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PLUS:

Technology, Communication and Connection

Fiscal Management Can be Taxing without the Right Procurement Taxonomy in Place

P- Cards: Small Changes Can Create Significant Process Improvements
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PROCUREMENT PONDERABLE

What Lessons Can We Learn from the Disrupted Supply of Medical Equipment and Supplies?

By Stephen B. Gordon, PhD, FNIGP, CPPO

Virtually everyone in North America knows that state and local governments and healthcare institutions are experiencing difficulty and frustration as they seek to acquire tests, respirators, gowns, gloves, ventilators, and other sorely needed medical equipment and supplies in the midst of the COVID-19 pandemic. However, few, if any, members of the general public are aware that the people who will be around for the next pandemic will benefit from the notes that professional procurement officers are taking about the issues they are encountering and pondering how the effects of such issues can be eliminated or at least mitigated the next time a similar situation arises.

To capture the notes that public procurement professionals are taking and the solutions they are pondering, the author of this column asked two small samples of public procurement thought leaders one simple question. The question was: Knowing what you know now, what lessons can public procurement professionals learn from the supply chain failures related to masks, ventilators, and other items needed to address the effects of the Covid-19 pandemic? The two samples of thought leaders were surveyed nine days apart in the second half of March 2020. Nine informative responses were received.

HERE IS A SYNOPSIS OF ALL THE RESPONSES RECEIVED:

> Assure that as many processes related to procurement, logistics, and payment as possible are automated, reliable, user friendly, and secure.
> Be flexible with regard to standard procedure; and when you deviate, document why and how.
> Be resourceful; there is an urgent need to be met. People’s lives are at stake.
> Bite your lip when you have to work with brokers who are opportunistic and unreliable.
> Always be the calm person in the conversation.
> Put laws and policies in-place (if they do not already exist) that will authorize flexibility and prompt action during crises.
> Apply Value Analysis. Consider alternative products and approaches that perform the same functions as that the items you find unavailable.

(Examples include procuring “hive”-manufactured masks, using newly available sterilizers that permit multiple healthy uses of masks, and providing healthcare professionals with oxygen helmets when a ventilator is not needed. Calling on prison industries to fill supply gaps, as the State of New York did with hand sanitizer, may also be a viable option for you, depending on your particular need.)
Maintain the best possible relationships with suppliers, during and between crises. Suppliers with whom you have done business previously may not be able to provide you what you need now, but they likely will want to do business with you when this storm is over.

Maintain the best possible relationships at all times with your peers in other organizations.

Help your colleagues who are operating in a crisis when you are not, or are not yet. This will increase the likelihood that they will help you, if they can, when the situation is reversed. (This goes for both suppliers as well as procurement officials.)

Recognize that you can never totally prepare for the unknown, but strive to be prepared as well as you can be when the adverse impacts of a crisis reach you (e.g., with IDIQ and other contingency contracts based on open communication and mutual trust).

Do not allow contracts for certain items to expire. (Remember the recent discovery of hundreds of ventilators in a federal warehouse. Most of them, when found, were not in operating condition, because the maintenance contract for them had expired and not been replaced.)

Be vigilant, and when you see a crisis that could adversely impact the supply of needed goods and services headed your way, do not procrastinate. Do not wait for others to sound the alarm.

Unless the master agreements available through the “cooperative” procurement groups are formed and written correctly, you may find the well dry when you go to use them.

Consider true cooperative procurement as an alternative to riding “cooperative” master agreements. Aggregated, committed volume speaks loudly, even when the only available sources for needed items are profiteers and there is a very real possibility that the federal government, another state or local government, or another buyer will outbid you.

Leverage the communications channels of NIGP and other organizations to stay in contact with your peers, suppliers, and other resources.

The above list is undoubtedly incomplete, but hopefully, helpful. The author expresses his gratitude to the procurement professionals who took the time during this busy period to share their experiences and thoughts for the future. As the late John Short, CPPO, used to say: “The only thing worse than reinventing the wheel is reinventing the flat tire.”

P.S. NASPO has published a new post, “Supply Change Fragility and Disruption and Recovery.” It can be found on their website.

STEPHEN GORDON, PhD, FNIGP, CPPO, is an experienced public procurement professional with 45 years of experience in the field. He has devoted his career to advancing the contribution of public procurement to public organizations and society as a whole. He was the 2002 President of NIGP.
How to Engage Small Business Sellers
SECURING MINORITY/ SMALL/ DIVERSE BUSINESS CONTRACTS

Editor’s note: The following is an updated version of a story we ran in the February/March 2020 edition of Government Procurement.

By Bill Wolpin

Recently, Anne Rung, Director, Public Sector at Amazon Business and American City & County’s Editorial Director Bill Wolpin discussed government agencies’ struggles to discover small business sellers, and small businesses’ struggles to reach potential government buyers.

BILL WOLPIN: ANNE, WHAT ARE THE CHALLENGES FOR BUSINESSES?

Anne Rung: Larger companies have dedicated public sector staff and resources, whether it’s hired consultants or a dedicated team within their company to help them navigate the very complex world of government processes and regulations. That includes such challenges as: How you register as a government supplier; how you certify yourself as a diverse business; how to find government opportunities; and how to market yourself to 3,200 separate procurement offices in the Federal Government, for example. It’s made even more complex by the hundreds of regulations governing the contracting process, which can require a team of lawyers to review and translate and determine liability if awarded the contract.

These challenges are particularly acute for small businesses in government purchasing because of their limited staff and resources. You can imagine the challenge for small businesses that do not have the resources or expertise to review and understand complicated and ever-evolving regulations. I’ve read through some of these regulations myself and even with my years of experience in both the private and public sectors, I don’t necessarily always understand the implications. And once awarded a contract, a business then has to submit detailed reports to governments to demonstrate compliance with various regulations and contract performance. Even something as simple as changing a price in their government catalog requires the ability to understand and navigate government processes. Beyond winning a contract, there are challenges in how to administer...
that contract day-to-day and how to grow it over time.

