

Operations Practice

Five questions to drive greater value from public-sector procurement

Under pressure to manage costs better, agencies can nevertheless overcome the complexities they face by asking five highly tactical questions.

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Headlines about government spending tend to focus on eye-catching, big-ticket items such as infrastructure projects or military hardware. But smaller-ticket items add up: The United States federal government alone spends more than \$325 billion annually on common goods and services, such as software and professional services.

Taxpayers might hope that the sheer amount of spend would always be accompanied by disciplined stewardship of taxpayer funds, but that isn't universally the case. Governments have therefore ratcheted up the pressure on national and local agencies to better manage their procurement dollars by applying practices from the private sector. For example, in 2019, the US Office of Management and Budget issued a memo mandating executive departments and agencies to implement category management—an approach businesses have used for decades.

Around the globe, public-sector organizations that have implemented private-sector procurement methods have witnessed savings of 10 to 15 percent annually across important categories. Yet, beyond cost savings alone, the public sector is faced with an even more important objective, especially over the long term: creating a digital, next-generation procurement function that drives significant cost savings while delivering a better experience for citizens.

While the idea of applying private-sector techniques in the public realm is not new, execution by government bodies is not always so straightforward, largely because of three structural challenges:

- **Less competitive pressure.** Compared to the private sector, competition in many categories is weaker in the public sector—due in part to the complexity of public-sector requirements, longer precontracting timelines, and a higher incidence of postbid contract modifications.
- **Rigid incentives.** Talent management in public-sector procurement tends to incentivize error avoidance and strict adherence to process and schedule. While these practices are effective in managing certain categories of risk, they do not always promote the types of strategic-sourcing

innovation that can help reduce prices for the procurement team and cost for vendors.

- **Siloed stakeholder communication.** As in the private sector, poor or nonexistent communications among public-sector budget owners, requirements officers, and contracting procurement officers cause serious disconnects. The results include scope creep, excessive product and service-level specifications, duplication of services, and hidden charges.

Overcoming these challenges takes time and patience, especially because doing so requires fundamentally changing mind-sets steeped in existing processes. While difficult, this is not an insurmountable challenge. A handful of public-sector organizations have been successful in transforming their procurement functions and most of them began their journey asking five simple questions.

1. What should your biggest contracts cost?

Public-sector agencies often face a unique challenge: failure to use funds in the same fiscal year when they are allocated means they are gone forever—and that failure typically leads to future budget decreases. This “use it or lose it” pattern creates a systemic disincentive to understand how much a contract should cost.

Public-sector leaders can address this issue by choosing the top three to four contracts—those with the largest spend or that are strategically important to the agency's mission—and conduct a cleansheet analysis to determine how much cheaper they could be if all cost-savings tactics were deployed.

At its core, a cleansheet analysis simply asks public-sector buyers to estimate how much each product or solution they are procuring should cost, based on a combination of industry benchmarks, expert interviews, and analysis of past purchases. Although cleansheets are not perfect, understanding the core drivers of cost can help public-sector buyers negotiate more

effectively with their vendors by starting from a rational fact base. In deploying this approach, a US federal agency in reviewing a large data-center contract was able to identify opportunities to reduce cost by almost 50 percent (Exhibit 1).

Moreover, by using cleansheets, public-sector leaders often discover that there are features of the product or solution that are significant drivers of cost, but don't add material value. Eliminating these nice-to-have features can help both parties capture value.

The most sophisticated public-sector agencies go a step further and use the transparency created from cleansheets to define win-win partnerships with their vendors that foster innovation. Recently, a US federal agency extended this idea in assembling a “cleansheet lab” that, for the first time, brought all acquisition stakeholders together in person. By establishing a collaborative environment where the parties could safely share their ideas on cost economics, the lab found opportunities for vendors to reduce their own

costs, part of which could be passed along to the agency.

