Pilot Procurement

Presenters:
Sally McKechnie - Director of Procurement
Tiffany Carter – Business Development Manager
Grad Act Autonomies Overview

In accordance with Act 418 of the 2011 Regular Legislative Session, LSU was given approval to develop and utilize high level autonomies as defined in R.S. 17:3139(F)(5)(c).

- R.S. 17:3139(F)(5)(c)(i)
  - Development of the pilot procurement code
- R.S. 17:3139(F)(5)(c)(ii)
  - Risk management program autonomy
- R.S. 17:3139(F)(5)(c)(iii)
  - Facilities Project Autonomy
- R.S. 17:3139(F)(5)(c)(iv)
  - Development of a revised investment plan
Campuses Subject to Code

- LSU A & M
- LSU System
- LSU Agriculture Center
- Hebert Law Center
- LSU Alexandria
- LSU Eunice
- Pennington Biomedical Center
Major Differences in Code

Current Procurement Laws
Procurement
- Sealed bid for goods and operating services over $25,000
- Consulting Service Contracts over $50,000 awarded by RFP
- Maximum 5 year contract award
- Lowest Price

LSU Procurement Code
Procurement
- Sealed bid over $50,000 for all goods and services
- Ability to determine small purchases threshold
- 10 Year Contract options
- Best Value
Major Differences in Code (cont.)

<table>
<thead>
<tr>
<th>Current Procurement Laws</th>
<th>LSU Procurement Code</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Protest Hearings</strong></td>
<td><strong>Protest Hearings</strong></td>
</tr>
<tr>
<td>• Not required for State Agencies but required for State Colleges and Universities</td>
<td>• Not Required but may be authorized by CPO (Chief Procurement Officer)</td>
</tr>
<tr>
<td><strong>Solicitation Methods</strong></td>
<td><strong>Solicitation Methods</strong></td>
</tr>
<tr>
<td>• Approval required for RFPs</td>
<td>• Consortiums, reverse auctions, competitive negotiation, Best &amp; Final</td>
</tr>
<tr>
<td>• No ability to use Best and Final Offers</td>
<td>• Best Value</td>
</tr>
<tr>
<td></td>
<td>• Request for Proposals</td>
</tr>
</tbody>
</table>
What is Strategic Sourcing?

Procurement process that continuously improves and re-evaluates the purchasing activities.

<table>
<thead>
<tr>
<th>What it is</th>
<th>What it is NOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting the best product/service at the best value</td>
<td>Getting the cheapest product/service</td>
</tr>
<tr>
<td>Addressing all areas for savings</td>
<td>Focused on “beating up suppliers”</td>
</tr>
<tr>
<td>Decisions based on fact analysis and market intelligence</td>
<td>Decisions based on opinion, unjustified preference, or complacency</td>
</tr>
<tr>
<td>A continuous process</td>
<td>A one-time project or purchase</td>
</tr>
</tbody>
</table>
Objective of Strategic Sourcing

To reduce overall cost while maintaining or improving quality.

Objectives

- Improve the value-to-price relationship
- Examine supplier relationships through business reviews
- Leverage organization’s spend
- Understand category buying & manage the spend
- Develop multi-year contracts using standardized T & C’s
- Create & share best practices
Consolidated Spend

LSU $278M Total Spend

- Professional Services/Consulting: 12%
- Peard: 21%
- F.M./Constr.: 8%
- Maintenance Contracts: 3%
- Other: 27%

- Communications / Marketing
- Insurance
- Maintenance Contracts
- Other
- Professional Services/Consulting
- Utilities
- Equipment/Supplies/Farm
- Interiors & Furnishings
- Medical
- Peard
- Scientific
- Library & Education-Related Goods and Services
- Miscellaneous
- Pharmaceuticals/Lab Equipment/Supplies
- Software/Hardware/IT
- Athletics & Recreation
- Food Services
- Logistics/Shipping
- Office Supplies
- Professional Associations & Memberships
- Transportation
# Measure of Savings