**WOLPIN:** WHAT ARE THE BARRIERS TO CONNECTING GOVERNMENT BUYERS WITH SMALL SELLERS?

Rung: In my government experience, I know despite strict procurement targets and a desire to purchase from small, diverse businesses, it can be very challenging to find these sellers. For example, when I was required to first seek out small businesses for a service that I needed, I encountered difficulty finding a comprehensive list of small businesses. I was eventually redirected to an Excel spreadsheet that was not particularly descriptive and had limited and/or outdated information. From there, I had to email and call each of the companies directly to request proposals. After several days, I received the proposals, evaluated them and – sometimes unfortunately – none of them would be a match for my requirements. After meeting with our small business advocate to document my due diligence, I would start the process over again with an expanded scope to include large businesses. All in all, it was a time-consuming and frustrating process.

**WOLPIN:** WHAT HAS YOUR COMPANY DONE TO BREAK DOWN THOSE BARRIERS?

Rung: Amazon Business obsesses over our customers, and our customers clearly told us they want a way to more easily find and purchase from small businesses. We’re breaking down long-standing barriers in every step of the public sector buying process – from sellers being able to easily upload their small or diverse business certification on Amazon Business, to buyers being able to quickly search and filter on our 11 certifications to find the right offers. Because Amazon Business brings together buyers and sellers, there’s no need for a seller like Office Tex, one of our small, women-owned sellers that sells to government agencies, to drive around Texas to meet with government customers as they used to have to do. They also no longer have to invest in marketing materials or struggle to find upcoming opportunities to grow their business exponentially. In this way, Amazon Business serves as an online matchmaking service between government buyers and small business sellers.

**WOLPIN:** YOU MENTIONED IN YOUR BLOG THAT KING COUNTY, WASH., ASKED A POTENTIAL SMALL BUSINESS TO REGISTER ON AMAZON BUSINESS BECAUSE THEY FIGURED THAT WOULD BE THE SIMPLEST WAY FOR THEM TO WORK TOGETHER.

Rung: Yes, King County, Wash., one of our customers and one of the larger counties in Washington state, released a video targeted towards King County’s registered small business titled “Help

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us find you.” The video tells small businesses that King County wants to direct their spending towards them, but “we can’t find you.” They advise small businesses to register with the county, if they haven’t already done so, and add their certifications to their Amazon Business seller profile so their buyers can more easily recognize and find these sellers when making purchases on Amazon. This call to action illustrates the difficulty governments experience to find existing registered sellers, the challenge to expand their pool of small business certified sellers and the benefits of using Amazon Business to overcome these challenges.

WOLPIN: YOU ALSO TOUCHED ON A COUPLE OF THINGS SUCH AS MINORITY-OWNED BUSINESS. HOW MANY OF YOUR SMALL BUSINESS CUSTOMERS ARE MINORITY-OWNED?

Rung: I don’t have the exact number, but we support minority-owned business certifications from both the National Minority Supplier Development Council as well as the U.S. Small Business Administration. Earlier this year, we engaged in a pilot with the Minority Business Development Agency (MBDA) at the U.S. Department of Commerce to help bring more minority-owned businesses onto Amazon Business. We are doing focus groups to better understand their unique challenges, developing a learning series and we are also hosting a buyer-supplier matchmaking event. We continue to work with our customers in the public and private sector to find new ways to find and buy from minority sellers as well as small business sellers.

WOLPIN: ARE YOU GOING TO OFFER TRAINING TO EITHER HELP THE GOVERNMENT BUYER OR THE MINORITY-OWNED BUSINESS OR SMALL BUSINESS FOR EXAMPLE?

Rung: Our goal at Amazon Business is to make the purchasing, buying and selling experience so easy and intuitive that additional training isn’t required. We want selling partners to only need to access Seller Central, which is a dashboard that provides all the information they need to know about selling on Amazon Business, to create and manage their products, adjust pricing and manage their returns. With Seller Central, sellers can also participate in a seller certification and upload those small- and minority- or diverse credentials. Then for customers, we want the buying experience to be so easy that they can search and sort by the 11 certifications listed on the left-hand side of our page. Filtering by certifications makes it very easy to understand when you’re buying from a small business seller and simplifies the process to find and purchase from them.

WOLPIN: IN MANY CASES, IT IS IMPORTANT FOR THE GOVERNMENT TO BUY FROM SMALL BUSINESSES, AND MANY FACE REGULATORY POLICY REQUIREMENTS TO DO SO. DO YOU SEE THOSE REGULATORY POLICY REQUIREMENTS INCREASING FOR MORE GOVERNMENTS?

Rung: There are regulatory and policy requirements across government agencies, and these government agencies place a strong emphasis on using their contracting dollars to drive socioeconomic outcomes, including helping small businesses - that will never go away. The challenge is that the government has inadvertently created barriers by making the process very costly and complicated. In my opinion, there will continue to be an emphasis, if not a stronger emphasis, on helping small businesses grow and prosper. It’s also just the right thing to do. At Amazon, we want to bring buyers and sellers together and help those small businesses to grow and prosper. On our blog, we feature several diverse small businesses that have used Amazon Business successfully, including a local, veteran-owned Seattle company, Pacific Northwest Business Office Products, which has seen their revenue increase over 40 percent since selling on Amazon Business, and their business is still growing. The buyers can use our search tools to find these certified veteran-owned businesses. Kelly Cudworth, the CEO of Pacific Northwest Business Office Products talks about how by using Amazon Business, he was able to sell to King County, which had been a challenge for him historically. For small businesses like Kelly’s and others, we offer training and dedicated account managers, which provides support to help these companies be successful on Amazon.

WOLPIN: ANY LAST-MINUTE THOUGHTS?

Rung: It can be a struggle to own and operate a small business, but particularly so when you’re trying to enter into the government space, which can feel very different from the commercial space. However, there’s a great desire by the government to purchase from small businesses. This is driven by a federal law that requires agencies to direct 23 percent of their annual procurement spend to small businesses, as well as state policies or preferences, like in the case of King County, Wash. which requires diversity in small business targets. Tens of thousands of government customers are using Amazon Business and our goal is to level the playing field for small businesses trying to reach new opportunities in the public sector.
Top 10 Energy Buying Mistakes
You Didn’t Realize You Were Making (& How to Avoid Them)

MISTAKE NO. 9: POOR ENERGY SUPPLY CONTRACT NEGOTIATION

By Bob Wooten

This series on the Top 10 energy buying mistakes that purchasing professionals make is nearing its conclusion. By taking all these mistakes into consideration, you will be well equipped as a purchasing professional to handle upcoming energy procurement needs.

