

The University of California (“UC”) engaged KPMG to advise the University on a strategy for e-procurement, including opportunities to reduce the costs of goods and services through aggregating purchasing volume and to further streamline purchasing procedures. The engagement also requested input on whether the recommended solution incorporates the national laboratories, medical centers and campuses all as part of one implementation.

The System Wide E-Procurement Assessment Report (“Report”) presents UC’s current procurement environment, the recommended e-procurement solution and architecture, benefits and costs of the recommended e-procurement solution, considerations (obstacles) surrounding an implementation, and a plan to go forward with the recommended e-procurement solution.

The current state analysis identifies annual purchasing expenditures of \$2.8 billion. Of this \$2.8 billion, expenditures at campuses and laboratories ranged between \$38 million to \$670 million and transactional volume ranged from 34,000 to over 200,000 per year. Based on an analysis using 3 sample campuses, Low Value Purchase (under \$2,500) expenditures represent 26% of total campus purchasing expenditures and 86% of campus purchasing transactions.

The major recommendations outlined in the Report address:

- Architecture Components and Blueprint
- Catalog (Contract) Strategy
- Catalog Content Management Strategy
- Entities To Be Included in E-Procurement Initiative

Architectural Components and Blueprint

The recommended system wide e-procurement environment consists of two tiers and /or implementation efforts. The first tier includes the common, University wide elements of the overall architecture for which there is one instance. The second tier includes the institution-specific implementation components and functions such as business rules, workflow and integration requirements.

Catalog Strategy

A number of e-catalog strategies were introduced in the Report. Although each e-catalog strategy will provide the UC System with some degree of benefit, the Unified (common) Catalog strategy will provide the most benefit by significantly increasing the opportunity for the University to optimize economies of scale and purchasing power. The Unified Catalog strategy provides for the expansion of common, system wide catalogs and contracts under the Planned Purchasing Program for similar commodity and service groups purchased by the multiple sites. A limited deployment of the Coordinated strategy should complement the Unified strategy to address the need for local, institution-specific catalogs.

Catalog Management

Based on UC requirements and consideration of best practices for Public Sector procurement, the project team recommends that the UC System e-procurement environment support the following e-catalog models:

- Distributed Buyer (seller updates UC's central catalog)
- Distributed Seller (UC buyers access seller's catalog in limited circumstances)
- 3rd Party Content Aggregation (UC buys content and hosts it locally or accesses it remotely. This is expensive and should be used sparingly)

Entities to be Included in E-Procurement Initiative

Determining the most appropriate institutional types (campuses, laboratories, medical centers) to participate in the recommended system wide solution is a critical component to its success. Notable similarities exist between the campus and laboratory purchasing methods and good and services, while the medical centers present a significantly unique purchasing business model. The initial e-procurement initiative should focus on the campuses and laboratories either in subsequent or parallel implementation efforts. To enable future possible integration of medical centers with the system wide e-procurement solution, it is further recommended that the medical centers use the same catalog nomenclature and software as the campus and laboratories to enable integration with the campus and laboratory system if desirable in the future.

The major goals to be achieved through a University e-procurement initiative are:

- Leverage UC purchasing power by consolidating purchase data and reducing maverick buying
- Create efficiencies by streamlining the procurement process while improving customer service to the end user and promoting use of University wide contracts
- Enable future cost reductions by providing a seamless procurement process that includes the end user, procurement professional, supplier and payables management
- Redirect central procurement resources toward additional strategic sourcing efforts rather than administrative tasks

It is important to note that a number of the major e-procurement benefits will only emerge after initial deployment (typically after 24 - 36 months) of the project's initiation. Although KPMG Consulting recommends a shared e-procurement environment for the UC System based on the potential benefits and satisfaction of overall University goals, significant changes to current procurement operations are necessary to achieve these goals. Major implementation considerations include:

- User "Buy-In", particularly where current P-Card use is being replaced by Web-based catalog purchases
- Perceived loss of current flexibility at campuses and laboratories
- Perceived reduction of control over purchasing contracts
- Necessity of coordination and prioritization of Strategic Sourcing activities
- Selection and implementation of settlement options
- Integration efforts
- Conformity to selected e-procurement software platforms

Costs and Benefits

Initial upfront costs of implementing a system wide e-procurement solution are significant. Although opportunities for continued savings and avoidance of future costs are offered by an e-procurement solution (in terms of reduction in costs of goods and services and process efficiencies), certain of these savings are not subject to capture. Therefore, KPMG Consulting recommends that the University pursue a funding model that includes the opportunity to realize additional revenue generation through P-Card rebates, supplier registration fees and transactional fees (or rebates). While transaction fees may reduce some potential savings opportunities for the costs of goods and services, they provide a means of recovering costs that may assist the University in covering some of the investment in its e procurement solution.

KPMG Consulting estimated costs and potential benefits to implement an e-procurement solution based participation of 5 campuses as follows:

Figure 1: Cost and Benefit Analysis based on participation of 5 institutions over 5 years

