

## Yarkin, Wade, and Grimm

### 54. Procurement

**0:00:01 Kendall Lott:** Hey PMs, how about a 2019 announcement? The University of Maryland's Project Management Center for Excellence is soliciting speakers for its 6th Annual Project Management Symposium. This one takes place on May 9th and 10th, 2019 at the University of Maryland's campus in College Park. Individuals and organizations are invited to submit their abstracts, papers, or presentations. These can be case studies, lessons learned, best practices, research findings, or the latest advances in project management. Some requested topics include Agile IT, construction management, disaster resilience, enterprise project management offices, federal programs, integrated program management, people in projects, so that's your change management, conflict resolution, motivation, negotiation area of discussion. Risk and big data, and then of course, stakeholder management. If you have something to say and the ability to be in the DC area in May, go to [pmsymposium.umd.edu/pm2019](https://pmsymposium.umd.edu/pm2019) and submit an abstract. Perhaps you'll be a speaker there, perhaps you'll be on a podcast next year.

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**0:01:12 David Yarkin:** When you're going to have a single supplier who's going to be your partner for the next five years, you better make sure that you get your requirements upfront right.

**0:01:20 Gordon Wade:** The biggest problem that we had when we started Category Management was overcoming the natural enmity between buyer and seller. The seller was there to sell a product at as high a price as he could and the buyer was there to buy as low a price as they could, and they were naturally arm-wrestling over the desk.

**0:01:39 Rick Grimm:** We really need to do a better job of equipping public procurement professionals on understanding the theoretical, the practical components of public procurement.

**0:01:53 Kendall Lott:** Have you ever noticed, when you go to a project management conference or symposium, there's a lot of talk about scope, risk, schedule, budget, and communications, but how often do you hear anything about procurement? Not only part of almost every project, whether it's goods or teams of contractors or subcontractors; it's one of the big 10 knowledge areas of the PMBOK. And of course, as managers, the more we know, even at a fundamental level, about the various touch points of our projects, the more effective we'll be. David Yarkin, Gordon Wade, and Rick Grimm are here to share with us some of the state of affairs for current procurement practices, strategic sourcing, cooperative purchasing, category management, and of course, compliance. With this information, I hope you can run much more efficient and cost-efficient projects.

**0:02:42 Announcer:** From the studios of Final Milestone Productions overlooking the White House

in downtown Washington DC, this is PM Point of View, the podcast that looks at project management from all the angles. Here is your host, Kendall Lott.

**0:02:55 KL:** David Yarkin is the President of Government Sourcing Solutions, a consulting company helping cities, states, and school districts and universities find ways to save money in the purchasing of goods and services. Before that, he was Pennsylvania's Chief Procurement Officer, CPO. I reached out to him because I'd heard people talking about strategic sourcing and wanted to know more about it.

**0:03:17 KL:** Tell us a little bit exactly what it is.

**0:03:19 DY:** Sure.

**0:03:20 KL:** I looked it up on Wikipedia, but tell me from your perspective.

**0:03:22 DY:** The idea is really simple. If you were going to buy ketchup for a big family picnic at your house with 20 members of your family, you wouldn't go to 20 7-Elevens and buy 20 little jars of ketchup. You'd go to Costco or Sam's Club and you'd buy the biggest vat of ketchup you could carry out because every household knows that the more you buy in bulk, the less you're going to pay. And what's true for a household is true for a government and for a commercial enterprise. So when I was at Pennsylvania, that's exactly what we did. In part because we were facing a significant financial shortfall, we decided to change the way we bought goods and services, and the idea was to try to leverage the Commonwealth's buying power to the fullest extent, which meant when we were buying office supplies, rather than buying office supplies from a hundred different suppliers, which is how we did it before I got there, we brought all of our volume to market as one government and went to market as one enterprise, bringing \$20 million of buying power and getting pricing that was commensurate with that significant amount of buying power.

[music]

**0:04:32 KL:** What makes this strategic sourcing rather than essentially volume buying? Why are we calling it "strategic"?

**0:04:39 DY:** When you look at how you spend your money in a thoughtful and a strategic way, that's all that's strategic sourcing is, is the idea that you're going to be able to think about what's the most strategic way to use your buying power to affect the desired outcome. So for us, the desired outcome really was a three-legged stool.

**0:04:56 KL:** Ah.

**0:04:57 DY:** We talked about price, and obviously that was a huge part, given the fact that we were facing this real significant shortfall. But it was also about expanding opportunities for small minority women-owned companies, so we used our buying power in part to do that, and also to make sure that our end-users in the agencies were getting outstanding service.

**0:05:16 KL:** So one key is, it *is* about services then...

**0:05:18 DY:** Absolutely. It's not just about getting low cost, because if... Anyone could go and

## 54. Procurement

pound a table and say, "Give me the less price," but if you're getting the lowest cost provider, you're often going to get service that's very low-end, and when you run an enterprise as complex as a state or a federal agency, that doesn't meet your needs. You really need to have some degree of a high touch on the service side to be able to meet all the unique challenges that all your customers in the departments face.

**0:05:48 KL:** So one of the issues with low cost is that you get what you've paid for.

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**0:05:58 KL:** So how do you orchestrate this with suppliers? Is this still the same type of bid procedure? When I looked it up, it looked like there's more of a process.

**0:06:05 DY:** Absolutely, it's very different. At least, in the Commonwealth's past most of our procurements were done in a bit of in a vacuum. We met internally, created the requirements, then pushed them out to the street. This process is very interactive with the supplier community.

**0:06:24 DY:** So at the very early stages of the procurement, you need to develop your strategy. I'll give you an example. We were going to go down to a single supplier for all of our food, statewide; 20 state prisons, 20 state hospitals, veterans homes, other facilities that needed food on a daily basis. And we knew there was some complexity to this, and if we hadn't talked to our suppliers, it would have been extraordinarily challenging. Here's why. You want to know from your suppliers, do you all have the ability to deliver statewide?

