

Commonwealth of Pennsylvania
&
Trey Partners
Joint Presentation



CREATING COST SAVINGS THROUGH
INCUMBENT SUPPLIER NEGOTIATIONS

September 25, 2018



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Agenda

- Incumbent Supplier Negotiations
 - Who?
 - What?
 - When?
 - Where?
 - Why?
 - How?
- Commonwealth of PA & Treya Joint Case Studies
- Live Demonstration: Incumbent Supplier Negotiation
- Q&A



Incumbent Supplier Negotiations – What?

What are incumbent supplier negotiations?

- Discussions regarding a current supplier's pricing and terms at optional renewal periods
- Improved pricing and terms are requested in exchange for contract renewal
- Benchmarking and customer survey-driven supplier feedback is delivered, and target pricing and terms are provided
- Multiple rounds of negotiations can be pursued
- In states where the ability to pursue incumbent negotiations is limited by procurement code or policy, policy and/or code changes can be pursued



Incumbent Supplier Negotiations – Who?

Who is involved?

- Suppliers with existing contracts with the state that are up for renewal
 - Senior-level decision makers from the supplier's organization are critical
- State procurement staff, including Procurement leadership for high-profile contracts
- Agency program staff and/or leadership, as appropriate



Incumbent Supplier Negotiations – When?

When should incumbent negotiations be held?

- Incumbent negotiations are best pursued 6 – 12 months prior to the date of contract renewal, so a credible threat of going to RFP exists
- Negotiations are effective when 1 or more renewal years are available (1-year renewal can initially be offered, with additional renewal years used as a “carrot” in exchange for additional contractual improvements)



Incumbent Supplier Negotiations – Where?

Where should incumbent negotiations take place?

- For high-dollar value, strategic, and/or complex spend areas, in-person negotiations held at state offices are preferred
 - After the initial in-person meeting, some or all follow ups can be handled remotely
- Negotiations for lower dollar value contracts can be held via conference call

Incumbent Supplier Negotiations – Why?

Why should incumbent negotiations be pursued?

- Year 1 of any contract is typically the most expensive due to ramp-up needs, while efficiencies are typically gained Year 2 onwards
- During a contract's later years, "price creep" sometimes occurs
- Market dynamics can change between when a contract was signed and when it is up for renewal
- Most incumbent suppliers prefer to avoid an RFP process and will offer pricing concessions and other contractual improvements in exchange for a renewal
- Incumbent negotiations foster continuous improvement
- Suppliers are given an opportunity to provide feedback to the state and can help the state become "lower cost to serve"



Incumbent Supplier Negotiations – How?

How does a state prepare for and execute an incumbent negotiation?

- **Data Collection & Analysis**

- Collect Accounts Payable data for the past 12 months to understand total spend in a category by supplier, leveraging spend analytics tools available
- Collect line-item usage data from the supplier(s) to understand what exactly the state purchased over the past year
- Benchmark your state's current pricing against what other states are paying and/or public sector GPO pricing
- Survey contract end-users to understand strengths and weaknesses of supplier
- Develop a presentation summarizing pricing and contract improvement opportunities



Incumbent Supplier Negotiations – How? (continued)

- **Participant Identification**

- Inviting the right people to the negotiation is crucial
- Ensure senior-level supplier decision-makers will be in attendance (not just the local rep)
- For high profile / high spend categories, have senior-level state procurement staff involvement (e.g. CPO)
- For categories where one agency is the sole or predominant user, have senior-level agency staff present



Incumbent Supplier Negotiations – How? (continued)

- **Negotiation Format**

- Walk through presentation, illustrating state's understanding of its current usage, requirements, and desired improvements
- Provide supplier an opportunity to respond verbally and share ways in which the state can become lower cost to serve
- Convey that the state believes negotiations must be “win-win” for both parties



Incumbent Supplier Negotiations – How? (continued)

- **Negotiation Follow Up**

- Provide a response template so the vendor can provide a structured response and address all areas of importance to the state
- Set a response deadline and keep the lines of communication open
- After receiving the supplier's initial response, provide feedback within 1 to 2 weeks
- Don't allow suppliers to draw out the process, making sure your ability to go to RFP is not compromised
- Ensure that all contract improvements offered are formalized via a contract amendment, as needed

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Incumbent Negotiation Example 1: Healthcare Agency IT Services

Category	Challenges	Actions	Outcomes
Healthcare Agency - Strategic IT Services	<ul style="list-style-type: none"> Supplier was one of the top IT consultancies in the world, so it was critically important to have the right state and supplier representatives at the negotiation table Agency was dissatisfied with supplier's price increases and recent service 	<ul style="list-style-type: none"> Deputy Secretaries from the state's general services and health agencies were enlisted to lead negotiations PA's annual price increases were compared to the Bureau of Labor Statistics (BLS) indices Agency customer survey results were presented to supplier, illustrating contractor's deficiencies and improvement areas 	<ul style="list-style-type: none"> \$11.5M in annual savings (8% savings) Service quality improved

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Incumbent Negotiation Example 2: Contracted Medical Services

Category	Challenges	Actions	Outcomes
Contracted Medical Services	<ul style="list-style-type: none"> Suppliers were complaining that they were losing money on the contract PA felt some positions were not being staffed by supplier in a timely manner 	<ul style="list-style-type: none"> Collected detailed usage and mark up data from incumbent suppliers Compared incumbent suppliers' PA markups Compared incumbents' PA markups with those same suppliers' markups in other states Suppliers were presented with variances in markups across positions, suppliers, and states, as well as the results of a customer survey Suppliers were asked how PA could become lower cost to serve 	<ul style="list-style-type: none"> \$1.4M in annual savings (3% savings) Suppliers agreed to reduced markups PA was offered incentives for online requisitioning and early payment, and both are now being utilized



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Incumbent Negotiation Example 3: Office Supplies

Category	Challenges	Actions	Outcomes
Office Supplies	<ul style="list-style-type: none">Supplier had offered PA improved paper pricing in exchange for a renewal and the Commonwealth needed to quickly understand if additional savings were achievable	<ul style="list-style-type: none">PA's pricing was benchmarked against public sector GPO pricing and a savings opportunity was identifiedPricing concessions were sought from the incumbent supplierSupplier was given an opportunity to share how the state could become lower cost to serve	<ul style="list-style-type: none">\$0.9M in annual savings (9% savings)Delivery and order size requirements were aligned with PA's business needs



Live Demo – Incumbent Negotiation

- **Vendor**

- Michael Scott, Dunder Mifflin – played by Rahul Ahuja (Partner, Treya Partners)
- Dwight Schrute, Dunder Mifflin – played by Ken Senft (Chief - IT Procurement, Commonwealth of PA)

- **State**

- Ron Swanson, State CPO – played by Ken Hess (Deputy Secretary for Procurement, Commonwealth of PA)
- Tammy Haverford, State Contracting Officer – played by Barnali Dasverma Mishra (Principal, Treya Partners)



Q&A



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