In this ninth installment, we will discuss problems that arise from poor energy supply contract negotiation. This article will focus on five key areas of energy supply contracts that many times are not given proper consideration during contract negotiation:

1. Payment Terms
2. Termination Fees
3. Adding/Deleting Accounts
4. Energy Usage Bandwidth
5. Material Changes

But an even bigger mistake is to not negotiate your contract at all.

PAYMENT TERMS:
THE MISTAKE: NOT MATCHING PAYMENT TERMS TO YOUR PAYMENT CAPABILITIES

Payment term language is the most basic of all clauses we will discuss here. In general, suppliers want to be paid as soon as possible. You as a customer want the lowest rate, and the prices a supplier offers are typically lower when shorter payment terms are in the contract. So, if you have a contract with Net 10 payment terms, you should ensure you can turn a bill around and issue payment within 10 days.

WHY IT HAPPENS: YOU THINK YOU CAN PAY FASTER THAN YOU REALLY CAN

Most organizations think their administrative operations are more efficient than they really are. It is fairly common to end up paying significant amounts of late fees each year just because your check doesn’t make it to the supplier by the due date. Not only is this wasting your administrators’ time by forcing them to contact suppliers to discuss payments, but it also has a cascade effect of impacting your credit rating.

HOW TO FIX IT: ESTABLISHING TERMS THAT REDUCE OR ELIMINATE LATE PAYMENT FEES

If it really takes you a month to process a bill and pay it, be realistic during negotiation and request 30-day payment terms up front. This may mean your energy rate is a bit higher, but you will
pay less in the long run by eliminating late fees.

TERMINATION FEES: THE MISTAKE: LACK OF AWARENESS REGARDING FACILITIES YOU MAY BE BUYING OR SELLING

Termination fees kick in when even one of your energy accounts is removed from contract. If you have 10 buildings, and you sell one of them, you are considered to have “terminated” that one account. Most termination fees comprise a combination of market losses for selling unused energy back into the market and the ensuing administrative costs. Not being aware of future facility plans can lead to undue termination fees.

WHY IT HAPPENS: YOU DON’T THINK THERE WILL BE CHANGES TO YOUR PROPERTY PORTFOLIO

As with other clauses, negotiating more favorable termination language for you as the buyer leads to a higher rate from the supplier. Prior to entering into an energy contract, check with your organization’s real estate group or facility department to see if there are any anticipated future moves, and then discuss what your needs may be with the supplier.

HOW TO FIX IT: NEGOTIATE TERMINATION FEES THAT ARE CONSISTENT WITH YOUR FUTURE PLANS

If there truly will be no changes to your facilities, a termination clause has little effect on you. If, however, there is a likelihood that your organization may sell or vacate one or more facilities, push for language that will allow you to leave with no penalty if you give sufficient notice. This will provide a level of protection against termination fees.

ADDING/DELETING ACCOUNTS: THE MISTAKE: NOT INCLUDING AN ADD/DELETE CLAUSE WHEN NECESSARY

This clause is something that many suppliers will not include unless the buyer requests it. Again, it comes at a premium, so only ask for this stipulation if you anticipate adding or removing locations from your contract.

WHY IT HAPPENS: AS WITH TERMINATION FEES, THERE IS LITTLE AWARENESS OF FUTURE FACILITY NEEDS

If you are not involved in organizational forecasting and remain unaware of future needs, you most likely will sign a contract with no add or delete provisions. This means that if you add a new site, it will be priced at current market rates; if you delete a site, you will pay a termination fee (see above).

HOW TO FIX IT: INSERT ADD/DELETE LANGUAGE TO COVER YOUR FUTURE NEEDS

Add/delete language is typically inserted by allowing a certain percentage of change. The most generous add/delete clauses are around 20%, which means you can add or delete accounts from your contract at no penalty as long as the change does not exceed 20% of the overall load. So, make sure you have a percentage negotiated that matches your anticipated needs.

ENERGY USAGE BANDWIDTH: THE MISTAKE: BANDWIDTH LANGUAGE IS NOT BROAD ENOUGH TO ADDRESS CHANGES IN USAGE AT YOUR FACILITIES

Unlike termination fees, bandwidth clauses can lead to fees resulting from using more or less energy than estimated in the original contract. A 0% bandwidth clause would mean that you would pay the contract rate for all estimated energy: If you use less than contracted, you would pay a fee to sell that unused energy back. If you use more, you would pay the current market rate for that extra energy.

WHY IT HAPPENS: AGAIN, TYPICALLY A LACK OF KNOWLEDGE REGARDING CHANGES IN OPERATIONS

You must understand both your usage profile and your likelihood of significant change to determine what percentage bandwidth you may need. If your energy needs are fairly predictable and have been stable for several years, you can achieve a lower rate by agreeing to a lower bandwidth percentage, such as 10% or 20%. But if your needs are unpredictable or have varied over the past few years, you’ll want a higher bandwidth percentage or even unlimited bandwidth.

HOW TO FIX IT: NEGOTIATE BANDWIDTH THAT COVERS ANTICIPATED CHANGES

If you want the most protective language, push to negotiate 100% or even unlimited bandwidth. This would mean that any changes in your usage are covered under the contract, and you would always pay the contract rate for any and all energy you use. The more comfortable you are with the predictability of your usage, the lower the bandwidth you can agree to.

MATERIAL CHANGES: THE MISTAKE: NOT BEING AWARE SUCH A CLAUSE EXISTS

Material changes are typically defined in contracts as any change in usage resulting from a change in operations that becomes permanent or semi-permanent. The majority of the time, a buyer focuses on bandwidth language but is not aware of material change language. The result may be unlimited bandwidth but a very restrictive – and ultimately costly – material change clause.
WHY IT HAPPENS: LACK OF EXPERIENCE IN NEGOTIATING SUPPLY CONTRACTS

When a material change clause is triggered based on changes in usage/operations at your organization, it will usually give the supplier the ability to unilaterally establish a new price. This can lead to huge disruptions in your energy budget, should such a clause be triggered.

HOW TO FIX IT: ENSURE SUCH CLAUSES ARE WORDED FAIRLY OR ELIMINATED ALTOGETHER

During your negotiation, first attempt to have the material change clause deleted. If you cannot eliminate this clause, it is important that you remove the vagueness inherent in many of these clauses. You should define any actual change in energy usage such as duration (ask the seller to identify exactly how many months a deviation in usage lasts) and percentage of change (be sure the seller spells out whether “material” is considered a 10% change, a 50% change, or something else). Work to make these as advantageous to you as possible.

