Introduction
Governments in the United States spend between $1.3 trillion and $1.6 trillion annually for goods and services. Government procurement is being transformed at all levels—federal, state and local. No longer viewed as a technical exercise, public procurement is evolving into a strategic business process throughout government. This transformation of government procurement is a reflection of the overall changing nature of government. Today’s government processes are much more complex, reflecting the desire to provide faster, more cost-effective services to citizens and members of the business community. This article provides a brief history of the evolution of public procurement as well as an insight into trends we believe will continue for several years to come.

The Last Five Years
State governments entered the 21st century with serious revenue shortfalls and increasing expenditures. According to the National Association of State Budget Officers, states experienced some of the largest budget deficits in history over the course of the past five years. After implementing traditional budget-cutting measures, several state government executives began to explore more innovative cost-cutting measures and increasingly relied on state procurement directors for implementation of potential savings opportunities. Through the use of private sector enterprises introducing business supply chain management techniques, several states launched groundbreaking spend management and strategic sourcing projects to generate considerable savings on common purchases.

Other procurement innovations were also borne from the budget crises. Seeking greater efficiency in the delivery of traditional government services, executives began to explore a savings method long used in the private sector—outsourcing, or more specifically, privatization. Procurement officers were called on to develop, negotiate and administer complex outsourcing contracts for technology, data centers, telecommunications and other government services traditionally performed in-house. Many of these contracts were performance-based and some included unique revenue and risk-shared funding mechanisms. Examples include:
- shared savings from reduced energy consumption in public buildings;
- self-funded Web portals;
- shared revenue from tax system technology upgrades; and
- shared savings cost recovery audit contracts; and
- performance fees based on generation of additional federal cost reimbursement.

While state executives relied more and more on their procurement professionals, traditional budget-cutting measures downsized state procurement offices. Layoffs ensued and many procurement offices migrated from general-funded programs to a more diversified self-funded environment. A variety of revenue-generating methods were developed, such as collecting transaction fees, industrial fees and consulting fees, and performing agency assessments. Procurement offices also faced the migration of staff to private sector and local government jobs paying higher wages. Faced with the reality of fewer staff and the increasing demand for more complex contracts and savings targets, state procurement officials continued to explore and initiate a number of innovations, many borrowed from the private sector. Procurement card programs were developed for small purchases, bid thresholds were increased and procurement officials relied more on cooperative

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Public Procurement: Past, Present and Future
By John Adler, Dugan Petty and Rebecca Randall

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purchasing programs such as the Minnesota multi-state contract for drugs and pharmaceuticals and the Western States Contracting Alliance (WSCA) contracts to maintain service levels. State directors also turned to e-procurement systems to streamline back office processes and consulting services for strategic sourcing initiatives. During this time a handful of major e-procurement projects concluded with varying degrees of success.

With the trend toward increased bid thresholds and expanded agency purchasing delegations, procurement officials also recognized that training is essential to maintain effective, accountable and relevant procurement programs. Several states followed Virginia’s groundbreaking program that addressed both traditional procurement practices and emerging best practices, Alaska, Arizona, Arkansas, Florida, Oregon, Massachusetts and Texas developed formal training programs delivered by professional procurement training officers. As a way of strengthening competency, states also increased their focus on more professional certifications based on a body of knowledge, including the Universal Public Purchasing Certification Council (UPPCC), Certified Public Procurement Officer (CPPO) and Certified Public Procurement Buyer (CPPB), Institute of Supply Management, National Contract Management Association and other designations. Some states, such as Arkansas, require certification for all state procurement officers.

State Procurement Today

While most state economies are improving, many state procurement directors are finding themselves with smaller staffs and increased project demands. Deferred capital, construction and information technology acquisitions are being moved from the back burner to the procurement office for swift action. These complex contracts, along with continuing privatization efforts and performance-based contracting trends, are piling more intricate projects into the realm of the procurement directors, while staff continues to decrease in number and experience.

Strategic Sourcing—Today’s Most Significant Trend

The federal Office of Management and Budget defines strategic sourcing as the “collaborative and structured process of critically analyzing an organization’s spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently.”

Strategic sourcing involves a systematic analysis of the requirements, suppliers, market, environment and other factors to locate and capture, track and document savings. During the last three years, more than 20 states have embarked or are planning to initiate some form of strategic sourcing (see Figure A).

Savings generated from strategic sourcing initiatives have reportedly been substantial. Delaware, Virginia, Illinois and Pennsylvania reported generating millions of dollars in savings by employing strategic sourcing techniques for computers, office supplies, furniture and other high-volume common-use commodities. Additionally, strategic sourcing assisted states in other areas such as improvements in quality and service delivery. Attracted by savings, other states adopted strategic sourcing programs as a way of improving performance and reducing the overall cost of operations.

