

# **AST Strategic Sourcing Initiative: FY 2013 Progress Report**

**March 2014**



**ADMINISTRATIVE SERVICES  
TRANSFORMATION  
UNIVERSITY OF MICHIGAN**

# What is Strategic Sourcing?

*Strategic Sourcing is a systematic and fact-based approach for consolidating an organization's purchasing power to achieve pricing efficiencies for high-quality products and services. Sourcing commodities and services in this manner allows large institutions such as the University of Michigan to leverage the combined buying power of all of our schools, colleges, and units.*

Sourcing is—	Sourcing is NOT—
Focused on the Total Cost of Ownership (TCO) incorporating customer needs, organizational goals, and market conditions	Focused ONLY on cost
Getting the best product/service at the best value	Getting the cheapest product/service
Driven by a rigorous and collaborative approach	Ad-hoc activities involving only purchasing
Decisions based on fact-based analysis and market intelligence	Decisions based on opinion and vendor inertia
A continuous process	A one-time project or decision

# Overview

- Business Cases for Strategic Sourcing developed in FY 2011 with initial savings targets established
- Implementation of Strategic Sourcing begins FY 2012 – which involves developing specifications by spending area, issuing RFPs, and negotiating new strategic contracts
- Cross-functional focus teams from colleges, schools, and units representing at least 70 percent of a commodity's spend work with Procurement Services to review spending data, develop bid specifications, and offer feedback during the vendor selection process
- Collaborative and inclusive approach to Strategic Sourcing results in savings outlined in this report
- The Procurement Services team appreciates the efforts of the experts in the colleges/schools/units who participated in the implementation and helped make the case to faculty & staff in their units to utilize the new strategic contracts
- The financial savings achieved to date as shown in this report serve as a testament for the high level of collaboration achieved from the schools, colleges, and units

# Wave 1 Actual Savings Summary

## (FY 2013)

*Wave 1 is the first six spending categories that Procurement Services examined with the help of focus teams at the unit level.*

Category	Actual Savings FY 2013		
	Annual Spend	Savings %	Annual Savings
Computers	\$13,491,000	35%	\$7,016,000
Peripherals	\$12,775,000	7%	\$883,000
Office Supplies	\$10,594,000	30%	\$4,182,000
Benefits Administration	\$22,779,000	12%	\$2,806,000
Janitorial Supplies	\$4,753,000	10%	\$528,000
Furniture	\$6,841,000	8%	\$718,000
<b>TOTAL</b>	<b>\$71,233,000</b>		<b>\$16,133,000</b>

Note: Percentage of savings calculated on contract spend.