CONCLUSION: PROPER NEGOTIATION IS A BALANCING ACT

Picture a scenario in which you have lined everything up properly throughout your procurement process. You have found the optimal market window for savings by working with your energy advisor and leveraging key market intelligence. You have then maximized competition by bringing all suppliers together to compete in an apples-to-apples process. You have arrived at a price that provides excellent savings and budgetary control. But then you end up signing a contract that ultimately results in higher prices due to fees and penalties resulting from operational changes on your end. The end result negates all the great work done on the front end.

Don’t let your process become bogged down like this. Be prepared to address – and then negotiate – these key terms to your benefit. But remember, it is a balancing act: If you negotiate the terms too much in your favor, premiums will be added to your price, thereby jeopardizing your savings. By striking an optimal compromise that is fair to both the energy supplier and you as the buyer, you’ll achieve both the right contract terms and the right price.

BOB WOOTEN, C.P.M., CEP, is Director of National Accounts for Tradition Energy, and has over 20 years of experience managing commercial, industrial and governmental procurement programs for a wide variety of clients. Bob holds professional certifications from the Association of Energy Engineers and the Institute for Supply Management, as well as a B.A. from Texas A&M University, and a Master’s Degree in Public Administration from the University of Houston.
C OVID-19 is forcing us to adopt the technologies that some of us have successfully avoided up to this point. Even those who are comfortable with technology acknowledge the tactile differences between in-person and virtual meetings. A few task force members with whom I often work have resolutely refused to learn new platforms. They insist that documents be attached to emails as Word documents. I’m happy to do it. I understand their frustration with the learning curve and idiosyncrasies of each new “app.” COVID-19 is not so flexible. Some of those task force members have now been directed to pack up necessary items from their brick-and-mortar offices and work or deliver classes remotely.

In this surreal time, how do we use technology to connect and collaborate with one another? How do we view technology as a tool to enhance communication and productivity while acknowledging that there is no substitute for human touch?

In 2013, I enrolled in a transformational life coach certificate course at Duquesne University in Pittsburgh, PA. When it came time to apply our new skills, my cohort and I discovered that we would be coaching some of our clients virtually. Having grown up as the daughter of a psychiatric social worker who worked face-to-face with her clients and their families, I was skeptical. Isn’t it common knowledge that only 7 percent of communication is verbal? More specifically, according to Professor Emeritus of Psychology Albert Mehrabian at the University
of California, Los Angeles, 55 percent of non-verbal communication is made up of body language while 38 percent is conveyed through tone of voice.

By experiencing the online coaching process and, subsequently, through work with task forces using teleconference platforms, I came to appreciate the effectiveness of virtual delivery. Though I often use audio only, I have learned to pick up signals other than “body language.” As noted in my last article, I have learned to read the silences. If I don’t know the reason for a silence, I ask. My attunement and sensitivity to the pace, tone, inflection and choice of words have increased. So has my willingness to ask when I need more information.

My most effective teams excel because we share a safe space, an environment in which each member is encouraged to express their thoughts. Our approach is governed by two rules: (1) No apologies. We’re glad each member is here and contributing; and (2) Feel free. Without communication, we have nothing and can go nowhere. It is those fleeting and seemingly insignificant thoughts, when expressed, that often add the most value.

In these teams, we begin with a shared vision, develop relationships and communicate without hesitation due to fear of judgment or reprisal. Our shared vision provides a common goal and strategic approach, which makes the individual steps more apparent. The relationships lead to accountability and support. Communication breeds trust. To these components, we add persistence and resilience. To collaborate, especially in these times, we use shared documents such as those provided by Google or Microsoft Teams. Are we effective because of technology or despite it? All I know is that we succeed when we each decide that the goal is worth it when we commit to the vision and to one another.

Because of the pandemic, many of NIGP’s instructors who previously taught face-to-face classes have stepped up and volunteered to deliver these classes virtually, even with no prior experience. I’m heartened at how each of these instructors has found ways to personalize the online experience. When class sizes are small enough, microphones are left open and discussion is possible. Instructors are still able to share stories and ask if the concepts are clear. Students can ask for clarification or repetition, as needed. Regular breaks are provided for students to detach from their monitors and clear their minds. During these breaks, attendees connect and vent about life with the pandemic. We find ways to connect and empathize.

Technology may seem sterile, but the communication we conduct through it need not exclude compassion. Right now, I’m listening to an online class. Between lessons, attendees share breaking news of an extension for tax filings and of newly announced state lockdowns. For students in those states, the talk turns to the need to do food shopping. The class then resumes review of the core competencies needed to be effective public procurement professionals, the front line that will execute the purchases needed to confront the pandemic.

In addition to connecting with colleagues and continuing our work and professional development, we use technology, particularly now, to keep in touch with family and friends. Some of this technology includes video as well as audio. In former times, we would drive or walk over to visit our loved ones. Today, we connect through Skype, Zoom or old-fashioned landlines. Let us be grateful for technology and recognize that it can be used according to our perception of it. I prefer to use technology to connect, to commiserate and to cooperate. What is your view of technology? How will you use it to achieve your goals?

LISA FRANK is NIGP’s Global Practices Manager. She collaborates with public procurement practitioners and academics to conduct research and
Sustainable. Attainable.

Crews in Moorhead, Minn., are watching recycling “pick up” substantially after rolling out 16,000 no-sort recycling bins. Residents are recycling five times more than they did in 2017, and are helping Moorhead become a GreenStep City. City leaders procure 96-gallon Toter carts and other equipment by using cooperative contracts through their government partner, Sourcewell, which has hundreds of vendors already on contract.

Watch this video to see blue recycling carts turning a city green.

https://sourcewell.co/moorhead_govpro

NJPA is now Sourcewell—your government source for more than 400 cooperative contracts.

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Here’s an old saying that “For every minute spent organizing, an hour is earned.” In the context of government procurement, I would go further to say that every minute spent organizing is also potentially thousands of dollars – or hundreds of thousands of dollars – saved. (And several hours earned.)

As you all know, keeping track of every dollar spent by your organization is a taxing job. Some would say impossible. With the average agency managing 456 solicitations per year, it can be a struggle to monitor allocated and available spend levels in real-time. Things get even more complicated if you don’t have a well-organized way to document purchases and track category-specific spend.

That’s one of the many reasons why implementing a universal taxonomy such as the NIGP Code has become a best practice for public sector agencies at all levels.