States that have completed the first phase of strategic sourcing are now faced with challenges of how to integrate strategic sourcing into their ongoing procurement business protocols. These next phases will
involve significant staff training as well as changes within the procurement office organizational structure. Rather than a traditional transaction-based work flow, different structures that empower responsive decision-making and cross functional work teams will be needed to support a variety of sourcing team activities. Massachusetts, Illinois, Pennsylvania and Virginia have all made gains in this area of organizational transformation.

Although achieving savings within the future phases of strategic sourcing could prove more difficult, states are expected to continue to reap benefits from strategic sourcing.

The Future of State Procurement

More state procurement directors will build and enhance training programs and require professional certification

While statute and administrative law, policies, procedures and organizational structure combine to provide the mechanism for public purchasing, only people can ensure its functionality. Training and certification will become critical as state procurement continues to evolve from tactical to strategic, and procurement requirements and contracts become more complex. Procurement training programs will extend far beyond the traditional buying and bidding processes to better develop skills within the areas of communication, negotiation, strategic sourcing, technology and others essential for the modern contracting officer.

To prepare procurement officers for this dynamic environment, the National Institute of Governmental Purchasing is upgrading its training program through its LEAP initiative. States are also implementing or upgrading training programs and turning to private sector consultants to provide strategic sourcing, performance-based contracting and other current best practice training programs.

Procurement directors are preparing for recruitment and retention of professional staff

Most state procurement offices are emerging from revenue deficits with smaller staffs and are now preparing for increased turnover resulting from worker retirements and increased job competition. As with most other state government workers, procurement salaries have traditionally lagged behind the private sector and local governments, creating a significant wage disparity. For example, the state of Arizona estimates that state salaries are now 21 percent below market. While some states are already experiencing high turnover, many states may lose as many as 50 percent of existing staff to retirement and other higher paying job opportunities. The state of Arkansas predicts that it could lose up to 67 percent of its senior procurement staff in the next five years; and the Arizona Enterprise Procurement Services Office has already experienced nearly 100 percent turnover of its procurement staff in the last two years.

To counter this trend, state procurement offices will need to offer more competitive salaries and benefits, and develop more innovative recruitment, training and career progression programs. Procurement directors may face resistance from state executives and legislators as well as competition from other programs for budget increases. It may be necessary to explore alternative funding sources such as cooperative purchasing.

The shift of buying goods to buying services

It is essential to recognize that the future role of government will continue to shift from its historic mission of being a “provider” of goods and services to the role of one who “manages the providers.” While government will continue to buy goods, internal procurement offices will continue to face the challenge of a broadening range of contracts for services. When buying services, the role of government shifts from a generalist to one that must specify and develop outcome and performance measures in relation to a specified need. Service contracts also require much more intensive administration to ensure that the intended outcomes are achieved. At times this may require procurement offices to contract with knowledgeable workers as consultants to augment knowledge gaps in existing staff. The role of internal procurement staff will broaden and become more valuable as they manage and tailor deliverables into a public contracting vehicle that optimizes outcomes for the state agency and complies with public procurement statutes.

Programs will continue to take advantage of e-procurement innovations

The primary advantage of electronic procurement is that it allows government to buy goods more quickly, efficiently and at a reduced cost. State governments are realizing that in order to take full advantage of the potential offered by electronic commerce, they must transform their acquisition process. The existence of an electronic procurement system provides many options to government buyers and suppliers. The implementation of e-commerce, especially in the logistics area, provides dramatic improvements in timeliness, responsiveness, performance, fairness,
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visibility and cost reductions. E-procurement initiatives already adopted by many states include the use of electronic signatures, posting solicitation, bid and award documents online and reverse auctions.

Despite a decade of interest in and various approaches to e-procurement systems, there is no single silver bullet solution. Future e-procurement systems are likely to take one of two paths. States will continue to assess the feasibility of enterprise resource planning (ERP) systems with applications deployed within various state functions including procurement. ERP systems based on commercial manufacturing industry models can present challenges when attempting to fit to public procurement processes driven by public policy. Other states will launch e-procurement systems using discrete point-to-point modules for which business cases support funding the improvement. These more manageable bite-sized components will streamline processes such as contract management, online bidding, reverse auctions, and contract search and online ordering. Systems deployed incrementally in modules that can be interconnected and modified to keep pace with changing business processes and technology will continue to be launched, but on a smaller scale than the e-procurement launches of the 1990s.

Environmentally preferred purchases
Environmetally preferred and sustainable purchasing will continue to emerge as a value consideration in state purchasing. This movement is already well-established in Massachusetts, Minnesota, Washington, Oregon and California and can be expected to expand. The number of contracts providing environmentally-preferred products is also expected to increase. Purchases aimed at reducing fuel consumption and greenhouse gas emissions are likely to expand commensurate with fuel and environmental concerns. California, Oregon and Washington, for example, are teaming to collaborate on purchases of low rolling resistance tires and other efforts to reduce energy consumption and greenhouse gas emissions.