**0:06:55 KL:** Yeah.

**0:06:55 DY:** 67 counties. Maybe there's a strong group that can only do the eastern half of the state, maybe there's a strong cohort that can only do the west, in which case, maybe the strategy is we do an eastern procurement and a western procurement.

**0:07:08 KL:** Right.

**0:07:08 DY:** Maybe some say we can only do perishable, some say we can only do non-perishable. And if there's not a lot of overlap, then you're going to have to do a perishable procurement and non-perishable. So talking to the suppliers upfront helps you understand what their capabilities are and really informs your strategy. It also helps you avoid making mistakes. So on this one example - food - when we put our first procurement out, we actually got no responses, which was somewhat embarrassing to us.

**0:07:31 KL:** Throw a party and no one comes.

**0:07:32 DY:** That's exactly right.

**0:07:33 KL:** I have money here. Come on.

**0:07:35 DY:** Right. Come, come take it. But the reason was, we didn't understand, and it's our own fault, that a huge cost driver in this was transportation, how much it cost for them to be able to put the food in a truck and drive it across the state. We knew that, but we didn't really account for it, and

so we learned after the bid, we said to the suppliers, "Why didn't you bid on this?" And they told us, "If you had included in there some way for us to have some price escalation or de-escalation as the cost of petroleum and fuels went up and down, it would've much easier for us to respond to it." And we did for the second time, and we got much better responses.

**0:08:15 KL:** They were facing a risk that you didn't even see was embedded in that...

**0:08:18 DY:** And shame on us for not asking. But that's the point of strategic sourcing, is when you're going to have a single supplier, who's going to be your partner for the next five years, you better make sure that you get your requirements upfront right. And you can't do it without talking to them. It's very interactive.

[music]

**0:08:38 KL:** This seems like it really makes an intense requirement for the requirements to be very clear.

**0:08:44 DY:** You're right, because in the old way of doing things, at least in Pennsylvania, if you're going to have a hundred suppliers on contract, it doesn't really matter how well you scope it out because it's ultimately going to be the agency's decision to pick who from that hundred they want. But when you're making the choice on behalf of the enterprise, you have to make sure that you really have a really good understanding about what those requirements are, as good as you can know, knowing that if it's a five-year contract, things are going to change and evolve over five years. But at least you want to understand upfront, how do we anticipate using it today, and then how can it evolve over time as the market changes?

**0:09:25 KL:** Did you have any different kind of feedback loop on the effectiveness of these procurements or how the suppliers or the users use them?

**0:09:32 DY:** Absolutely. Strategic sourcing really puts a premium on that upfront work we talked about, understanding what the requirements are, hearing from the supplier community, hearing from your end-users in the agency, how would you use the contract? But after contracts awarded, it's as important to manage that contract in a really thoughtful and real-time way. So let's say you have a contract for widgets. And in the first month with your brand new widget partner, they're missing all their deliveries. They're not on time, they're delivering the wrong thing to the wrong people.

**0:10:10 DY:** If you don't hear that from your customers and the agencies, they're going to keep doing it because they don't recognize there's an issue, so it's really important that your contract manager is talking on a really regular basis to all their end-users, especially what we call your power users.

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**0:10:30 KL:** Your organization is with state and local government...

**0:10:32 DY:** Correct.

**0:10:32 KL:** You mentioned your own background is with that. How does this play in the private

enterprise section?

**0:10:36 DY:** There are probably very few, if any, that aren't doing it. In fact, when we started doing it back in 2003 in Pennsylvania, we were probably 10 years behind the private sector, if not more, even though we were probably a few years ahead of some other governments.

**0:10:52 KL:** So is it that it's harder for government or they just haven't become as used to it?

**0:10:57 DY:** Strategic sourcing, I think has become a very mainstream concept in the public sector. I think there are things about it that make it more difficult for my colleagues in government to execute compared to the private sector. I'll give you an example. So if we were going to procure furniture in Pennsylvania and have a single supplier of furniture across the enterprise, we would do it, and we did it. And along the way, some independent furniture dealers were frustrated because they had a book of business with the state and they knew that there was a good chance that they would lose that business. They might win all of it, but there's a good chance they might lose all of it.

**0:11:37 KL:** Right.

**0:11:38 DY:** And so they had an opportunity to voice their frustration and their concern and their fears, to state legislators, to the governor's office, to me, to my cabinet secretary. In the private sector, if Dell wants to go into a single supplier of furniture for across all their factories and facilities across the world, they can call Michael Dell but he's not really going to care.

**0:12:07 KL:** Right, right. They have to find the right person to go golf with or something, maybe.

**0:12:10 DY:** Yeah, yeah.

[music]

**0:12:16 KL:** So that makes me think a little bit about what kind of information flow do you need to make it work? Because there, you had kind of extraneous voices coming back in.

**0:12:27 DY:** We over-communicated, which I think was the...

[chuckle]

**0:12:30 DY:** Actually, we attempted to over-communicate. We wanted to really make sure that all the various stakeholders knew what was happening, and more important, why it was happening. So we would have town hall meetings with vendors. Come in, let us tell you what we're doing, you tell us how you feel about it. We know you're probably very happy, but we want to hear it, both because we want to hear it and because we have to, because it's part of the process. We did the same thing with our agency customers and departments, and they didn't all love it either. I mean, imagine going from a system where you had really complete control over who you used, to being one where folks in the department that you don't control would be, in large part, determining who your suppliers would be.