WANT TO IMPROVE SPEND MANAGEMENT? START BY IMPROVING YOUR RECORDS MANAGEMENT

Every state and local government, education entity and special district is tasked with maintaining strict fiscal responsibility, and the highly-structured design of procurement classification systems like the NIGP Code automatically track spending by individual commodity and services code groupings. Within a matter of minutes, you can see how your fiscal management can be taxing without the right procurement taxonomy in place.

By Jean Clark
agency is spending, and how much it’s spending, both holistically and at a very exhaustive level.

The NIGP Code, for example, allows you to assign a product or service a 3-digit class code, a 5-digit class-item code, a 7-digit class-item-group code, and a detailed 11-digit code.

This makes it easy to report and analyze spend at a very deep level without having to dedicate hours to the manual dissection of spend for “vehicle docks” within the automotive/fleet accessories or mobile computing technology categories.

It also allows you to cross-index spend data against vendor categories or minority-owned business entity (MBE)/woman-owned business entity (WBE) classifications and even track “green” spending using a dedicated set of “Green Commodity Codes.”

As a result, it becomes easier to monitor progress towards contract award goals and employ risk-based procurement strategies to help organize spend areas for evaluation of both waste and underutilization of budgeted funds. In fact, NIGP Code users can realize savings of up to 20 percent through the combination of effective spend analysis and strategic sourcing.

**SUPPLIER MANAGEMENT IS ALSO CRITICAL TO SPEND MANAGEMENT – AND A BENEFIT OF UNIVERSAL TAXONOMY SYSTEMS**

Speaking of strategic sourcing: one of the other prime benefits of using a structured commodity and services classification system to improve your procurement function is the supplier management toolset.

You can organize the suppliers you do business in a similar manner as you would the product or service categories, which streamlines the process of finding available suppliers for various products and services. Just as importantly, you can frequently gauge the volume and quality of suppliers in each product or service category down to the 11-digit code, if desired, to ensure adequate competition and determine if further supplier diversification is needed to meet MBE/WBE goals.

When it comes time to solicit, you have the option to facilitate spend rollup at the item level, leading to more competitive bidding and, subsequently, an increased value return for spending across the board.

**Why Classification Systems Such as NIGP Code Become Even More Critical Tools During Crises**

Though universal taxonomies are vital tools in maintaining day-to-day fiscal responsibility, balancing budgets, even more important when priorities shift or increased sourcing is needed.

The recent COVID-19 emergency effort is a prime example. In the early stages, before emergency funds were released, agencies were increasing purchases in key categories such as medical supplies, cleaning services, food kits and technology tools to assist with distance learning.

Though we’ve yet to solicit formal feedback, I would assume that agencies with a universal taxonomy in place, such as the NIGP Code, might have found it easier to track spend or even assign additional funding to particular types of purchases to maintain control of crisis-related spending, reduce fraud or earmark buys that exceeded normal operation thresholds so as not to skew future analysis of agency spend for budget assignment purposes.

At the same time, those same agencies may have been able to ramp up hyper-focused sourcing efforts with a little less effort due to the detailed product and service search capabilities. Instead of having to pick up the phone to call everyone registered as a “medical supplies” provider from the start, they would have been able to drill down to those with “personal protection equipment” (PPE) or ventilators or hospital beds to start and then broaden their search as demand increased and supply decreased within traditional sources. When it came time to expand the search parameters to find “outside of
the box” sources of N95 masks, the NIGP Code most likely assisted with the targeted identification of construction companies, utility contractors and even tech companies that may have them in reserve for their field-based workers or employees assigned to fire, dust or other airborne hazard-prone areas.

Then again, since the NIGP Code serves to standardize descriptions for stock items, it is quite possible that they were actually able to locate these non-traditional supply sources from the start.

The uniform product numbering across suppliers – which eliminates duplicate items throughout inventory locations – can help to expedite sourcing when every second counts. As can the product/service grouping function, which allows buyers to consolidate similar requisitions together, order from blankets and contracts and facilitate procurement workflows based on commodity or service.

FAQ: “Is There a Classification System That Will More Effectively Help Me Improve Spend Habits and Supplier Utilization?”

In the spirit of full disclosure, not all taxonomies are created equal and not all may offer the detailed 11-digit code option like the NIGP Code does.

Think of a procurement taxonomy like a filing system for your personal important documents: some like to categorize alphabetically, some by date and some by “type” of record. Others prefer to create their own filing system, one that would the average person wouldn’t understand without knowing that person well.

Procurement taxonomies can vary similarly. Though most take a categorical approach – medical, construction, food and beverage, technology, etc. – the challenge I’ve heard from agencies is that many only offer one or two tiers of “filing” within a category. This can be especially true of homegrown classification systems. Then again, it is possible to have too much of a good thing. Having to assign or apply too many codes to a single product or service could limit your results when conducting a wider-scope spend analysis. You may find yourself running too many reports and trying to reconcile them all to extract the information you need.

That’s why opting for universal taxonomies such as the NIGP Code is always recommended in the public sector. Beyond minimizing onboarding and ongoing training requirements, the use of a standard procurement classification system enables spend audits to be conducted quickly and results to be accepted with confidence. It reduces, if not fully eliminates, any potential discrepancies about how certain products and services may or may not be classified from one agency to the next and whether or not spend is being accurately calculated for each category on a broader level.

Plus, choosing a third-party-managed classification system such as NIGP Code means that your procurement and IT teams get to enjoy all of the benefits without having to do any of the work to update or remove codes, notify users of changes and other tasks that can become burdensome. This is a living and breathing system after all. Stagnation can be just as detrimental to your agency’s spend management capabilities as not having an organized records system at all. New products and services are coming to market every day and you need to be able to monitor your agency’s spend appropriately. Trying to force-fit them into the wrong category can skew future budget allocations and hinder your agency’s ability to effectively serve constituents.

To learn more about the NIGP Code, visit www.periscopeholdings.com/nigp

*The NIGP Code is the most widely used commodity/services code in the public sector and is utilized by 1400 governmental entities, including 30 states. It is currently maintained and supported by Periscope Holdings, an Austin-based technology holding company focused on the public sector and the sole custodian and marketer of the Code under an ongoing agreement with NIGP.

JEAN CLARK, FNIGP, CPPO, C.P.M, CPM is President of NIGP Code and Consulting Services at Periscope Holdings, Inc. She is an NIGP Past President and former State of Arizona Procurement Administrator.
SAVE THE DATES!

