departments are developing and implementing ways of buying goods and services electronically, just as their counterparts in the private sector are doing. At the pace various state governments are moving into this arena, the GartnerGroup projection may prove conservative.

### **3. Executive Summary**

Idaho's Purchasing Modernization Initiative culminating in successful passage of legislation to enable the introduction of electronic procurement is a critical component of Governor Dirk Kempthorne's strategic information technology initiatives to effectively implement e-government for the State of Idaho.

The 56th Idaho Legislature approved this landmark legislation in March 2001. Given that SB1025 involved 20 changes to 12 Sections of the Idaho Code and that it has been some 25 years since the purchasing statutes have received such an extensive a review and updating, obtaining legislative approval of this bill was remarkable.

The net result of this legislation is that Idaho will move into the realm of electronic purchasing very quickly and with an unprecedented level of support, both within and outside of state government.

Without the collaboration of the Department of Administration-Division of Purchasing, vendors, state agencies, agency purchasing officials, IT professionals; and a focused planning effort based upon a proven track record of successful and innovative purchasing initiatives, passage of the legislation would not have been possible.

The formation and empowerment of a Purchasing Modernization Task Force to build consensus with appropriate stakeholders, and the cooperative development of sound recommendations to change outdated Purchasing Laws, were key factors to this Idaho e-government success story.

Because of all these efforts, the support and lack of opposition to the proposed legislation was particularly noteworthy. The legislative package made its way smoothly through three separate committee hearings and two floor votes where no negative votes were cast.

The Task Force involved 19 people from eight agencies, two universities, the State Controllers Office and three divisions of the Office of the Governor. The Task Force's vision was to evaluate the current statewide purchasing system and recommend improvements designed to assure efficiency and effectiveness, incorporate advances in technology and provide stability and flexibility for public purchasing.

Business groups such as Buy Idaho and the Idaho Retailers Association actively supported the effort. Micron Electronics was also an active supporter. The National Federation of Independent Businesses, Idaho Chapter and the Idaho Association of Commerce and Industry found no reason to oppose it.

Through the legislative effort, the Idaho Division of Purchasing has effectively moved its vendor database and the enrollment process associated with it into the electronic arena. The State has enabled electronic bid placement and receipt, electronic catalog ordering, and reverse public auctions. Electronic storage of documents will also be addressed. This will remove many of the impediments to doing business with the State and enable participation by vendors across the State that had previously been excluded.