**0:13:11 DY:** We spent a lot of time up front meeting with suppliers, meeting with agencies, meeting with our own staff, meeting with legislators, because we knew this was a big change in the system

and we knew that if we didn't spend time upfront communicating, we'd spent a lot more time on the back end. And we did that, too. I mean, it was definitely a process that was a big change. And no matter how many times you explain to someone, it doesn't mean if they'll like it. And they didn't always.

**0:13:39 KL:** We were successful in Pennsylvania and other states have been successful also because we had great executive support from our governor who said early on, this is a priority of mine, not of David's, or general services, but of the entire governments. And being really clear with it with the other departments that he expected them to be supportive of it.

[music]

**0:14:09 KL:** You mentioned earlier that there's three legs to the stool of a successful outcome through this lens and we've talked a little bit about price, which is actually really a question of value, but you mentioned that there's kind of a social, particularly again, in a government setting, there's often a social aspect to this or a society benefits, social benefits aspect to this.

**0:14:27 DY:** Right.

**0:14:27 KL:** Around minority firms, small business firms, perhaps, or whatever is specific in their locales. Can you tell me a little bit more about that?

**0:14:34 DY:** Sure.

**0:14:34 KL:** And how this plays into that differently than not doing this.

**0:14:36 DY:** Yes, yeah. And this is an issue that is not monolithic. There are some parts of the country where minority women in business is not a priority, and some places where it's a huge priority. When you go here in DC, it's obviously a major priority in DC government. It's a priority in the city of Chicago. There are lots of places across the country where this is a big priority. And it was a priority for us. Pennsylvania is a very diverse state.

**0:15:03 KL:** But I would imagine that there's some variant on this everywhere. In other words, there might be a priority for local vendors.

**0:15:09 DY:** Sure.

**0:15:09 KL:** As opposed to getting the national vendor, so not necessarily, for example, issues of minority or size even.

**0:15:16 DY:** I think all politicians when they see procurement, they see it as an opportunity as a way to help improve the local economy. Now, there have been studies that have shown that actually local preferences in procurement don't move the needle at all when it comes to the macro economy of a region, because government procurement is only so big in the scheme of things.

**0:15:37 KL:** Yeah.

**0:15:38 DY:** But nevertheless, I think it does make elected officials feel like they're trying to do

## 54. Procurement

something with the government's wallet to try to impact the local community. Some governments have a real priority on incorporating small businesses that are local in the community, some extend that to minority or women-owned companies, some extend it to veteran-owned companies. Every government is very different in the way they prioritize that. Some have no preference at all, and they just take a more of a pure market approach. But whatever the priority of the administration is, strategic sourcing can be a means to help accomplish that.

**0:16:11 DY:** I'll tell you why. So when we went out to bid for office applies, again, we were a \$28 Million office supplies customer when we came out as the entire government itself going out to market. That placed us probably in the top 5% of customers in the office supplies space in the Mid-Atlantic region, if not even better, we were a huge customer.

**0:16:32 DY:** And that cloud gave us a lot of leverage. And so we said in our solicitation, we want you, the supplier community, to give us outstanding price, first and foremost, but we also want you to partner with minority or women-owned companies that we have certified as part of your team. And so the winning solution had utilized a local delivery company to do some deliveries and that was a way for us to make sure that part of the value of this contract was staying with a local minority owned company. At the same time, we saved, I think, \$8 Million. Now, you could say, and you'd probably be right, that we may have saved \$9 Million instead of eight, if we had just gone for a pure market-driven solution without incorporating any socioeconomic piece, but we felt that the trade-off was worth it.

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**0:17:24 KL:** Do you see an improvement from an approach, meaning strategic sourcing, generally, in the overall effectiveness or value of the procurements in standardization in the lack of variability in delivery?

**0:17:40 DY:** Standardization is a big part of this.

**0:17:41 KL:** Okay.

**0:17:42 DY:** It's not just about saying we're going to go and get a single supplier. If you can also say we're going to reduce the number of items, the number of SKUs, the variability within it, it lets your suppliers themselves employ strategic sourcing tactics to be able to bring in better pricing.

**0:17:57 KL:** Yeah.

**0:17:57 DY:** That can be very difficult. In fact, my experience in Pennsylvania was it's actually harder to get the agencies to agree to standards than it was to agree on going to a single supplier.

**0:18:08 KL:** That had to be worked on the institutional side, the agency side, before you would go out.

**0:18:12 DY:** It had to. You had to get the agencies to standardize on the kind of manufacturing equipment they're going to buy. It's about getting the low hanging fruit. Obviously, a cliché but the key is, let's identify first those categories that we think are the easiest to source, in other words, require the least gnashing of teeth from our agency customers. And at the same time, will deliver

the greatest savings and value.

**0:18:34 DY:** And if you can figure out those things first and nail those, then you have a success behind your back, you have a lot of momentum, and you can then tackle things that may be more challenging, like trying to get the agencies to standardize on the kind of manufacturing equipment they're going to buy.

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**0:18:51 KL:** Where did you get your feedback first? From someone saying, "You saved us money," or "We have it delivered better now," or at least they're standard or better products, or "We get to spend less time trying to figure out between 100 vendors." Where was your feedback strongest?

**0:19:04 DY:** Probably a combination of all. We did a procurement for IT staff augmentation. These are the hourly employees that do different tasks that supplement your own staff. And we saved about \$18 Million a year in this category, huge amount of savings. At the same time, we got 55% minority participation.

**0:19:22 KL:** Oh wow.

**0:19:22 DY:** It was a great success. But I'll never forget. We published the new rates under this new contract with a company called Computer Aid, that was local, actually, based in Pennsylvania. And we published the rate, and I had my phone ringing off the hook that day from my agency customers saying, "David, these rates are too low. We're used to paying twice this or three times this. We're really nervous we're not going to get great service because the rates just appear to be far too low." Truth is, a couple of years later, the contract had doubled in size because people loved it so much, because it was so easy to use and they got such great value out of it.