<table>
<thead>
<tr>
<th>Savings Opportunities</th>
<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Total Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hard Savings Opportunities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilize Strategic Sourcing Levers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperative Contract Purchasing</td>
<td>136,403</td>
<td>545,610</td>
<td>1,091,220</td>
<td>1,773,233</td>
</tr>
<tr>
<td>Reverse Auctions</td>
<td>52,463</td>
<td>209,850</td>
<td>419,700</td>
<td>682,013</td>
</tr>
<tr>
<td><strong>Soft Savings Opportunities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce PO processing cost</td>
<td>3,640</td>
<td>5,096</td>
<td>6,552</td>
<td>15,288</td>
</tr>
<tr>
<td>Reduce LaCarte transaction cost</td>
<td>6,459</td>
<td>9,043</td>
<td>11,626</td>
<td>27,128</td>
</tr>
<tr>
<td><strong>Total Savings Opportunities</strong></td>
<td>198,964</td>
<td>769,599</td>
<td>1,529,098</td>
<td>2,497,661</td>
</tr>
<tr>
<td>Hard Savings</td>
<td>188,865</td>
<td>755,460</td>
<td>1,510,920</td>
<td>2,455,245</td>
</tr>
<tr>
<td>Soft Savings</td>
<td>10,099</td>
<td>14,139</td>
<td>18,178</td>
<td>42,416</td>
</tr>
</tbody>
</table>
**Measure of Savings - Soft**

**TRANSACTION PROCESSING COST SAVINGS**

<table>
<thead>
<tr>
<th># PO transactions</th>
<th>14,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>ePro shift</td>
<td>10%</td>
</tr>
<tr>
<td>of transactions in yr 1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Per Txn Savings</th>
<th>$52.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Savings</td>
<td></td>
</tr>
<tr>
<td>Yr 1</td>
<td>$3,640</td>
</tr>
<tr>
<td>Yr 2</td>
<td>$5,096</td>
</tr>
<tr>
<td>Yr 3</td>
<td>$6,552</td>
</tr>
<tr>
<td>Total 3-yr savings</td>
<td>$15,288</td>
</tr>
</tbody>
</table>

**Source:** LSU analysis; internal process cost analysis

**Note:** 'Transaction Shift' reflects the percentage of transactions that are shifted from one method to another. The annual savings is the difference of the shifted transaction costs multiplied by the number of transactions shifted.
Efficiency - Soft Savings

OfficeMax/Office Depot Orders

<table>
<thead>
<tr>
<th>Order Amounts</th>
<th>Number of Orders</th>
<th>LSU Process Cost Savings</th>
<th>OfficeMax/Office Depot Process Cost</th>
<th>Combined Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $ 10</td>
<td>1,007</td>
<td>$ 23,161</td>
<td>$ 49,081</td>
<td>$ 72,242</td>
</tr>
<tr>
<td>$ 10 - $ 25</td>
<td>1,653</td>
<td>$ 38,019</td>
<td>$ 80,567</td>
<td>$ 118,586</td>
</tr>
<tr>
<td>$ 25 - $ 50</td>
<td>1,737</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 50 - $ 75</td>
<td>1,314</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 75 - $ 150</td>
<td>2,181</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ 150 - $ 300</td>
<td>1,793</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; $ 300</td>
<td>1,727</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Savings with $ 25 min. order: $ 61,180

Combined Savings: $ 190,828
Measure of Savings - Hard

STRATEGIC SOURCING SAVINGS LEVERS

<table>
<thead>
<tr>
<th>Strategic Sourcing Lever #1 (Cooperative Contract Purchasing)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of spend for Coop</td>
</tr>
<tr>
<td>Sourceable Coop spend</td>
</tr>
</tbody>
</table>

Annual Cooperative Agreement Savings | $ 2,728,050

<table>
<thead>
<tr>
<th>Annual Savings</th>
<th>Discount Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yr 1</td>
<td>$ 136,403</td>
</tr>
<tr>
<td>Yr 2</td>
<td>$ 545,610</td>
</tr>
<tr>
<td>Yr 3</td>
<td>$ 1,091,220</td>
</tr>
</tbody>
</table>

Total 3-yr savings | $ 1,773,233

Source: E&I Cooperative, ProVista GPO, literature review
Efficiency - Hard Savings

Bathroom Tissue

Savings Opportunity:
$48,000
11,000 Cases Purchased in 2014
Plan Implementation Yield 22% Reduction of Cost

Air Filters

Savings Opportunity:
$38,700
23,000 Air Filters Purchased in 2014
Plan Implementation Yield 45% Reduction of Cost
Implementation Timeline

• Delegations (Purchasing Authority)
• Training for Purchasing Delegations
• Develop procurement policies and procedures
• Develop reporting/audit requirements to show progress of pilot
• Review compliance
Delegation

• **Delegation**

  The CPO may delegate, in writing with the approval of the CFO or designee, to university deans, directors, or department heads, or their formally designated agents, authority to procure on behalf of their administrative units.