COST ELEMENTS	YEAR 1&2	YEAR 3	YEAR 4	YEAR 5	TOTAL
Common (Tier 1) Cost Element	(\$5,975,000)	(\$1,689,400)	(\$1,689,400)	(\$1,689,400)	(\$11,043,200)
Institutional (Tier 2) Cost Element	(\$19,225,000)	(\$7,269,500)	(\$7,269,500)	(\$7,269,500)	(\$41,033,500)
Estimated Total Cost	(\$25,200,000)	(\$8,958,900)	(\$8,958,900)	(\$8,958,900)	(\$52,076,700)
COST RECOVERY					
Participation Fees	\$0	\$10,000	\$15,000	\$20,000	\$45,000
Transactional Fees	\$0	\$4,500,000	\$10,000,000	\$15,000,000	\$29,500,000
P-Card Rebate	\$0	\$2,745,000	\$3,440,000	\$4,795,000	\$10,980,000
Total Potential Cost Recovery	\$0	\$7,255,000	\$13,455,000	\$19,815,000	\$40,525,000
COST AVOIDANCE AND EFFICIENCIES					
Cost Avoidance of Commodities	\$0	\$2,000,000	\$3,000,000	\$4,000,000	\$9,000,000
Process Efficiencies	\$7,402,500	\$14,805,000	\$14,805,000	\$14,805,000	\$51,817,500
Estimated Total Cost Avoidance	\$7,402,500	\$16,805,000	\$17,805,000	\$18,805,000	\$60,817,500
PROJECTED SAVINGS / LOSS	(\$17,797,500)	\$15,101,100	\$22,301,100	\$29,661,100	\$49,265,800

Figure 2: Estimated Return on Investment based on 5-year cycle and 5-campus participation

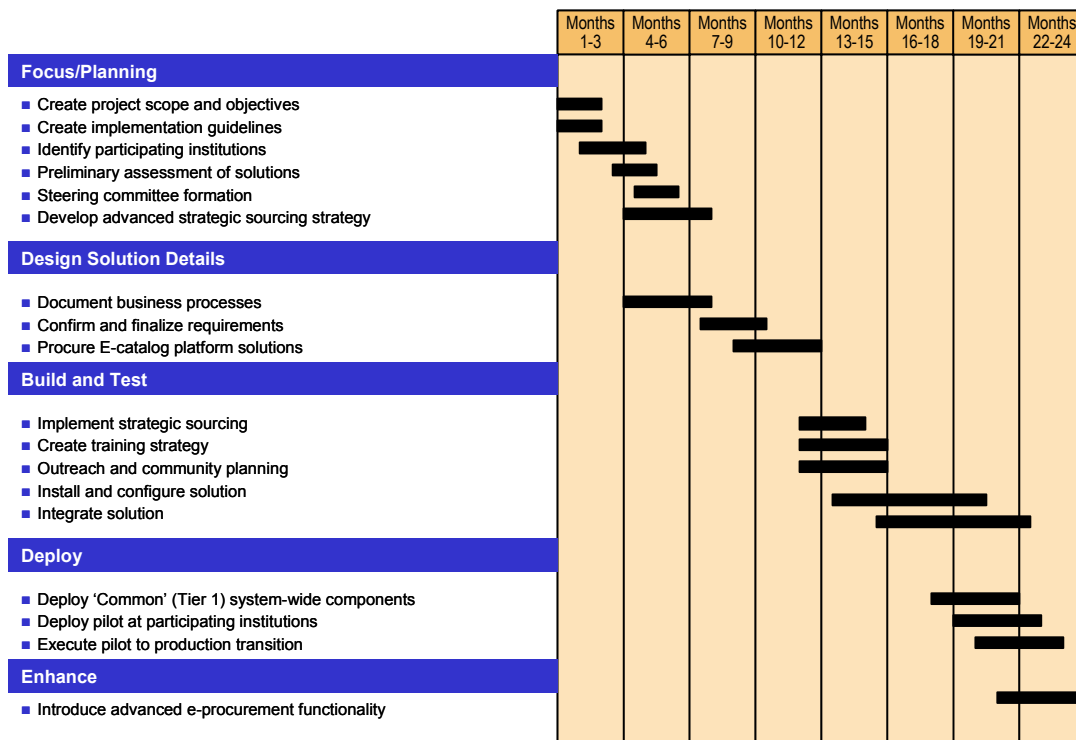
	Year 1 & 2 Total	Year 3 Total	Year 4 Total	Year 5 Total	Total Net Present Value 6%	Total Net Present at 10%
Estimated Costs	(\$25,200,000)	(\$8,958,900)	(\$8,958,900)	(\$8,958,900)		
Annual Net Present Value (6 %)	(\$25,200,000)	(\$8,451,792)	(\$7,973,389)	(\$7,522,065)	(\$49,147,247)	
Annual Net Present Value (10%)	(\$25,200,000)	(\$8,144,455)	(\$7,404,050)	(\$6,730,954)		(\$47,479,458)
Savings & Revenue Generation	\$7,402,500	\$24,060,000	\$31,260,000	\$38,620,000		
Annual Net Present Value (6 %)	\$7,402,500	\$22,698,113	\$27,821,289	\$32,426,097	\$90,347,999	
Annual Net Present Value (10%)	\$7,402,500	\$21,872,727	\$25,834,711	\$29,015,778		\$84,125,716

ROI Measures	
Discount Rate	6.00%
Cumulative NVP Costs	(\$49,147,247)
Cumulative NVP Savings & Revenue	\$90,347,999
Year 5 ROI	54%

ROI Measures	
Discount Rate	10.00%
Cumulative NVP Costs	(\$47,479,458)
Cumulative NVP Savings & Revenue	\$84,125,716
Year 5 ROI	56%

Go Forward Plan

Implementing a system wide e-procurement solution will involve a number of distinct phases. This is due to the complicated nature of deploying any technological solution in a distributed and complex environment such as that of the UC System. Distinct and measurable phases allow the participating institution to assess the success and effectiveness of each phase prior to embarking on the next phase. In addition, a phased approach mitigates overall project risk by reducing a large effort into smaller, more manageable components. A summary of these phases and a project timeline follow.



Conclusion

KPMG Consulting believes that the recommendations presented in the UC e-procurement assessment and final report, detail an appropriate solution for the University's campuses and laboratories. The KPMG Consulting project team advises that UC move forward with the recommendations in the manner and timeframe with which they are presented.