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**0:20:04 S2:** Remember, strategic sourcing, at its heart, is using your volume to try to get a better outcome, whether that's cost, MWE or socio-economic goals, and the last part was service. And this is partly, I think it's maybe under-told about strategic sourcing, some people think of it just as a way to drive down cost, and it is very effective at that, but when you think about it, going back to office supplies, we became a massive buyer of office supplies, such that the service that we received from our supplier was second to none because they treated us like their most important customer because, frankly, we were. So we awarded our contract for laptops and desktops to Dell. I think you may remember, this is a few years ago, with the Dell laptops, there was an issue with the battery and they were actually were combusting on planes.

**0:20:50 KL:** Yes.

**0:20:51 DY:** Before the public knew this and before the public was being told to return their laptops, we had staff from Dell in Harrisburg, going office by office replacing those batteries. Why? Because we were a massive 73,000 unit customer of Dell, so we got service that was commensurate with being that big customer.

**0:21:16 KL:** What scale is needed to make this work? Well, actually, what is the metric of scale?



I'm asking a scale question. I don't know what the metric is. Is it how much I buy, how many parts I buy, or how big my budget is, or?

**0:21:26 DY:** It's probably a combination of spend, and complexity, and cost of service. The thing that's interesting though, that again, which has changed a lot in the last 15 years, is cooperative purchasing. Cooperative purchasing is a process by which any government can utilize a contract that another government established through a competitive process. And that's the big change that's really changed strategic sourcing, in my mind.

**0:21:52 KL:** So you get like a free rider or a rider, maybe not...

**0:21:58 DY:** You can let, yeah. You benefit from someone else's work.

**0:22:00 KL:** Yeah.

**0:22:00 DY:** So, if you are a midsized town or county, or even a big city, or even a big state, you don't have to do the strategic sourcing yourself, you can use someone else's work. And as these contracts take on more and more governments and more and more volume, in some ways, you'd be foolish to do it yourself because there's a bigger entity with more volume doing it on your behalf and you can just ride on to their contract.

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**0:22:28 DY:** Procurement, I think, for a long time, was a somewhat sleepy function in government, but over the last five, 10 years, has become, I think, much more central to the way a government runs. We're in these jobs in procurement, we're given this sacred trust to be able to use the job to be able to make, have a positive outcome.

**0:22:46 DY:** We often get no credit when things go well and we get lots of blame when things don't, even if it wasn't our fault.

**KL:** The headline never reads "Large procurement went super well. Thanks, state government."

**0:22:57 DY:** That's right.

**0:23:00 KL:** So strategic sourcing, when done right, should yield not only a lower price, but better customer service. Buyers need to interact with the supplier community as well as the end-users to ensure the best possible deal. Those end-users might be you, project managers. And remember these contracts require ongoing oversight and management. For more information about strategic sourcing, visit [www.govsourcing.com](http://www.govsourcing.com).

[music]

**0:23:35 GW:** My name is Gordon Wade. My principal claim to fame is I'm one of the three people that invented a business process called Category Management.

**0:23:46 KL:** Even if you haven't worked long hours on the procurement end of a project, you've probably heard of Category Management. It's an approach to procurement that was developed in the

late 1980s. In 2014, the General Services Administration, GSA, launched the Category Management initiative to enable the federal government to eliminate redundancies, increase efficiency, and deliver more value in savings from the government's acquisition programs. Gordon Wade is a recognized thought leader in the consumer packaged goods industry and was one of the creators of Category Management. In 2017, he led an industry consortium tasked with updating cCategory Management to CatMan 2.0.

**0:24:28 KL:** Tell me fundamentally, what is Category Management and what does it help us achieve?

**0:24:34 GW:** Category Management is a process, the purpose of which is to optimize an outcome for the buyers and the sellers and also for the end-users of a product. What Category Management is designed to do is to lower the cost and increase the quality of the output... The value of the output.

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**0:25:03 S1:** How is this different than just seeing buyers and sellers in a normal procurement relationship?

[overlapping conversation]

**0:25:10 S3:** Yeah, that tends to be a hostile environment, a competitive environment. Category Management, the whole purpose of it is to make it a collaborative environment. Neither the buyer nor the seller can optimize their situation unless they share data between one another, and unless they have a common language, like a process, in which to do business. The biggest problem that we had when we started Category Management was overcoming the natural enmity between buyer and seller. The seller was there to sell a product at as high a price as he could, and the buyer was there to buy as low a price as they could, and they were naturally arm-wrestling over the desk.

**0:25:49 KL:** This is really interesting to me in the sense that, that adversarial relationship is at work. It's meant to drive to some common acceptable outcome. And in economics, we call that the equilibrium point, right? You're suggesting, if I understand correctly, that the two actors are sub-optimizing the overall picture.

**0:26:07 GW:** Absolutely correct. What we would tell them is, instead of trying to divide a 100% environment, where one side gets 51 and the other side gets 49, why don't we focus on making a really good end result for the shopper that's standing over in the corner, and you can maybe increase that dollar into a dollar 10 and both of you can have 55 cents. You cannot do that unless you share information, unless you have a level of trust between you. And that was the hardest thing we had to do, was to overcome the decades of enmity and combat over the 100 cent dollar.

**0:26:45 GW:** Once we made them understand that they could win by focusing on the common customer, common shopper, that really set a whole new tone, but it required the sharing of data and that is the principle, practical accomplishment of Category Management, was changing the attitude which resulted in the sharing of data that strengthened both parties and enabled them to get a much better result, lower cost and better satisfied customer.

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**0:27:21 KL:** When both sides have the same type of data, they are both able to make better decisions or they're able to coordinate better?