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When we think about making process improvements, we think about new systems or reinventing the wheel, but sometimes, little changes can produce big results. We began a p-card process review in January of 2019 as a part of our continuous improvement program.

We all know that P-Cards are a more efficient method in which to make small purchases, but when was the last time that you really looked at your P-Card process? We conducted an extensive cross-departmental study and found that “auto coding” P-Card transactions under $75 led to extensive time savings.

The City process-mapped what we thought was a fairly standard process. Then we invited departmental subject matter experts to add their unique steps to the process. After we filled up an entire whiteboard, we realized that the City spent a great deal of time prompting the approval process.

**OPPORTUNITY**

Where we thought outside the box and what we would like to share with you is “automatically coding” P-Card transactions. The concept that we started with was that small purchases (<$75) took up a large percentage of the work volume but carried very little financial value/risk. Collecting data, we confirmed that these transactions, <$75 (the sweet spot) accounted for 46% of our Citywide transactional volume and only accounted for 3% of the P-Card spend (approximately 0.3% of our M&O budget).

**SOLUTION**

Partnering with I.T., we requested a technology solution and found out that not only was it possible, but it was a fairly easy program to create. This auto-coding program would need a crosswalk created. A crosswalk works by coding our City account number to each transaction, based upon the MCC code of the purchase. With MCC codes, each product sold...
has an MCC code assigned to it. For instance, liquor has been assigned MCC Code 5921 and P-card purchases are blocked when this code is used.

FRAUD
To prevent fraud, one of our I.T. people created an email notification for transactions within the sweet spot. Whenever a participant purchases an item within the sweet spot range, they receive an email with a description and cost, notifying them that the purchase was made against their card. If the purchase is fraudulent, they simply notify our team and we will shut down that card/transaction. If the participant doesn’t respond, the transaction is considered approved and they are accountable for the purchase.

BENEFIT
A few courageous managers were willing to give it a try and we started with them. The results were immediate, we didn’t kill anyone’s budget, the small-dollar transactions weren’t visible when they looked at their budgets, and the time savings were noticeable. The average current process time takes 4.5 minutes and our current volume is 32,000 transactions per year. Removing 46% of transactions has the opportunity to give us back 1200 labor hours/yr. Currently, we have five groups using the process and expect the full roll out to take us one year.

WHERE DO YOU GO FROM HERE?
We recommend that you search for Process Mapping videos (like this), get a small team together and start with something small. Learn how you are processing p-cards, most departments are surprised by the results. On our first review, we discovered that 5 people were retaining copies of the same receipt, that was easy to fix and a big win. Understanding your actual processes will identify some low hanging fruit, you should pick that fruit and take an easy win, this will build credibility for your team as you take bolder steps. Lastly, know that change takes time & don’t be afraid to fail, because that will be a valuable lesson that you take to your next project.

COLIN MILLAR began his public service career with the City of Boise in 2007. With over 30 years of purchasing and materials management experience, Colin now manages the Procure to Pay team, with a staff of 10 members.
Paul Brennan has been the director of purchasing for Rockland County, N.Y., for 27 years. His community has been one of the hardest hit in the COVID-19 pandemic. As such, supply chains have broken down and procurement processes have needed to be amended. Contributing editor Derek Prall spoke with Brennen on April 2 to discuss the challenges his department is facing. What follows is an edited transcript of that conversation.

DEREK PRALL: SO, ROCKLAND COUNTY IS REALLY ON THE FRONT LINES HERE AS INFECTION GOES.

Paul Brennan: Correct – we’re just north of New York City, and we’ve had one of the largest outbreaks of any county in the country. Unfortunately, our county was mentioned in one of the president’s news conferences just the other day.

PRALL: YES, THAT WHOLE REGION HAS BEEN REALLY HARD HIT. GENERALLY SPEAKING, WHAT HAS BEEN YOUR BIGGEST CHALLENGE AS THIS PANDEMIC HAS BEEN PROGRESSING.

Brennan: Really the biggest challenge is chasing medical supplies. Personal protective equipment is in very short supply. What’s been particularly disappointing is that you’re not getting any type of information from the major manufacturers of this equipment. You go to the major distributors and they’re getting no information. No one can give you an answer of when they’re expecting products.

PRALL: OBVIOUSLY THERE ARE MYRIAD COMPLICATED REASONS FOR THIS – BUT WHY IS THERE THIS COMMUNICATION BREAKDOWN IN A TIME WHEN IT SEEMS SO CRITICAL? SHOULDN’T THIS BE ONE OF THE HIGHEST PRIORITIES?

Brennan: You would think so, but I think the problem is that we really weren’t prepared with a central way to procure these supplies nationwide. What you’re left with is every state out there competing against every other state. Every county is competing with every county. We’re all competing with each other for the same supplies as opposed to having a more centralized approach. Our state system worked very well, but just a few days ago we got word that the state warehouse is empty, and they aren’t sure when they’ll be getting more supplies. I think the real critical thing from the federal government standpoint – I don’t think anything like this was ever planned for. You have the national stockpile of medical supplies that are strategically located throughout the country, but the way this stockpile was created and managed – it was never designed to handle a crisis affecting the whole country.

PRALL: SOMETHING OF THIS MAGNITUDE...

Brennan: Exactly. There’s been, you know, a weather event in the southeast or an earthquake or forest fire in the west and you have supplies for that – for one geographic location. It wasn’t designed for a country-wide crisis.
and a country-wide shortage of supplies. We need to ask the question – has “just in time” failed us? Just in time inventory is all well and good under normal circumstances, but as soon as there’s a disruption it breaks down.

PRALL: IS THIS A PROBLEM OF CERTAIN COMMUNITIES HOARDING SUPPLIES IN A SENSE? I MEAN, WHEN YOU GO TO THE GROCERY STORE AND THERE’S NO TOILET PAPER, PART OF THE PROBLEM IS ONE PERSON BUYING 100 ROLLS THAT THEY LIKELY WON’T NEED. ARE GOVERNMENTS DOING THE SAME THING WITH PERSONAL PROTECTIVE EQUIPMENT?