# Strategic Sourcing Wave 1: Savings by College/School/Unit

College/Unit	Computers	Office Supplies	Peripherals	Total Savings	Compliance %
	YTD Realized Savings	YTD Realized Savings	YTD Realized Savings		
A. Alfred Taubman CA&UP	\$ 13,000	\$ 3,000	\$ 1,000	\$ 17,000	80%
College of Engineering	\$ 390,000	\$ 133,000	\$ 48,000	\$ 571,000	78%
College of Lit, Science & Arts	\$ 311,000	\$ 240,000	\$ 45,000	\$ 596,000	90%
College of Pharmacy	\$ 17,000	\$ 25,000	\$ 1,000	\$ 43,000	97%
Dearborn Campus	\$ 195,000	\$ 123,000	\$ 13,000	\$ 331,000	93%
Div of Pub Safety & Security	\$ 5,000	\$ 6,000	\$ 2,000	\$ 13,000	97%
Exec VP & Chief Financial Off	\$ 566,000	\$ 461,000	\$ 294,000	\$ 1,321,000	99%
Flint Campus	\$ 194,000	\$ 89,000	\$ 56,000	\$ 339,000	91%
Ford School of Public Policy	\$ 18,000	\$ 12,000	\$ 1,000	\$ 31,000	95%
Law School	\$ 58,000	\$ 33,000	\$ 6,000	\$ 97,000	96%
Medical School	\$ 304,000	\$ 638,000	\$ 60,000	\$ 1,002,000	89%
Office of the President	\$ 69,000	\$ 67,000	\$ 3,000	\$ 139,000	91%
Provost & Exec VP Academic Af	\$ 280,000	\$ 217,000	\$ 40,000	\$ 537,000	93%
Rackham Graduate School	\$ 16,000	\$ 18,000	\$ 1,000	\$ 35,000	93%
Ross School of Business	\$ 66,000	\$ 63,000	\$ 8,000	\$ 137,000	86%
School of Dentistry	\$ 94,000	\$ 66,000	\$ 7,000	\$ 167,000	93%
School of Education	\$ 14,000	\$ 31,000	\$ 2,000	\$ 47,000	85%
School of Information	\$ 12,000	\$ 8,000	\$ 7,000	\$ 27,000	88%
School of Kinesiology	\$ 29,000	\$ 14,000	\$ 7,000	\$ 50,000	97%
School of Music	\$ 2,000	\$ 18,000	\$ 1,000	\$ 21,000	86%
School of Nat Resource and Env	\$ 32,000	\$ 14,000	\$ 2,000	\$ 48,000	91%
School of Nursing	\$ 16,000	\$ 21,000	\$ 2,000	\$ 39,000	92%
School of Public Health	\$ 94,000	\$ 69,000	\$ 47,000	\$ 210,000	95%
School of Social Work	\$ 46,000	\$ 15,000	\$ 1,000	\$ 62,000	99%
Stamps School of Art & Design	\$ -	\$ 7,000	\$ 4,000	\$ 11,000	64%
UMHS	\$ 3,990,000	\$ 1,588,000	\$ 192,000	\$ 5,770,000	96%
Unallocated*				\$ 4,052,000	100%
VP and General Counsel	\$ 1,000	\$ 5,000	\$ -	\$ 6,000	87%
VP for Communications	\$ 9,000	\$ 12,000	\$ 3,000	\$ 24,000	87%
VP for Development	\$ 46,000	\$ 18,000	\$ 1,000	\$ 65,000	96%
VP for Government Relations	\$ -	\$ 2,000	\$ -	\$ 2,000	75%
VP for Student Affairs	\$ 100,000	\$ 119,000	\$ 12,000	\$ 231,000	98%
VP of Research	\$ 28,000	\$ 45,000	\$ 16,000	\$ 89,000	98%
VP&Secretary of the University	\$ 1,000	\$ 2,000	\$ -	\$ 3,000	80%
<b>TOTAL</b>	<b>\$ 7,016,000</b>	<b>\$ 4,182,000</b>	<b>\$ 883,000</b>	<b>\$ 16,133,000</b>	<b>94%</b>

Notes: \* Unallocated savings includes products that are internally recharged such as Janitorial Supplies, volume discounts in Furniture, and Benefits Administration.

# Wave 2 Projected Savings Summary

## (FY 2014)

*Wave 2 includes the next seven spending categories that Procurement Services analyzed in FY 2013 with estimated savings of \$6.8M. Contracts are in place for these areas but a full year of actual savings data will not be available until end of June 2014.*

Category	Initial Business Case Estimated Savings			Updated Estimates for FY14 Post Contract Negotiations		
	Spend (\$MM)	Savings %	Savings (\$MM)	Spend (\$MM)	Savings %	Savings (\$MM)
Audio Visual	\$ 4,700,000	5%	\$ 220,000	\$ 6,000,000	9%	\$ 590,000
Cylinder Gases	\$ 2,220,000	6%	\$ 140,000	\$ 2,500,000	9%	\$ 250,000
Food Supplies	\$ 15,000,000	3%	\$ 440,000	\$ 15,000,000	3%	\$ 440,000
IT Temporary Staffing	\$ 9,300,000	5%	\$ 500,000	\$ 9,900,000	10%	\$ 1,100,000
MRO	\$ 16,200,000	7%	\$ 1,200,000	\$ 10,500,000	10%	\$ 1,170,000
Pharmacy Benefits Management*	\$ 82,000,000	3%	\$ 2,660,000	\$ 82,000,000	3%	\$ 2,650,000
Temporary Administrative Staffing	\$ 6,800,000	4%	\$ 300,000	\$ 10,800,000	5%	\$ 570,000
<b>TOTAL</b>	<b>\$ 136,220,000</b>		<b>\$ 5,460,000</b>	<b>\$ 136,700,000</b>		<b>\$ 6,770,000</b>

**Notes:**

Initial business case estimated annual savings were based on FY 2012 spend.

The updated estimated annual savings is based on FY 2013 spend, adjusted for account number errors.

MRO = Maintenance, Repairs, and Operations

\*The Pharmacy Benefits Management program savings number listed is the university portion of the total savings (79%).

The remaining savings is realized by employees.

# Summary

- Actual annual recurring savings achieved in Wave 1 = \$16.1M
- Estimated annual recurring savings for Wave 2 = \$6.8M
- Combined actual and estimated recurring savings from both waves of program = \$22.9M
- Of this \$22.9M in savings, approximately \$6.1M is to the General Fund
- Contract negotiations are underway for Wave 3 commodities



# For Additional Information

- <http://ast.umich.edu/strategicsourcing.html>
- Email [ast-contact@umich.edu](mailto:ast-contact@umich.edu)