

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

In Part 1 of this posting, I shared with you information from my recent interview with Bob Sievert (Director, eProcurement Bureau for the Commonwealth of Virginia). As indicated, Bob had contacted me in response to the Ariba posting (The Ariba Interviews: Re-engineering the Future of On-Demand, August 31, 2007) indicating that their experiences would “fit nicely” with that article. Needless to say, it did in that it emphasized a number of key points including the importance of leading with process understanding versus technological capabilities.

And while many of the challenges the Commonwealth faced were similar to those of other public sector organizations, it was their approach and not the technology that differentiated eVA from the majority of initiatives that have and continue to fall short of expectations. It is also the reason that the Ariba application worked well for Virginia while missing the mark with other programs such as the ones with the University of Washington or in the private sector VF Corporation.

(Note: If you would like to have a first hand look at the eVA program, here is the direct link to the Commonwealth’s website:
<http://www.eVA.virginia.gov>.)

Confidence versus reliance

In numerous articles I have stressed the importance of having “more faith in your own team’s ability to understand and assess what needs to be done,” in terms of a procurement practice initiative. Far too often however, this has not been the case, as critical decisions have usually been confined to what can best be described as an initiative oligarchy.

While initiative oligarchies can in some instances become instruments of transformation, more often than not they are myopic in their efforts to understand and respond to the forces that shape and influence an organization’s supply chain. In fact in his book “e-Procurement: From Strategy to Implementation,” Dale Neef referred to the “closed door meeting” mentality as being the greatest impediment to true internal collaboration. This confinement of strategy to a select few “experts” reflects a lack of confidence with the overall level of “internal” expertise resulting in poor or ineffectual external collaboration.

Virginia on the other hand was successful because the initiative champions realized early on that broad internal stakeholder involvement through collaboration was the only way to truly understand and therefore address end-user requirements. This synchronization of understanding internally was then extended to include external stakeholders such as suppliers.

And this as Bob indicated is the “bigger story” behind the increase in vendor registration (and participation) from 20,000 to 34,000.

[The ultimate synchronization](#)

One point that Bob wanted to emphasize was the fact that the increase in supplier registration went beyond mere numbers. The real story he insisted is reflected in the quality of external stakeholder involvement whereby the 34,000 suppliers “have become the fuel for the procurement engine.”

Prior to eVA, each agency including local government was responsible for maintaining their own vendor registration program. This meant that each vendor had to go through a “separate” sign-up process in order to receive bid notifications from the different government entities. Needless to say this resulted in a highly fragmented supply base in which all stakeholders were severely limited in terms of realizing best value results.

With eVA Bob enthused, the Commonwealth has effectively “leveraged technology to centralize the registration process,” thereby providing vendors with government-wide access to all applicable opportunities through a single point of entry.

From a widely diversified internal stakeholder perspective, the increase in engagement capacity ensures that the Commonwealth is consistently realizing best-value results. Conversely, the supply base is now assured of strategic inclusion through a properly aligned engagement mechanism.

Without a true collaborative effort internally, the effective centralization of the supply base would not have happened regardless of the technological capabilities available to the Commonwealth.

[Candy and supply base synchronization](#)

How important is effective internal collaboration? Just ask a candy company in the U.S. mid-west. As the manufacturer of a number of leading brands, this organization grew dramatically in a very short period of time through a series of acquisitions. Unfortunately, an extemporal supply base was a byproduct of the transactions leaving the acquiring company with a highly suspicious, deeply segmented group of suppliers.

The biggest challenge as expressed by a senior procurement manager for the parent organization was convincing the former suppliers of the acquired companies that becoming part of the larger pool would expose them to opportunities for increased sales.

The suppliers weren’t buying the “increased opportunity” mantra and as a result, the transition process was challenging to say the least.

What is worth noting is that the degree of collaboration between the different purchasing organizations was not clearly established from the beginning. This only served to fuel rather than douse the internal division fires resulting in both a practical and operational lack of cohesiveness and coordination. The end result was a "territorial" struggle that manifested itself in a divided supply base. This is hardly the ideal environment for a successful consolidation. (Note: my August 3rd post titled [Procurement's expanding role and the executive of the future](#) reviewed the results of a panel discussion hosted by CPO Agenda. This will be a worthwhile read as it demonstrates the potential repercussions of excluding supply chain personnel in the early planning stages of an organization's acquisition strategy.)