Brennan: No, I don’t think anyone is hoarding because we’d all be out there beating each other up. The prices wouldn’t be going through the roof. One of the purposes of just in time from a manufacturer’s perspective is the ability to adjust quickly to demand. We’re not seeing that. We’re not seeing quality products coming to the market. Right now the market is being flooded with questionable products – you don’t know if these unknown manufacturers are making legitimate products or if these are counterfeit. We vet people every day, but pulling the trigger is difficult because you don’t know who these people are. You don’t know what you’re getting and they want money upfront. I think I put more on my p-card in the last three weeks than I did in the last three years.

PRALL: SO DURING A TIME OF UNPRECEDENTED CRISIS LIKE THIS, HAVE YOUR PROCUREMENT POLICIES CHANGED SIGNIFICANTLY?

Brennan: Well we’re certainly buying a lot more on p-cards. If a supplier has the products we need we can’t waste time to issue a purchase order and they don’t want to wait to get paid. If I have the product and you want it here’s the price, you pay me now and I’ll ship it. But at least with a procurement card, you still have a level of protection. If you make a large purchase and it doesn’t show up, at least you have some protection through the credit card company. We declared a state of emergency because we can’t adhere to the public bidding requirements right now. I don’t have time to go out and get quotes on a lot of things. If I find someone with the product I need, I need to buy it.

PRALL: YOU NEED TO PULL THE TRIGGER.

Brennan: Right. But we’re a little worried about FEMA reimbursement for that because usually FEMA requires a public purchasing process for these supplies. We’re worried they won’t reimburse us if they don’t see multiple quotes.

PRALL: DO YOU HAVE ANY INDICATION THUS FAR THAT THEY MIGHT LIFT THOSE REQUIREMENTS GIVEN THE NATURE OF THIS EMERGENCY?

Brennan: Not as of yet. They’re still asking for documentation of competition, and haven’t offered any updated or revised any of their requirements.

PRALL: SO EVEN THOUGH YOU’RE UNSURE ABOUT HOW REIMBURSEMENT IS GOING TO WORK, YOU NEED TO ACT QUICKLY?

Brennan: Yes. Maybe it’s just the experience of being in this job for so long, but you start thinking ahead. We had to start thinking about body bags and refrigerated trailers and things of that nature. I normally buy body bags once a year for my medical examiner’s office, but some of the funeral homes have called expressing concern. I called my supplier down in Florida and they said they have 150 left. I said I’ll take them. Here’s the credit card. You always have to be thinking about not only what you need today, but what you’ll need tomorrow.

PRALL: IT SOUNDS LIKE IMMEDIACY IS THE NAME OF THE GAME. THINKING A FEW STEPS AHEAD IS IMPORTANT. TO DO THAT, YOU NEED GOOD COMMUNICATION NOT ONLY WITH YOUR PROCUREMENT TEAM BUT EVEN INTERDEPARTMENTALLY TO DISCUSS WHAT THE NEEDS ARE NOW AND HOW THOSE NEEDS WILL EVOLVE.

Brennan: Yeah, communication is important. It’s even more important now because a lot of people are working remotely. When you’re in the office communication is easy, but the decentralization has been difficult. We’re using new technologies to communicate with each other. We can video chat. We have at least one conference call a day to highlight what the critical items are we’re looking for and assign buyers specific goals. We share information at the end of the day, and we have a daily supply committee conference call. We’re also getting requests from other municipalities and other agencies, and if we have anything we can help with, we share resources.

PRALL: WE’RE ALL IN THIS TOGETHER, IN A SENSE. IT SEEMS LIKE THERE’S A PRIORITIZATION OF KEEPING LINES OF COMMUNICATION OPEN, NOT ONLY IN THE COUNTY BUT THROUGHOUT THE STATE. THAT BEING SAID, I THINK IT’S IMPORTANT TO SHARE NOT ONLY RESOURCES BUT LESSONS WE’VE LEARNED THROUGH THIS. WHAT ADVICE DO YOU HAVE FOR YOUR PEERS?

Brennan: Something we talk about every day is that this is a marathon, not a sprint. We’re in this for the long-haul – it’s not going to be a one- or two-week thing where we’re done and we move on. This is a marathon. You need to remember to take care of yourself. A burned-out buyer can be very dangerous – bad decisions can be made. If your anxiety levels are getting a little high, don’t be afraid to take a break for a couple of hours. The pressure is constant, so you need to take the time to care for yourself. Also – look for opportunities to collaborate with your neighboring procurement departments. Purchasing together increases buying power.
Procurement teams across the country are challenged with an onslaught of competing demands for health and safety equipment while working remotely from an Emergency Operations Center or home office - not the easiest of times. Despite the emergency, ensuring best value is still paramount, and is becoming a difficult challenge. With limited resources and worldwide demand for similar products, price gouging and unscrupulous suppliers have been reported. To complicate matters even further, government teams are learning the ever-changing requirements to comply with guidelines for federal stimulus loans or FEMA reimbursements.

Cooperative procurement, defined as the use of solicited, ready-to-go contracts established by a government agency or cooperative organization, is a contracting solution being used to address many of these complex challenges. During an emergency, there are advantages of having set pricing that does not fluctuate, as well as working with awarded suppliers with well-established reputations. FEMA allows the use of cooperative contracts during an emergency within specific parameters, and defines a cooperative purchasing program as “a cooperative arrangement for acquiring goods or services that involves aggregating the demand of two or more entities in an effort to obtain a more economical purchase.”

A recent webinar sponsored by National Cooperative Procurement Partners (NCPP) featured a panel of experts to offer insights into the current COVID-19 supply chain situation, changing FEMA requirements, whether cooperative contracts may be leveraged, and additional resources to help government teams during this emergency. A speaker at the webinar, Dr. Kim Abrego from Disaster Recovery Services and an expert in FEMA requirements, noted, “COVID-19 is quite different from any declared event that FEMA has seen to-date. Instead of having to support the financial recovery of public entities in a localized region, FEMA is now supporting efforts across the nation and not able to deploy their usual field support team to actively engage with applicants due to social distancing. As a result, FEMA is shifting its program to an online model.” Using the newly updated Program Delivery Manager (PDMG), created as a result of this pandemic, agency applicants will be responsible for shepherding their projects through FEMA’s Grants Portal.