2. Have you used your existing data?

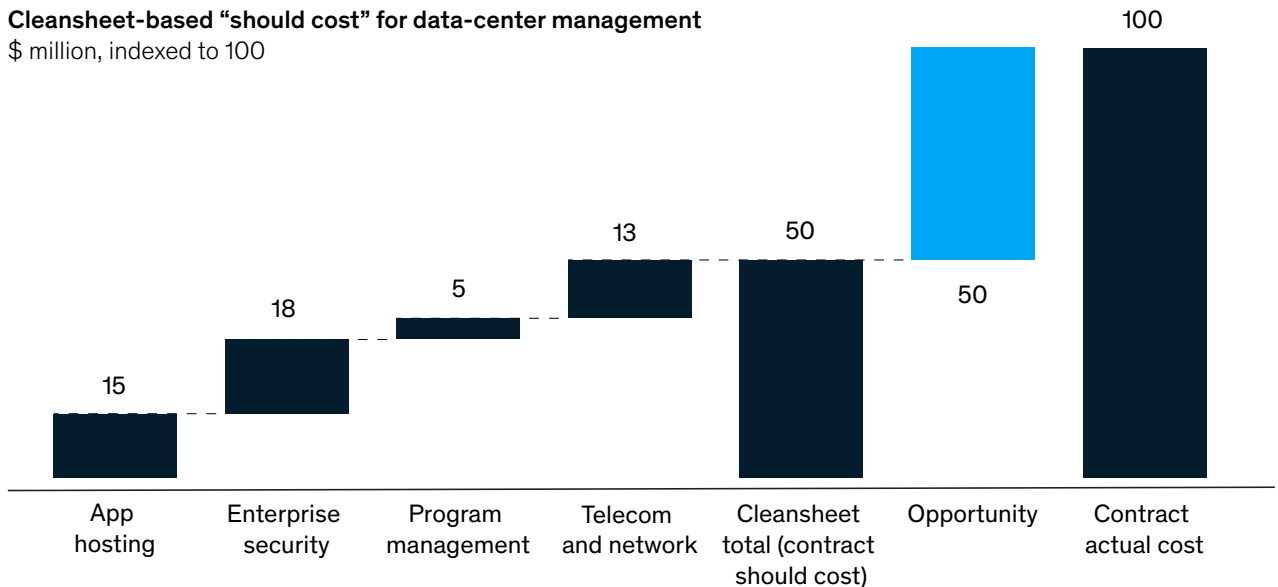
Data scarcity is a real issue, especially in the public sector, where a lack of robust reporting, combined with the prevalence of fixed-price contracts, reduces visibility into spending. However, given the number of contracts that most public-sector agencies manage, they likely have enough data to do at least rough benchmarking between contracts, or within contracts at different renewal points. This is often enough data to offer guidance on whether further opportunity can be found in a particular contract.

The federal agency's data-center contract review revealed significant internal variation in use of high-cost program-management resources. Contracts that were similar in scope had radically different program-management expenses. Understanding how much program management was built into each contract—and, armed with this information,

Exhibit 1

A cleansheet approach can identify opportunities hidden in contracts.

Cleansheet-based “should cost” for data-center management
\$ million, indexed to 100



pushing vendors for the leanest program-management approach possible to meet target service levels—resulted in a relatively quick cost-saving opportunity (Exhibit 2). Best of all, this was achieved by a quick review of existing data across similar contracts.

This harmonization move works just as well in non-IT environments, including temporary labor, office equipment and supplies, facilities services, travel, and logistics. It has become a standard lever in the private sector, including in the heavily regulated financial-services and public-utilities industries, and can benefit the public sector too—despite siloed, contract-centric purchasing processes.

3. Have you asked for data from your vendors?

While most public-sector organizations understand the value of vendor performance management, only a few are effective at it. In IT, for example, vendors should be able to generate metrics such

as utilization rates for infrastructure capacity, or data on which applications generate the most workload. Yet public-sector organizations rarely ask for this information, despite the fact that many countries have adopted regulations requiring transparency on how taxpayer money is spent.

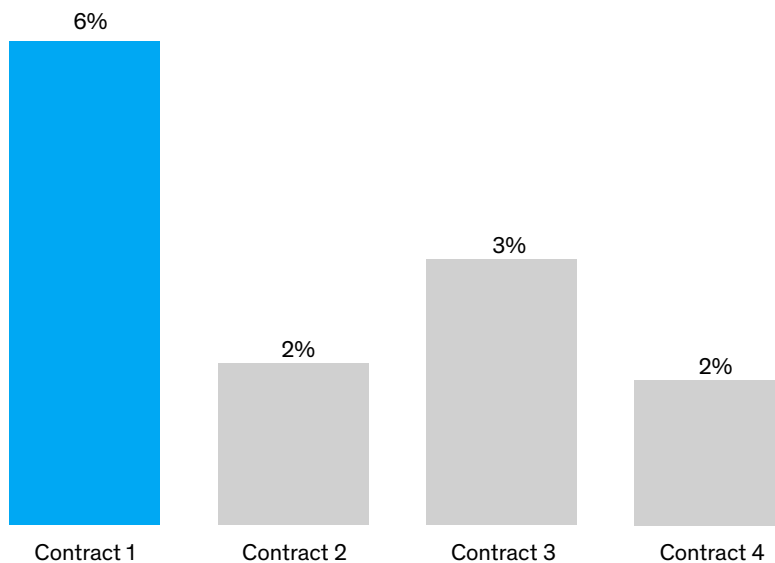
These rules give public-sector organizations a unique advantage over their private-sector peers. But the onus is still on public-sector leaders to hold vendors accountable and ask for granular, reliable, and timely performance data. Moreover, asking for the right data is often not enough: follow-up will be needed to ensure data that the reported is usable and submitted in a manner that can be used for actionable reporting.