• **Compliance**

  The CPO will ensure that the University Pilot Procurement Code (UPPC), procurement procedures, and ethical practices are followed to effectively mitigate potential risks to the University.

• **Revocation**

  The CPO may change, limit, expand, or reverse delegations at any time.
Types of Delegation

- **Spend Authority**
  - Ability to procure goods and services on La Carte

- **Purchasing Authority/Delegation**
  - Increased authority to procure goods and services on LaCarte and ability to solicit quotes

- **Contracting Authority**
  - Ability to sign procurement contracts or agreements on behalf of the University. Any procurement contract that includes terms and conditions requiring a signature on behalf of the University must be routed to Procurement for approval PRIOR to the purchase being made, regardless of the dollar amount and method of payment.
Evaluation of Purchasing Delegations

- A letter and form will be sent to the Deans, Directors and Department Heads to identify individuals and limits for purchasing delegations due back by March 23, 2015.

- Requested delegations will be evaluated to determine if the delegations serve the current needs of the University.

- Purchasing delegations will be approved by the CPO and CFO.

- Approved delegations will be effective upon completion of mandatory training.
## Competitive Thresholds

<table>
<thead>
<tr>
<th>Total Cost</th>
<th>Bidding Required</th>
<th>Purchasing Delegation</th>
<th>Minimum Number of Bidders</th>
<th>Minimum Response Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ $5,000</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>&gt; $5,000 to ≤ $10,000</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>&gt; $10,000 to ≤ $25,000</td>
<td>Yes</td>
<td>Yes</td>
<td>3</td>
<td>24 Hours</td>
</tr>
<tr>
<td>&gt; $25,000 to ≤ $50,000</td>
<td>Yes</td>
<td>No</td>
<td>5</td>
<td>72 Hours</td>
</tr>
<tr>
<td>&gt; $50,000</td>
<td>Yes</td>
<td>No</td>
<td>5</td>
<td>Typically 21 Days</td>
</tr>
</tbody>
</table>
Spend Authority - LaCarte

Purchases less than $5,000:

- No competition/solicitation required
- Purchase of good and services can be made on LaCarte unless items are deemed restricted such as but not limited to:
  - Equipment
  - Repair Services rendered on LSU premises
  - Compressed gases
  - Improvements to facilities (Construction)
  - Decorative/personal items
  - Professional Services
Delegated Purchasing Authority

Purchases exceeding $5,000, but less than $10,000:
- No competition/solicitation required
- Purchase of good and services can be made on LaCarte unless items are deemed restricted (see previous slide).

Purchases exceeding $10,000, but less than $25,000:
- Require solicitations (request for fax quotation – RFQ) from a minimum of 3 bidders.
- Minimum of 24 hour response time.
- Persons delegated Purchasing Authority can solicit quotes on behalf of the University on the designated LSU RFQ form.
Mandatory Purchasing Authority Training Classes

March 30th – 9:00 AM to 11:00 AM
April 1st – 1:00 PM to 3:00 PM

Business Education Complex Room 1620
Purchasing Authority Training

AGENDA
✓ Pilot Procurement Overview
✓ Basics of Procurement
✓ Purchasing Authority
✓ Department Solicitations
✓ Ethics
Contract Approvals/Reporting

- Procurements/Contracts are no longer submitted to OCR (Office of Contractual Review) PST (Purchasing Support Team) or OSP (Office of State Procurement).

- All Contracts/Agreements must be submitted directly to Procurement Services to be properly routed for review, negotiation, approval, and signature by the appropriate parties.
Term Contracts

- A list of term contracts and instructions that are up for Renewal or Rebid will be sent to Departments by March 13, 2015.

Renewal Options: Release a Requisition to Purchasing No Later Than April 15, 2015

Rebid: Procurement would like to Request a six month extension - to allow for evaluation and consolidation of commodities.
Questions???