

Office of the President

TO THE MEMBERS OF THE COMMITTEE ON FINANCE

DISCUSSION ITEM

For Meeting of November 17, 2004

UPDATE ON STRATEGIC SOURCING

Strategic Sourcing is a process designed to maximize the purchasing power of large, decentralized organizations by consolidating and leveraging common purchases. The primary objective is significant cost reductions without sacrificing quality or service.

There are two primary Strategic Sourcing programs under way at the University. One addresses the approximately \$2 billion of non-information technology (IT) related purchases and the other addresses specific IT products and services.

The non-IT Strategic Sourcing initiative was launched in July 2003 under the management of Vice President Broome and Executive Director Davis. Originally piloted in 1996, with success at UCLA, the Strategic Sourcing model is being implemented throughout the University system. In addition to developing the infrastructure (people and technology) necessary to implement and sustain Strategic Sourcing, seven sourcing initiatives have been launched that address \$400 million in purchasing activity. Most recently, a systemwide project was completed for the University's \$22 million of office supply purchases, with potential savings of \$4.4 million, or 20 percent.

The second initiative, the Information Technology Licensing and Procurement Program, saves the University more than \$25 million annually on a spending volume of approximately \$150 million. The program's tremendous success is the result of active participation by all ten campuses, the five medical centers, the three national laboratories, and the Office of the President. Under the leadership of Associate Vice President Hafner and Director Collins, University institutions consolidate their spending on computer hardware and software and achieve significant savings. Equally important are dramatic reductions in administrative overhead that result from consolidated contracts and reduced transaction volumes.

While the IT Licensing and Procurement Program has existed since 1994, Ms. Hafner initiated a major expansion upon her arrival in the UC Office of the President Division of Business and Finance in July 2002. Recognizing an opportunity to benefit campuses through systemwide action, she worked with the UC IT Leadership Council to build sponsorship for this more aggressive program. Large software contracts have been the primary focus of the recent program expansion. Unique characteristics of software procurement, along with the current

business climate in the software industry, create an environment well-suited to consolidating contracts, negotiating significant discounts, and obtaining more flexible terms and conditions.

In order to achieve savings, existing software licensing agreements are renegotiated, numerous campus contracts with the same vendors are consolidated, and new agreements are launched. For example, ten major mainframe software maintenance agreements were consolidated into one agreement and costs were cut in half, resulting in savings of approximately \$1.5 million per year. In another example, 81 contracts for desktop software were consolidated into one, resulting in annual savings of more than \$1 million. The new contracts have many other advantages, including the ability dynamically to move software assets around the University.