Procurement takes on a more strategic role
As state executives have turned to state procurement to generate savings through strategic sourcing, program efficiencies and other initiatives to develop innovative and complex contracts, state procurement has assumed a much higher profile in state government enterprise decisions. Where state procurement officials were often relegated to a tactical role of buying what the customer wanted, now state procurement is involved in and often leads the strategic procurement planning process for major initiatives such as strategic sourcing and cross organization projects. As a result, the value added and the profile of state procurement in government enterprise planning is increasing.

Today procurement offices are called on to participate and lead many strategic efforts to support state government. As these efforts succeed, procurement offices can expect to assume more responsibility. Examples include:

- leadership roles in complex procurements designed to provide enterprise wide services and delivery systems;
- strategic sourcing;
- project and contract management;
- business process improvements within the supply chain and statewide distribution channels;
- managed service provider contracts that provide a menu of choices for agencies to select a variety of professional services; and
- procurement policy development designed to support socioeconomic values ranging from minority and women-owned businesses contracting to sustainability.

As in the private sector, procurement offices are ideally suited to lead strategic efforts related to state business transactions and supplier relationships. Procurement organizations that fulfill this role will transition from a reactive status using traditional transactional approaches to a more proactive strategy seeking system-oriented results that are designed to reduce costs in government operations, streamline processes and optimize contract outcomes.

Cooperative purchasing will continue to grow
With declining resources and increasing workloads, governments are relying more on cooperative contracts. Cooperative contracts offer state government quick and convenient access to many common products and services as well as savings from the economies of scale of combined governments. State procurement offices typically act as gatekeepers for state and local access to these contracts and must consider local statutes, rules and policies before participating. Many states require local advertising of the contracts to ensure local small businesses have an opportunity to participate, or weigh the impact on local small businesses before agreeing to participate in cooperative contracts.

State and local government cooperative programs, as well as regional and national programs such as WSCA, U.S. Communities and the limited Gen-
eral Service Administration (GSA) schedules serve nearly every county, city and school district. Recent trends are especially important to government procurement. According to a 2004 National Association of State Procurement Officials (NASPO) survey, 43 states now serve local governments with cooperative purchasing programs.

The E-Government Act now gives state and local governments access to thousands of GSA Schedule 70 contracts. In 2004, 27 states had laws permitting use of GSA schedules. While most state governments have been slow in adopting the GSA contracts, GSA is stepping up its marketing and training programs and steady growth is anticipated.

**States will continue with their procurement process efficiency efforts**

Nearly every state streamlined its procurement process and improved value for customers through use of e-procurement technology, reverse auctions, purchasing cards, strategic sourcing or other tools during and since the 1990s. State directors leveraged these improvements to move from a tactical perspective to a more strategic one and to improve customer service and program efficiency.

There is, however, a growing concern among some procurement officials that recent headlines about federal emergency contracting practices and federal and local contracting scandals may tip the regulatory pendulum toward less flexibility. Many of the state procurement reforms in the past five years provide procurement offices with the ability to achieve more effective results by relaxing the constraints of acquisition systems that are Invitation to Bid-based only. As Steven Kelman of Harvard University, a leading procurement reformer in the federal government from 1993 through 1997, has observed, “An organization exists for its goals. It does not exist for its constraints.” More and more, procurement offices today are trying to help state organizations achieve their goals with procurement system-driven results while ensuring that the system boundaries or constraints established in law are met. Procurement reform that emphasizes constraints at the expense of eliminating the organization’s ability to deliver effective business solutions will move procurement offices in a direction that limits their ability to improve on delivering timely and cost-effective contracting outcomes within their states.

**Conclusion**

An effective procurement program reduces the cost of government and inspires public confidence. It improves the quality and timeliness of services rendered by program departments and agencies. During the past five years, most procurement offices were asked to assume greater roles in reducing the cost of government operations at a time when their own budgets were reduced. Responding to these pressures, procurement offices employed innovative and strategic thinking to help manage expenses across the state government enterprise. Through the use of cooperative purchasing contracts, procurement officials are learning how to leverage limited staffs with competitive pricing. Procurement offices moved in a more strategic direction with reverse auctions, strategic sourcing and enterprise-wide contract solutions to support better outcomes. Staff recruitment and retention of skilled and knowledgeable staff in a changing business environment will continue to challenge procurement offices.

Procurement offices are government’s link to the business community and a comprehensive channel of intergovernmental operations. The ability to continue delivering cost-effective solutions that advance state agency goals is linked to the procurement office’s ability to establish a strategic role within state governments that provide fresh, knowledgeable and responsive support.

**Notes**


4 For more information on NIGP’s LEAP program, please visit [http://www.nigp.org/educate/LEAPInfo.htm](http://www.nigp.org/educate/LEAPInfo.htm).


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