**0:27:27 GW:** Yeah, I think of it as a Venn diagram.

**0:27:29 KL:** Yeah.

**0:27:31 GW:** Both parties have some common data that they both know, that they're being supplied to them by a third party like a Nielsen or information resources or national panel diary. They both know that. But there's a whole lot of white space in this Venn diagram, in which the manufacturer knows a range, especially, of attitudinal and usage situations in geo-demographic data that the retailer doesn't have.

**0:28:00 GW:** The retailer has a lot of information on loyalty cards, about the retailer's customers. And, when you match those up, all of a sudden, you get a much more powerful result because the retailer now understands. "Oh, this is why I'm not doing very well in this kind of store because that has this kind of customer there and this kind of customer doesn't like the products that I have in that store."

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**0:28:31 KL:** What is a category?

**0:28:32 GW:** A category is something that has a common set of usages which are not duplicated by any other category. If you have a dog, dogs, generally speaking, won't eat cat food, or a category could be soft drinks, a category could be wine, and Category Management treats each category as if it were a separate business unit in a retail store. And it's managed as if it were a separate business. The retailer has a category buyer, or what's now called a category manager, and the manufacturers, who may have multiple categories that they have products for, would have a category manager who interacts with the retail category manager to develop a category plan for that category and that retailer.

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**0:29:26 KL:** I think, again, we've had buyers and sellers of specific product lines probably forever. What makes this different is in the management once you shifted the data. What are they managing?

**0:29:36 GW:** What makes it different is the attitude that the category manager brings to it from the manufacturer, because he comes to it, not representing himself, his company, but he comes to it with the focus of satisfying the end-user and helping the retailer develop a plan that satisfies the end-user and that may mean that his own products aren't necessarily distributed everywhere. He has... His ethic is, "I must do what's right for our common consumer," and the theory is that, that establishes a level of trust between, in this case, the buyer and the seller. Because everyone has the same data, everyone is basically rallying around a common picture of the truth. And what discriminates the companies is their ability to understand the data or the quality of the data that the manufacturer may have versus another manufacturer. So the manufacturers are competing to not only satisfy the shopper but to convince the retailer that they know of what's best for the common

shopper.

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**0:30:56 KL:** Let's describe what "best" ends up being here. Where do you see the increase in value to the participants?

**0:31:01 GW:** Well, they're going to see an improvement in assortment, what items I have. They can see an improvement in price because they'll have price of elasticity calculations where they can say, "In this area, you can actually charge another four cents for this item with impunity, there will... You will not lose volume." You differ or improve by how you array or display the products on the shelf, and the way that is presented can have a material effect on the amount you sell and the profitability. And the core theory is promotion. When do I promote and how? How do these shoppers respond to different promotions? What's the return on investment of this kind of promotion? Then the last issue is a delivery or supply-side issues. How are we going to supply this product to you? In what sizes, in what product sizes? And when am I going to do it? What's the cost in the supply chain? How can I remove cost from the supply chain? Those are all reflected in a category plan.

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**0:32:08 KL:** What caused this to come about?

**0:32:11 GW:** What made the industry go into it? There were two things. Number one, the industry wasn't doing well, and they were worried because their profits were decreasing. They weren't satisfying consumers very well. That was the first thing. But on a more positive side, they became quite enamored of the Japanese Total Quality movement. After World War II, Japan was destroyed, and their products that they brought to the United States were terrible, and they engaged a relatively obscure American academic, named W. Edwards Deming, who was an expert in statistical process control, and he taught them how to improve products by using process-oriented approaches with rigorous metrics. When the Americans went over and saw what the Japanese were doing in process, and they came back to the United States, they began to apply that across many industries, certainly the automobile industry, but the grocery industry said, "Well, we had the same problem. We have buyers and sellers. We do different things in all these different categories. Everybody does it differently. There has to be a better way, there has to be a process." So they put together an industry committee, and my small company actually won the competition, to create the demand side process.

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**0:33:31 GW:** The process is: Define the category and segment the category. Okay?

**0:33:35 GW:** Okay.

**0:33:36 GW:** Then understand how important it is within whatever universe it's being applied competitively. Then you do an analysis segment, the third step is assessment or analysis, and you want to know who, what, why, when, where and how? And of course, the answers are different in any given category, but the questions are the same. Then you look at the metrics. "Well, gee, I'm not doing so good here, so I need a metric that deals with this problem that I see." Metrics is the clutch between the analytical component and the action component of the process. Once you get the

metrics, you do the strategies that deliver against the metrics, then you do the tactics that deliver against the strategies.

**0:34:16 KL:** You did this starting in the '90s, which of course, we had computing power and a lot of analytics and a lot of learning and even the Internet happening then, but now, we're talking big data, we're talking new ways of securing trust in blockchain. How do the new technologies play into this? Or are we just going to see this accelerate more or are we already hitting the efficiencies?

**0:34:37 GW:** There's been tremendous advances, even over the last five years, because you have... Data is the data that you can capture, but it's also the processing of the data, and it's also the combining of various types of data, as you suggested with big data. So what we know today that we didn't know then or able to understand better, we have a much clearer idea of assortment preferences by consumer cohort. You not only know pricing gaps within your own store and within segments and brands and things, but you also know it versus competition. You know that if you have a pricing gap here in this product, in this segment, it doesn't really make any difference, but if you have a pricing gap on this product versus this competitor, you've got a problem. They're going to walk across the street to buy their Pepsi's. You have all the ability to use the Internet and augmented reality and virtual reality to run tests that you couldn't do.

**0:35:43 KL :** We may not know much about it as PMs or as professionals in our space, but it sounds like this is embedded in all of the large manufacturer and retail. This is a common practice among...

