

Strategic sourcing savings

by Hans Posthuma

Revenue agency streamlines office product procurement... and more

IN THE PERPETUAL quest to get the right goods and services from the right supplier for the best price and service level, organizations are turning to strategic sourcing practices. Count the Canada Revenue Agency (CRA) among those that got positive results.

The CRA began its foray into strategic sourcing in 2001 after deciding it needed to improve the way it bought goods and services. Roger Houde, director of contracting for the agency's Materiel Management Directorate, says the processes put in place since then have not only saved money, but have streamlined acquisitions and improved service levels from suppliers.

Today, more and more of CRA's annual procurement of about \$450 million is done using strategic sourcing, a process that takes a systematic approach to improving the efficiency and effectiveness of the procurement process by analyzing needs, consolidating purchasing power and taking advantage of e-commerce technology.

CRA's first strategic sourcing project tackled what Houde calls "the big beast" – office supplies. At the time, some 210 vendors shared more than \$8 million in annual business. Purchasing arrangements were essentially *ad hoc* arrangements made by local staff.

After posting an RFP in the spring of 2002, CRA chose the Canadian branch of Lyreco, an international office supply company, to be the agency's sole office products supplier. The contract was signed in August 2002 and a month later, staff could place orders from their desktops.

The results of leveraging the agency's buying power were felt immediately, says Houde. "By having everything in one basket from one supplier, we were able to obtain savings of 25 to 50 percent, depending on the item."

Strategic sourcing may have been a good way to save money, but that didn't mean Houde's internal clients – the staff who actually used the products – would automatically like the new system. "Clients were used to just going out and buying products from their favourite local suppliers," Houde explains. "There was an initial push back, saying, 'Here we are; headquarters is telling us how to buy office supplies.'" Within three short months, though, staff had largely embraced the new process – something Houde says could have taken almost a year.

Houde attributes the ease of implementation to the fact that the new pro-

cess actually made life easier for his clients, but adds that his procurement group also worked hard to communicate the advantages – a significant challenge with the target audience spread over several hundred buildings across the country. "We really had to sell this concept," he says. "The biggest challenge was to change the way people were used to doing business to a more efficient way."

Some suppliers also had concerns, particularly the smaller ones, since CRA's quest for one-stop shopping with a single, national supplier appeared to shut out smaller, regionally-based companies. Houde says that rather than excluding smaller suppliers, the RFP process encourages companies to form alliances with one another in order to fulfill the terms of the contract. The only difference, he argues, is that the role of managing subcontractors now falls to the main supplier, leaving CRA with only a single contract to administer.

The overall success of strategic sourcing goes hand-in-hand with a strong e-business focus. Moving the ordering process online called for a seamless connection between the vendor's computer network and CRA's, all the while ensuring the integrity and security of the volumes of confidential tax information stored in the agency's databases – requirements that make CRA's IT staff key partners in the procurement process. In fact, half of Houde's staff of about 60 is co-located with the agency's IT branch.



Each RFP specifies the level of e-business the vendor must be able to provide. The ultimate goal is for every transaction to take place online, from placing the order to acknowledging receipt and paying the bill. Some gaps remain, such as the capability to incorporate some internal approval processes into the ordering system, but software upgrades should solve that soon.

In addition to saving money on the costs of goods and services, CRA's ordering process itself now costs the agency far less than before. For example, Houde estimates that the cost in staff time to make a purchase dropped to less than \$20 from \$300. Procurement staff don't handle most purchases under \$5,000, particularly routine transactions; these are handled directly by trained staff within each branch using acquisition cards.

The service levels and delivery times specified in vendor contracts have also reduced the need to store equipment and supplies, shrinking the agency's need for warehouses from eleven to two.

Staff, meanwhile, shop for an increasing variety of goods and services in much the same way as consumers order goods

online. Vendors supply product information that CRA places in its online, searchable catalogues. Developed in house, the system also allows staff to view and reconcile transaction data.

Ideally, awarding a contract will lead to a long-term relationship with a supplier, thereby avoiding needless repetition of the tendering process. In order to balance that convenience with the ongoing need to ensure good value, contracts may initially be set for a one- to three-year term but include options for longer-term renewal. "As long as the business is good, we can continue," says Houde. "If it's not good, we have an opportunity to tender again and get new vendors."

CRA's current approach has evolved from a combination of public and private sector practices. Houde says he and his staff reviewed a number of models to find the best match and rather than finding an off-the-shelf solution, "we had to put together different concepts, different processes, and make one big process for us. It's a joining of several models that gave us what we were looking for."



Not surprisingly, others are interested in what CRA has done. Over the last two years Houde has shared CRA's expertise with other groups, including a presentation in October 2004 to the Canadian Public Procurement Council. Even PWGSC, which itself is exploring options for better ways to buy, is interested in hearing more.

Since its initial success with strategic sourcing of office products, CRA has since inked deals with suppliers of various other products, including paper, translation services and computers. Others are in the works, including proposals for courier services and multi-function printer/copier units. "It's the way to go now," Houde says simply. ~~~

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