Now I do not want to mislead you into thinking that the Commonwealth of Virginia did not experience a degree of "pushback" from the vendor community. Quite the opposite, as incumbent suppliers (especially the larger organizations) saw the consolidation strategy as a direct threat to their established revenue streams with individual agencies.

The Commonwealth's decision to introduce a "reverse funding model" whereby the suppliers would have to pay to play so to speak also met with some resistance. (Note: Virginia initially charged suppliers 1% of the order value capped at \$500 per individual transaction.)

Despite these challenges combined with what was described as the significant "lobbying power" of the larger suppliers who were pushing the Commonwealth to rethink its consolidation approach, the overall commitment to the eVA vision remained strong. I doubt that this would have been possible if the sincere effort to understand the objectives of all internal stakeholders had not been the cornerstone of the eVA initiative from the beginning.

Providing a unified front, the Commonwealth was then able to work with the supply base to gradually bring them around to the point where supplier registration dramatically increased between 2001 and today. However, Virginia's ability to maintain supplier interest (reflected in bid response levels) is directly linked to the expanding distribution of business over the broader supply network. In short, the greater the number of suppliers that win business increases the likelihood that they will continue to view the Commonwealth as a bonafide opportunity to generate revenue.

[SaaS](#)

Software as a Service (SaaS) or On-Demand as it was originally called is certainly part of mainstream thinking today. However back in 2001 when eVA was first introduced it was a relatively new concept whereby organizations would pay a fee for using the application versus owning or licensing the software.

What made Virginia's model interesting is that in the first 4 years of the contract, the vendor (American Management Systems) absorbed the bulk of the upfront implementation costs. Hungry for business, AMS accepted the Commonwealth's offer to be paid a percentage based on the volume of orders processed through the system. This of course provided AMS with the necessary impetus to ensure that eVA became "effectively" operational as quickly as possible.

From the Commonwealth's perspective, this model enabled Virginia to eschew the commonly "forced" one plan-one mind precept that ultimately anchors or handicaps the majority of e-procurement initiatives. The Henry Ford proclamation regarding the Model T that a customer can choose any color they want as long as it was black comes to mind here.

This model meant that Virginia did not have to focus exclusively on cost justification whereby the ROI would have been years down the road, but on the essential elements of the strategy itself which included open and productive collaboration with key stakeholders. This is a far easier task when the proverbial financial clock isn't ticking louder with each dollar that is spent.

However, this model does require a heightened level of self-determination and project responsibility on the part of the client as they must take the lead in terms of creating and driving the vision.

Fortunately as Bob put it, the political climate was ideal for this kind of innovative change, which was clearly demonstrated by the steadfast nonpartisan support of three separate Governors. Navigated by leadership that included individuals such as Ron Bell (a former Navy man), the eVA team maximized this opportunity to the Commonwealth's full advantage.

Given the success of eVA, it is hard to imagine that other government entities do not possess at least some of the expertise and determination to generate similar results within the framework of an equally effective cost model. Hopefully the Commonwealth of Virginia's success will act as a beacon to those public (and even private) sector organizations that are grappling with the challenges of a complex and diversified procurement practice.

[\(Post Supplement- Numbers Tell the Story!\)](#)

[One of the most important questions I had asked Bob dealt with the actual increase in the distribution of business over the Commonwealth's supply base both prior to and after the introduction of eVA. In the year prior to eVA's launch between 5,000 and 6,000 of the 20,000 registered suppliers received orders. In 2006 14,371 of the 34,000 suppliers received orders. So far in FY07, the number is](#)

14,756 (with 4 months still remaining in the year). This hard data is further testimony to the effectiveness of Virginia's methodology in which true collaboration was a key element of the initiative. As emphasized in Part 4 of my Changing Face of Procurement Seminar Series titled "Winning Strategies for Vendor Engagement," knowing if your e-procurement strategy is a "threat or a benefit" to your supply base is critical to the success of any initiative.

I will be tracking the progress of Virginia's eVA initiative on an ongoing basis, and will provide periodic updates through the Procurement Insights Blog. In the meantime, if you have any questions or want to learn more about eVA, you can access the site through the Commonwealth of Virginia (eVA) link listed under the PI Blog Roll. Alternatively, you can contact Bob Sievert at Bob.Sievert@dgs.virginia.gov.