Part of any preparation before and during an emergency is having well-thought-out policies and procedures for emergency purposes. Not only does this provide guidance for the entire organization, but it is also essential when an agency is involved in an audit or FEMA review. One of the first requests made is for a copy of an agency’s disaster procurement policy. Debbie Wellnitz, Manager for the City of Concord, Calif., Police Department shared her experience of starting this effort from scratch a few years ago to address the frequent fires in California. Her advice to other teams is to “ensure that all FEMA regulations and requirements are incorporated into your agency’s emergency policy. I highly recommend you have a FEMA expert review your policy to ensure compliance.” According to Abrego, “One of the top reasons that FEMA deems reimbursements to be void or
incomplete is due to procurement issues - all the more reason to have comprehensive emergency procurement policies.”

First-responders, hospital teams, airport personnel and other government employees do not have the benefit of sheltering in place, because they must interact with the public. Shortages, backlogs and bidding wars for limited supplies, have caused agencies to compete against others for items such as masks, personal protection equipment, and ventilators. As suppliers work furiously to restock and meet backlogged orders, Chris Mellis, Senior Vice-President of Strategic Accounts from OMNIA Partners offers additional insight. “Stay in communication with vendors as supplies fluctuate from week to week to ensure your order is in the queue as they are working down their list of clients. Cooperative organizations can also help with compiled COVID-19 resources to focus efforts in assisting first responders and government teams in obtaining needed commodities.” Dan Listug, Government Relations Counsel for Sourcewell, a cooperative organization, notes that “cooperative contracts can be used for this emergency. Procurement teams should still conduct due diligence to determine if the contract will meet their own agency and FEMA requirements. Credible cooperative organizations should be able to provide all documentation related to the solicitation and contract to conduct that review.”

While supply chain discussions about commodities, such as masks and ventilators, have received a lot of attention, construction contracting is impacted as well. With well-entrenched procedures, the typically long process of government construction bids does not allow for flexibility to react quickly to emerging needs or changing requirements. A solution to help agencies across the U.S. quickly complete COVID-19 related work is called Job Order Contracting (JOC). JOC uses a database comprised of pre-priced construction tasks, with set labor costs, and can be accessed through already solicited cooperative contracts as a ready-to-go construction option for government entities, large and small. Providing financial auditability, JOC’s preset unit pricing helps avoid price gouging or expensive change orders.

Gordian is helping agencies across the U.S. quickly complete COVID-19-related work. To be proactive in advance of government requests, the company’s Cost Engineers have already mapped their line items to the Alternate Care Site program developed by the US Army Corps of Engineers (USACE), as well as biohazard and infectious disease control remediation. For example, Chicago is using its Gordian JOC program to quickly build-out acute hospital space at the McCormick Place Alternate Care Facility. Since April 2nd, contractors working with city teams, have installed over 750 self-contained units in two weeks.

Procurement is on the front lines of the COVID-19 pandemic, providing the needed supplies and services to support their agency’s first responders and support teams. As a well-accepted contracting tool, cooperative procurement can help meet those ever-changing needs, in the shortest timeframes possible. In the end, an organization’s response is only as good as its procurement processes and supply chain resources.
We are indeed in unprecedented times. The shelter in place directives across the country, due to the COVID-19 virus, are prompting public agencies to ask their staff to work from home. This includes thousands of members from our public procurement community. While remote or telework arrangements have been around for years, they have been the exception and not the rule when it comes to procurement.

Twenty years ago, I had an exceptional contracts specialist that worked from home once a week. Diane Seaton was highly productive in crafting contracts and RFPs from her home in a rural community outside of Portland, Ore. While that was considered a privilege back then, today it is a necessity.

Agencies across the country are closing down many offices and services. While most consider procurement and contracting an essential service, it is something that can be performed remotely and with minimal person-to-person contact. Procurement professionals can continue acquiring much-needed goods and services for their organizations, including medical supplies to help combat the current pandemic.

Without a doubt, technology plays a more important role than ever. The ability to remotely access shared files, attend virtual meetings, and operate e-procurement and ERP systems is imperative. The business of public procurement must go on and these tools will help make this possible.

However, the most important thing a public procurement professional can keep in mind during these times is the value of collaboration. I have written in past columns about the strong bonds that people in this profession seem to hold and how it’s almost like a family. Public procurement does an excellent job of networking and leveraging the knowledge and experience of their peers. Perhaps realizing that we are all in this together and that we are here to support each other, will help us get through these difficult times.

I remember during the 9/11 recovery, the procurement community on the west coast heard that our colleagues in New York were having difficulty sourcing much-needed respirators. Mike Smelser, my contracts manager at the time, took it upon himself to secure a large quantity of the respirators and have them dropped shipped to an FDNY fire station. No questions asked.

During this current time of crisis, NIGP has stepped up to offer support to the public procurement community. Visit www.nigp.org for updates and resources related to COVID-19. I encourage you all to rely on your procurement peers. You will not find a more supportive network.

Wishing you and your families health and happiness.

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JOIN THE Conversation

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A Message from NIGP CEO Rick Grimm

Words cannot express how proud and thankful we are to our public procurement community for working around-the-clock and doing whatever it takes to keep us safe during these unprecedented times.

Our primary concern and highest priority will always be the health, well-being and safety of our members, partners, instructors, volunteers and, of course, the NIGP staff.

Here are some of the changes we’ve instituted so far:

• In-person classes have been rescheduled to virtual settings. This on-going process has been working remarkably well in no small part due to the dedication of our amazing group of instructors, chapter and agency partners and staff members.
• NIGP headquarters will continue to fully operate on a completely remote basis through the foreseeable future.
• We have created the COVID-19 Resource Center on our website as well a Corona Virus Nsite community for everyone to share and get updates, ask questions and get advice from peers who are facing similar challenges as you right now.
• We are actively monitoring the evolving situation with regard to Forum 2020, August 23-26 in Chicago and will amend and update our plans accordingly.

Virtual Learning

While social distancing may be the order of the day, social connection has never been more important. That’s why NIGP has been working to bring you more virtual learning options, whether that’s courses, webinars or upcoming virtual conferences.

Working remotely has become our ‘new norm’, one of the best ways to stay engaged is through active virtual learning and connecting with like-minded professionals while sharpening professional development skills. NIGP is committed to elevating the profession and accelerating learning through innovative and pioneering methods, tools and experiences.

Keeping Connected

Our staff is strong, agile and here to support and serve you. Together we can build a strong tomorrow and magnify the positive impact we have on our communities and in the world. Thank you again for the awe-inspiring work you do every day.

Wishing you, your families, and coworkers health and strength,

Rick Grimm, CPPO, CPPB, FCIPS
NIGP Chief Executive Officer