**0:35:53 GW:** Oh, no. It's used by every major manufacturer and every major retailer worldwide. If I walk into Carrefour in France, or into Continentale in Spain, or Ito-Yokado in Japan, or Woolworths in Australia, or Pick N Save in South Africa, and I start talking about the Category Management process, we all have a common language. It's the language we invented. They know what it is, and we can speak with one another, just as a person who speaks English can speak to somebody around the world who speaks English. It's a common language.

[music]

**0:36:35 KL:** How could this work as citizens, as the consumers of government services?

**0:36:39 GW:** You use the same steps, because it's a logical way. It's called "What am I managing?" To define the category. What's inside and outside of what I'm doing? Am I doing driver's licenses or am I doing licenses for small businesses? So the first issue is, what is the scope of what I'm doing, then within that scope, what are the segments? For example, a segment is a collection of attributes which are unique, and for which you wouldn't buy some other product or service. That is a segment within the broader overall category. And once you define that, you look at what we call role, which is, how important is this, how much money should I as the county apply to this, how will this...

**0:37:31 GW:** It's the greatest good for greatest number. If I look at all the array, all the products and services that I as a county government or I as a state government provide, which is the one that has the most positive impact on the most people? Probably something like education or something like health. And that's why most states spend a lot of money on education and health because that's the greatest good for the greatest number. You do that calculation because that says "This is how much money resources I would apply. How many people, how much money I would apply. I would give

primacy to this."

**0:38:07 GW:** Then you do the assessment. The assessment is done on who, what, when, how, and why? And then you develop the metrics. We're not doing well here, we want to, based on the assessment, and we want to do better and this is the metric that will tell me that I'm doing better. Once I know what that metric is, then I can develop the strategy to improve that metric and I can do the tactic to deliver against that strategy.

**0:38:31 KL:** It's a mechanism for utilitarian theory here. I mean, it is really about getting the most value out of each piece that you're having to deal with.

**0:38:37 GW:** Yeah, it's the greatest good for greatest number.

[music]

**0:38:42 KL:** When procurement works in tandem with the supplier, sharing data and information, the buyer or the end-user benefits. That would be you, PMs. To learn more about category management, check out the Category Management Association at [www.catman.global](http://www.catman.global).

[music]

**0:39:08 KL:** For the past 20 years, Rick Grimm has been CEO of NIGP, the National Institute for Public Procurement. Their mission is to help public procurement officials, contracting agents, buyers, and other players in the procurement field learn how to save tax dollars and bring value to the agencies they serve.

**0:39:27 KL:** How did you get into this? What brought you to this kind of lofty position you're in?

**0:39:31 RG:** In my younger years, I was working for fleet management for a fairly large municipal government. Of course, fleet management needs tires and fuel and batteries and parts for all kinds of fleets, police, fire, parks and rec, public works, trash removal. And as the fleet administrator responsible for managing this in conjunction with the procurement office, they never could get contracts out for me. There were so many stalls. I constantly had problems with getting fuel. I'd have police vehicles pulling up to the pumps, and I didn't have fuel or I didn't have tires, and I just pounded on the...

**0:40:17 RG:** We had a general services form of government, and I was pounding on the GSA director's head. I said, "You've got to do something about procurement. You got to do something." And sure enough, the procurement director abruptly resigned. GSA director called and says, "Okay. You have been complaining all your life. Now, you go fix the mess," which is, by the way, almost how all of public procurement professionals, they end up falling into public procurement. But we really need to do a better job of equipping public procurement professionals on understanding the theoretical, the practical components of public procurement. And they need to learn that much younger in their career rather than people just falling in and doing on-the-job training.

[music]

**0:41:07 KL:** Is it your take that that's similar in private procurement as well?

**0:41:10 RG:** I believe that that was traditionally the case in both public and private sector. The private sectors really picked this up in terms of looking at the value of supply chain. It's been very effective about thinking that if procurement is done correctly, and procurement is not only working with that first tier of supplier, but where we are in the supply chain that, that I actually can add great value to the bottom line.

**0:41:39 RG:** The public sector has a very different mission. It's not about profit and loss. It's about providing services to the constituents. And there's other kinds of nuances that occur in the public sector, whereas in the private sector, you would try to minimize the number of suppliers, because that's how you can manage the supply chain better. In the public sector, you're trying to maximize the number of suppliers, because those suppliers are also taxpayers who are contributing to the public good. And so, giving suppliers an opportunity to participate in the expenditure of public dollars is a critical component.

[music]

**0:42:25 KL:** When we talk about procurement, a more senior person, a Chief Procurement Officer, a CPO.

**0:42:31 RG:** Right.

**0:42:31 KL:** What do they have to know, what they have to do? What makes a good CPO?

**0:42:34 RG:** Right. So the fundamentals of public procurement are really important in the profession. So an individual will need to know some of the technical nuances of public procurement you have. At what point do you do a procurement process? How do you solicit? How do you identify the scope of work, or the needs, requirements, for the individual that you're serving, or the company that you're serving? And you think of that both, like what happens on a municipal or even in a state government, you look at all the stakeholders. Just look at it from a municipal standpoint. You've got police, you've got fire, you have all the public safety issues. You have to understand all those needs. But they also have public works. You have parks and recreation, you have all the social services.

**0:43:18 RG:** So the vast amount of types of procurements, the various procurements you have, are much greater in the public sector. And I believe it's much greater in the public than it is in the private sector. But knowing, not necessarily exactly all of the components, all the parts and products that you need to value in services, it's understanding kind of the flow, the cycle by which public procurement happens. And then to know when a request comes out that you know how to solicit, how to plan for it, and then how to acquire, and how to do the contract administration process.

**0:43:57 KL:** You're talking project management. You mentioned scope of work, that's what we live by.

**0:44:02 RG:** Right.

**0:44:03 KL:** It's all about stakeholders is the biggest situation we face around handling the scope of work and the communication related to it. And then you talked about the types of procurements and

then having to look at that as a life cycle and planning for it. I mean, this is project management. So I see a lot of affinity between the two. I think that's kind of interesting.