Option-year renewals provide an opportunity to insert or strengthen these data requirements. The most sophisticated private-sector companies go beyond asking for performance data, and instead negotiate for resource-

Exhibit 2

Use your own benchmarks to find cost-saving opportunities.

Program-management cost
% of total contract amount



Contracts 1-4 are similar in complexity, scope, and duration, yet contract 1 shows much higher costs for program management (PM) than contracts 2-4

Reducing PM expenses to internal-benchmark levels will yield savings

Similar internal benchmarking can identify further sources of opportunity areas, such as IT infrastructure

mapping data, such as a roster of every individual associated with a statement of work (SOW), including their role description, location, start and end dates, percentage of their time dedicated to the SOW, and expertise and skills. These line items can then be included in cleansheet analysis to identify the value gap between what is being paid versus what is being provided.

4. How prepared are you for negotiation?

In public-sector procurement, as in life, no one gets what they deserve—they get what they negotiate. Getting access to data and putting it to work are just the first step in the journey. The real challenge is using that information to capture value through effective negotiations (Exhibit 3). While this may be common sense, it is far from common practice.

In our experience, we routinely see public-sector organizations delegate high-stakes negotiations to relatively junior staff members. These contracting officers often receive only a few days of negotiation training throughout the year and juggle multiple priorities, leaving them unable to devote more than a few hours of preparation before stepping into the negotiating room.

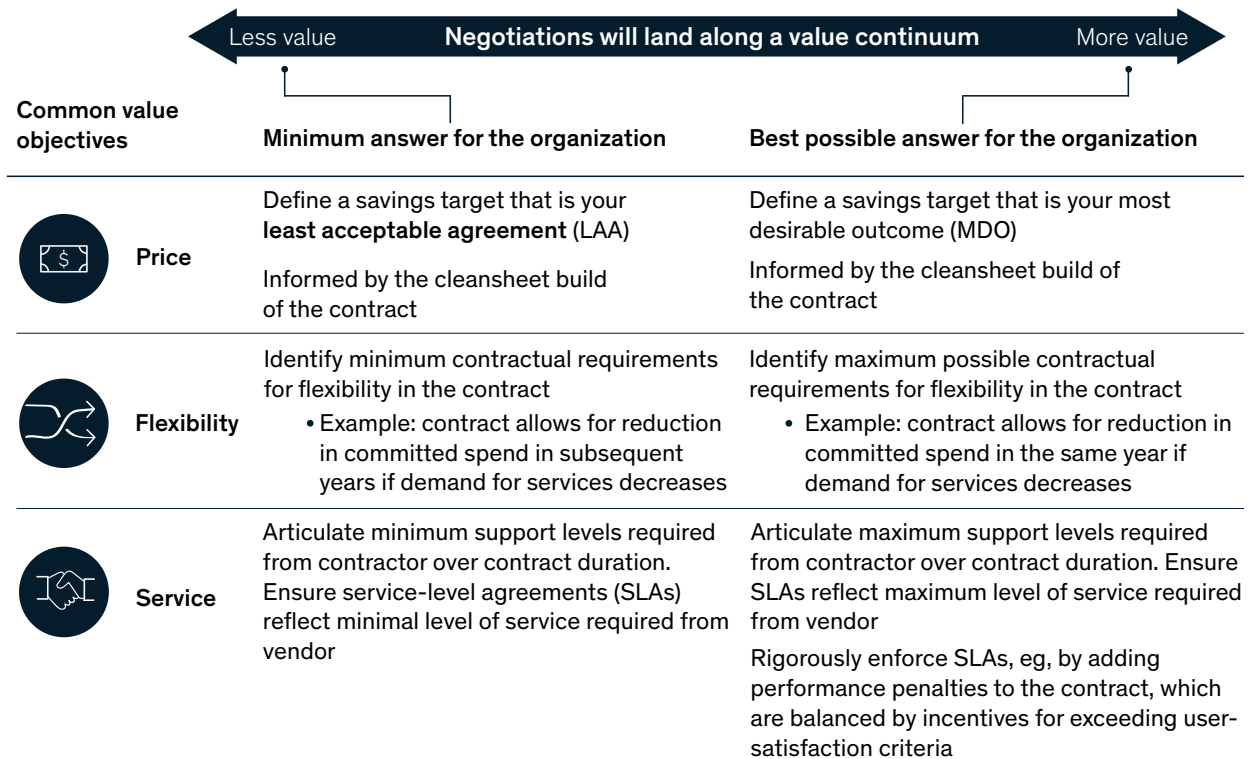
A few public-sector organizations have realized the strategic value of developing their negotiation capabilities, building this muscle by focusing on three core pillars:

- **Negotiation strategy:** Articulating a clear negotiation strategy that includes objectives for the negotiation, least acceptable and most desirable outcomes, a credible walk-away point and alternatives if negotiations fall through.

Exhibit 3

Inform negotiation objectives and targets with data.

Example: Defining negotiation objectives for an infrastructure contract



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- *Vendor intelligence:* Build a fact base on vendor strengths, objectives for the negotiation, and least-acceptable and most-desirable outcomes. The best performing negotiators go a step further and identify areas where the public-sector buyer has a strong negotiation position and where the vendor has access to information that gives it an advantage.
- *Rigorous practice and roleplay:* Effective negotiations are a combination of art and science. While the first two pillars deal with the science of negotiations, this last one is about the art of effective negotiations. The best negotiators pay attention to this by ensuring the right vendor decision makers are engaged, a transparent negotiation process is communicated and regularly reinforced, and their teams are well prepared for in-room dynamics via rigorous practice and role plays with their colleagues.

A US federal agency recently deployed this integrated approach to negotiation. A dedicated team drafted a negotiation strategy, backed by vendor intelligence and real time investments in negotiation rehearsals. Months of hard work paid off: 25 percent savings on annual spend.

Building a bench of effective negotiators takes time and patience, but it is well worth the investment. The best performing public-sector procurement organizations understand this. In addition to focusing on the three pillars above, they invest time and resources, building negotiation academies that provide regular training to procurement leaders and frontline contracting staff.

5. Have you looked at your spending holistically?

The questions we have examined so far focus on finding opportunities in a specific contract. But agencies should also look for opportunities across contracts by area of spend. This end-to-end approach breaks through silos that inhibit economies of scale and harmonization of rates or specifications throughout the organization.

Facilities maintenance provides a common example where contract consolidation can yield synergies that reduce contract-oversight and equipment-purchase costs, while freeing resources for more strategic activities. Similarly, in IT application development and maintenance (ADM), managing multiple vendors across subdivisions within an agency can easily increase staffing requirements and billing rates without generating more value.

Private-sector organizations, even heavily-regulated financial institutions and utilities, have realized savings of 20 to 25 percent by taking an enterprise view of application development costs—allowing them to harmonize rates, rationalize similar roles, and map the right skills to work requirements across the organization.

How to get started

Public-sector organizations that are embarking on their journey to drive greater value from procurement usually start with a few simple steps.

Find the right contract area to pursue. This choice matters because once it's possible to showcase an early win, momentum builds in a way

that sustains a broader procurement transformation. In our experience, IT usually offers high return on investment for these efforts, given its typical share of budget and its opacity.

Identify a change champion. Any organization needs a prominent, supportive executive sponsor who can communicate well and enable organizational buy-in. This person will be critical to overcome organizational inertia and guide procurement agents in balancing budget owners' day-to-day requests with more strategic, long-term objectives.

Seed the program for sustainability. To ensure sustainable change, agencies should invest in a capability-building program early in their journey. The most effective capability-building programs follow a field-and-forum structure where in-person

trainings are reinforced by day-to-day practical coaching. As the organization matures, the first cohort of trained practitioners become certified internal trainers, who in turn train the next cohort, thus enabling a sustainable procurement transformation.

Like any transformative change, driving greater value from public-sector procurement takes time and patience. However, a handful of public-sector organizations that have become proficient in applying the lessons from these five questions are already beginning to see significant return on their investment through sustainable cost savings, improved quality of service and a talented bench of procurement leaders.

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