



PENNSYLVANIA

June 17, 2015

Honorable Mike Folmer
Pennsylvania Senate
Room 337, Main Capitol
Harrisburg, PA 17120

Honorable Anthony Williams
Pennsylvania Senate
Room 11, East Wing
Harrisburg, PA 17120

Dear Senators:

On behalf of the 15,000 Pennsylvania members of the National Federation of Independent Business (NFIB), thank you for the opportunity to comment and make recommendations on the Wolf Administration's strategic sourcing procurement initiative.

The Department of General Services (DGS) recently advertised a request for proposal (RFP) soliciting a vendor to analyze the Commonwealth's spend policies and make recommendations to enable the department to achieve \$100 million in annual savings utilizing strategic sourcing. Strategic sourcing is a procurement method that combines multiple projects into a single contract or consolidates spending to a handful of vendors or single vendor. Proponents argue that strategic sourcing can save vast amounts of money through lower costs and streamlining the procurement process.

My organization is comprised exclusively of closely-held or family-owned businesses - companies that are not traded on any public stock exchanges. They are small- and independent- businesses, which are the life-blood of Pennsylvania's economy. Our interest in strategic sourcing began in late 2003-4 when our office, like many legislative offices, were inundated with calls from small-business owners who learned they were losing the opportunity to compete for state and local government procurement opportunities because of strategic sourcing. Our greatest challenge back in 2003 was competing against the administration's rhetoric. Strategic sourcing was a brand new concept for most state governments and administration officials were convinced it was going to save the Commonwealth a lot of money by forcing vendors to compete and thus drive down costs.

As the Commonwealth continued to expand the number of goods and services contracted using strategic sourcing, a growing number of legislators on both sides of the aisle expressed apprehension publicly and introduced legislation to remedy some of the early concerns that were arising, including the resolution to task the Legislative Budget and Finance Committee (LBFC) to analyze the program.

With bipartisan support, NFIB helped to make important changes to state law to protect contract opportunities for small businesses seeking to do business with local governments via the COSTARS system. Not only were these changes applauded by Pennsylvania local governments, these changes became a national model adopted by many states across the nation.

Our members also provided input into Executive Order 2011-09 that expressed the Commonwealth's commitment to ensure that small employers have the ability to successfully compete for commonwealth contracts on a level playing field and directed the Department of General Service to create greater opportunities for small business procurement. NFIB also was proud to support the Department's Small Business Procurement Initiative, including the development of the state's small-business procurement portal.

They say hindsight is 20-20. With the benefit of 12 years knowledge and experience since strategic sourcing was first implemented, I offer the following observations and recommendations:

The "savings" from strategic sourcing mostly are theoretical. The Rendell administration claimed it was going to "save" almost \$360 million through strategic sourcing. An LBFC analysis revealed the state didn't come close. The report also noted the administration booked "savings" for goods and services that were not purchased. Moreover, the analysis did not consider the "cost" of several failed strategically-sourced contracts nor did it consider the economic cost of those small business vendors who lost the opportunity to compete. In one infamous failure, the vendor that was awarded a strategically sourced contract to provide food to prisons went bankrupt and the contract was withdrawn. Finally, none of the "savings" were certified or accounted for in the state General Fund.

Small businesses that offer the best prices or contract terms are prevented from competing for strategically-sourced contracts because of the rules of the game. Here in Central Pennsylvania, for example, an office supply store might offer the lowest prices and the fastest delivery. But they cannot offer 24-hour delivery everywhere in the state. As a result, small vendors that once provided the best prices and services at state offices in their respective regions were prevented from competing under the terms of strategically-sourced contracts.

While the Commonwealth might be able to leverage an overall reduction in pricing the first time a contract is strategically sourced, those reductions are short-lived. Once all of the competition squeezed from the market, the chosen vendor can raise prices in subsequent RFPs. Pennsylvania state government also is so diverse that its needs for goods and services cannot all be satisfied under the terms of a single contract. As a result, agencies often used emergency contracts to procure goods or services that met specific needs - at a much higher price point despite a strategically-sourced contract already in place. In other instances, state employees simply would go to a retail store and purchase the product they needed at FULL price. The 2007 LBFC report didn't examine costs associated with emergency contracts for products and services that already were strategically sourced. Additionally, federal law prevents some state agencies from participating in certain strategically-sourced procurements - thus preventing the state from fully-leveraging its spending.

Once a contract is strategically-sourced -- it's virtually impossible to reverse course. A number of NFIB members who previously supplied the Commonwealth with goods and services went out of business following the implementation of strategic sourcing. Others re-wrote their business plans to compete for work at the federal level or in the private sector. Once those companies leave commonwealth procurement, very few are interested in returning. Beginning in 2011, we discussed with DGS officials their concerns the Commonwealth no longer was receiving the best prices or best service because there were so few vendors participating in certain strategically-sourced contracts. These challenges track with research conducted in the aftermath of strategic sourcing at the federal level and in other states.

In conclusion, while it appears that Pennsylvania is bucking a national trend in states away from strategic sourcing, we would like to offer several recommendations to you as the department initiates its efforts:

Require DGS to demonstrate, through market research, that a proposed contract will result in cost savings, quality improvements, better terms or conditions or other benefits to the Commonwealth;

Require the department to conduct an economic cost-benefit analysis prior to releasing RFPs for additional strategically-sourced commodities or services and prohibit DGS from strategically sourcing commodities and services where the economic costs outweigh the estimated savings or require them to identify alternative contracting approaches that would involve a lesser degree of contract consolidation and economic cost. This can be evaluated by interviewing existing vendors or releasing a request for information to the affected stakeholder community; and

Require the state Treasurer to certify annually savings derived from strategically-sourced contracts and establish an account where "savings" generated from strategic sourcing could be deposited

Sincerely,



Kevin Shivers, Executive State Director
NFIB/Pennsylvania