[music]

**0:44:23 KL:** I know that one of the things we often get into is the concepts of waste and problems like that. Like procurements gone awry is what we often see in the news.

**0:44:33 RG:** Right.

**0:44:34 KL:** Probably because in part, no one ever says, "Amazing procurement. Done really, really well." They're transparent...

**0:44:39 RG:** You never hear that stuff. [chuckle]

**0:44:41 KL:** Yeah, you don't get to hear a lot of that. So talk to me about transparency and ethics.

**0:44:46 RG:** Sure. I think the underpinning really is understand that technical skill, but you overlay it with, really, the mission that happens in public procurement, which is, it's very compliance driven. Regulations are designed for a reason. Sometimes they're designed to counter an incident that may have occurred five or six years ago. So you put parameters around how you would use credit cards, or at what point are you doing a telephone quote, or a fax quote, or an informal quote, as opposed to doing a formal solicitation.

**0:45:27 RG:** That's a kind of the technical aspect, but it's overlaying that with understanding the ethics, the transparency, the integrity of the process. So if any of those values get disrupted in the cycle, and the supplier community believes that you're not being fair and being impartial, this creates all kinds of problems for public procurement, because the credibility isn't there. So the CPO has to have that theoretical underpinning on how to perform the work, but they also need to do it with a lens that deals with ethics, and making sure that there's no favoritism that's involved in there. They are going strictly by the books, that there's no opportunity for suppliers to influence unfairly the process, because you've got to make sure that you've got that integrity part of it.

**0:46:22 RG:** And then transparency really is making sure you're very, very clear with all your constituents, whether it's your user department, or it's your supplier, or the community, that they know exactly how you're spending the dollars, with whom, and how did you make those decisions?

[music]

**0:46:43 KL:** How is that typically done? I feel like the procurement officers in a government situation don't really own all of the reporting out and transparency. How is that executed for many of your constituents at NIGP?

**0:46:57 RG:** This is a little bit of a challenge, but it's very easy to take care of this. Not very easy, but watch that...

**0:47:05 KL:** There is a way.



[chuckle]

**0:47:05 RG:** There is a way. And one of the things that we see in public procurement is how the whole profession has been transformed through the use of technology. If you're collecting, if you're doing the data collection correctly, you should be able to pinpoint specifically where you're spending the money, who you're spending it with, and the solicitation process that was utilized to make the acquisition. And that makes it transparent.

[music]

**0:47:37 KL:** What is the procurement officers... Where are they getting their ethics training? This demand and its requirement. You're handling public funds right on the front end.

**0:47:47 RG:** Right. You're asking a question that puts me in a little bit of a box here, so I'm going to try to answer the question correctly. I don't believe you teach ethics. I believe you teach compliance, but the definition of making the right or wrong decisions is kind of intrinsic. And so, this has actually become a little bit of an issue for public procurement officials because we have seen individuals who are well-skilled, they're in high positions, and they went to ethics training, as you're referring to, and they still are caught in scandals and bribes and fraud. And I think it's incumbent on NIGP as a professional society, and our colleagues that are also in these professional societies, to continue to hammer out why ethics is so important that you have to be above any kind of reproach. You have to take any perception of influence, undue influence, out of the equation.

**0:48:49 KL:** I would agree that in any profession, obviously, we can have bad actors and people who choose criminal activity.

**0:48:55 RG:** Right. Yup.

**0:48:55 KL:** But I guess I was thinking, I was reflecting more that procurement officers sit in a more visibly scary place. I was thinking if I were a professional in that space, where I don't own the requirements, I'm trying to work with other people with requirements and desires and needs, and in the public space, we've talked about constituencies on both sides of the acquisition equation.

**0:49:17 RG:** Right.

**0:49:17 KL:** The purchasing and the use, that less the criminal aspect or the corrupt aspect but more the bad judgment, like the really the need, you just said, about really have to be above board, very, very clear and transparent.

**0:49:31 RG:** Yeah, so I think I'll...

**0:49:32 KL:** Is that trainable?

**0:49:33 RG:** Well, I believe that the first step on that is that you have to establish that rapport that you have with your user departments. So if the client base perceives procurement as the barrier to let them get their work done, then we typically go around public procurements and that's where the client can get into an ethical hot water.

**0:49:58 KL:** Yeah.

**0:50:00 RG:** And where in reality, when that happens, it still falls on procurement because the procurement process, maybe not the people that were in there, but the procurement process, failed because of the go-around. I also believe, you had asked earlier about these traits of the CPO, what's that... It's that technical skill, it's behavioral pieces that they need to model, that the transparency, the fairness, the equity issue. And then they also have to be perceived as a trusted advisor so that the clients see procurement actually enabling them to save additional dollars as opposed to being a hindrance. And so this is where the transformation is really moving out of compliance.

**0:50:42 KL:** Yeah.

**0:50:42 RG:** Because compliance is really, for the most part, it's a black and white issue. It's almost a clerical issue. If you tick the boxes, you're compliant. If you can't tick all the boxes, you're not compliant.

**0:50:53 KL:** Oh, I smell something else coming here that PM's face as well, which is, we get viewed as clerical. We're the box checkers.

**0:51:00 RG:** Yeah.

**0:51:00 KL:** We're the followers of the rules.

**0:51:00 RG:** Sure.

**0:51:00 KL:** Which, of course, we are, and yet.

**0:51:02 RG:** Yes.

[music]

**0:51:07 KL:** Talk to me a little bit about this change in the profession. You said trusted advisor. I mean, how do they get to be trusted advisors? How do we get there from this body of knowledge that make sure we're compliant?

**0:51:17 RG:** I think you have to earn that trust. It's actually, it's the two components of the word. It's trust, which means that I know that I can go to this individual and I will get the best deal that I'm looking for, that they have my vested interest in mind, but also advisor. In many organizations, public procurement is not centralized. It may be delegated authority. There may be areas, particularly in large organizations, where you don't want centralized procurement to do all of the work. You want to have some of that pushed out into a delegated authority, but you also want to be the advisor for some of those large procurements, so it is very, very, kind of what we identify as complex services or solutions. And so that allows you to be that trusted advisor. But I think the direction that we are very, very interested in pursuing, is creating a prepared workforce for public procurement.

**0:52:17 KL:** What does that mean?

**0:52:18 RG:** What that means is rather than getting in the situation of falling into public procurement, we want to have a generation or next generation of professionals that are, A) committed to public service. They understand the value of public service, public trust, doing the public good, and then they want to have an opportunity to have a very varied fingerprints on a wide array of what goods and services are bought for the organization.

[music]

**0:53:00 KL:** I'm going to throw out a number, you tell me what it means, \$4 Trillion.

**0:53:02 RG:** Yes, I think at this point, it's about 4.7, that's the approximate span of goods and services, solutions, equipment, that's done by governments.

**0:53:12 KL:** State or local?

**0:53:12 RG:** State, federal, local, yes. And that actually gets to my point of... You've got this 4.7 Trillion, that is managed by this function we call public procurement, and then contrast that with my earlier statement that everyone fell into it. It's like saying, "I'm going to go and have a major surgery done tomorrow, but I don't know whether that physician fell into this discipline with a scalpel or knife. I actually want someone who's not only very skilled and trained but is experienced in performing that surgery. I mean, that's what I'm looking for."

**0:53:55 RG:** And so, why would the citizen, who is writing that check to the government to pay taxes, why wouldn't they want the same kind of assurance that the public procurement is being done correctly? So our mantra really is to shift away from on-the-job training, which is occurring now, and shifting it from what we're doing as a professional society, actually to colleges and universities within public administration, because in public administration or public policy, you've got these behaviors or these norms that deal with... How do you deliver public good? And so, our objective is really to embed the public procurement content into their curriculum.

[music]

**0:54:47 KL:** So to clarify, in the project management body of knowledge, and in the areas that we have to understand, one of them is the procurement acquisition function. Because a part of any project may be "I have to go and get resources inputs for this project, and I need to plan when that's going to happen." So, we get down to a lot of adjusting time delivery type of things, right? So from a project management perspective, we know we have to know about this, but we also don't run the process. We struggle with that, and we have to engage with it. I want to flip that around a little bit. How could the project manager ease that interaction? What makes them a good client?

**0:55:20 RG:** Right. So procurement can't be ad hoc. By that, I mean, it's just like an afterthought. And one of the tenets that we're working on is actually thinking of most professions that are built on some management principles of planning, controlling, executing. And so, what procurement has to do is be able to look historically at how acquisitions occurred, leveraging data, and leveraging data analytics and spend analytics to make better decisions. At what point do we aggregate spend or consolidate spend? At what point do we rely on third party providers in the public procurement space? Cooperative procurements are very, very popular.

**0:56:10 KL:** Can you explain that? I ran across that before and I didn't quite understand it.

**0:56:13 RG:** In its purest sense, it would be three or four public entities coming together and say, "You need two, I need two, you need four. Let's just put out a single solicitation for eight."

**0:56:24 KL:** It's a scale issue.

**0:56:25 RG:** Exactly right.

[music]

**0:56:31 KL:** From improving their own professional approach to possibly finding some PMs that realize they do so much procurement and the tools are somewhat similar, that they could find another profession here, where can project managers come to learn more about procurement?

**0:56:46 RG:** A project manager in the government space certainly has many opportunities to understand the NIGP content. We actually have a curriculum that's 18 types of courses strong. Some of them deal with contract administration, legal compliance, methods of source selection, the mechanics of an RFP as opposed to invitations for bid. And we offer that both in an in-person setting and now it's available online, and we're putting much more emphasis on that kind of a shorter micro-learning process, because people want to know a specific component, like a project manager really doesn't need to understand contract administration, maybe, or maybe not, but they may be very interested in learning how RFPs are developed, how do you do an RFP evaluation team, how do you identify the methods of award? Are you looking at price solely or you're looking at how the solution has been written by the provider? We'll offer that in chunks of information or content that would make it easy for someone, whether they're a procurement practitioner or a project manager, they can pull up on that information.

**0:58:04 KL:** A good CPO should possess a combination of theoretical and practical knowledge, knowing the procurement cycles, understanding the solicitation process, and how to identify scope, along with, of course, a sense of fairness and transparency. They should be role models and trusted advisors. Sound familiar? And of course, that scope discussion is where our link is as PMs. To find out more about NIGP and all the resources they offer, go to [www.NIGP.org](http://www.NIGP.org).

**0:58:35 KL:** And so, as we heard in this episode, procurement is a vital and delicate function. As David Yarkin noted, acquisitions officials, particularly in the government arena, have been given a sacred trust to use public funds, or their corporate funds, as effectively as possible to yield the most benefits. An ethical approach is essential. And as the Category Management process prescribes, procurement is best approached through a collaborative, not an adversarial, relationship with the suppliers. So PMs, I hope that by learning some of the finer points of procurement, you'll be better equipped to handle this aspect of your projects, to bring about more positive outcomes, and at a minimum, have a better understanding of the people that you're working with to do procurement. Special thanks to my guests, David Yarkin, Gordon Wade, and Rick Grimm.

**0:59:22 Announcer:** Our theme music was composed by Molly Flannery, used with permission. Additional original music by Gary Fieldman, Rich Greenblatt, Lionel Lyles, and Hiroaki Honshuku. Post production performed at M Powered Strategies.

## 54. Procurement

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