

# Strategic Sourcing: Building Partner Power and Reducing Cost

**Pennsylvania Housing Finance Agency**  
Management Innovation: Internal Operations

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## The Management Challenge

The Pennsylvania Housing Finance Agency (PHFA) is a state affiliated agency in the Commonwealth of Pennsylvania and must comply with state procurement law, like many other HFA's. In addition to maintaining legal compliance, PHFA is mindful of the responsibility to be good financial stewards with administrative costs so that as much funding as possible is going towards affordable housing programs. However, procurement was not a centralized function, and the tasks were being performed by several individuals across different divisions whose primary responsibilities were not as procurement professionals. The pandemic also created the need for a different focus on sourcing due to different types of supply shortages and the need to partner with suppliers to assist in the management of pandemic related programs (such as PAHAF). Management recognized that investing in a designated role for these tasks could not only streamline the process and support compliance but could offer the benefit of increased savings.

## The Innovation

Some organizations may view the procurement role as a basic operational function where someone is designated to "buy stuff". Other organizations may see the role as more of a compliance person that "makes the process longer by enforcing the rules". Public sector procurement is often viewed as bureaucratic and painful.

Creating a centralized procurement role for all divisions would have addressed some of the resource and process challenges. However, PHFA leadership decided to develop it as a strategic role that would do much more than "buy stuff" and process paper. The key objectives for the role include:

1. Partnering with internal divisions as an advisor to guide them through the required legal process and provide sourcing options to meet business needs.
2. Build Agency bench strength and business continuity through supplier partnerships.
3. Create templates and guides to simplify the steps and provide consistency and transparency.
4. Provide procurement training.
5. Provide mentoring and support for diverse business partnerships, particularly businesses located in our Pennsylvania communities.
6. Strengthen the content of contract terms and scope descriptions to minimize risk.
7. Focus on cost savings opportunities through methods such as alternative products and/or sourcing, streamlining delivery, consolidating for volume discounts, improved competitive bidding, and better definition of requirements (minimizing incremental costs downstream).
8. Focus on cost avoidance through better negotiations and evaluation of Agency business needs.

## The Implementation

In July-August of 2021, a review of the current procurement process was conducted with business users that most frequently procure for the agency (such as Information Technology, Facilities, Office Supplies) and with the legal team. An update to the Agency procurement guide was drafted and there were several updates made to the solicitation and statement of work templates begin utilized by the Agency.

A position was established and posted for a Strategic Sourcing Specialist and the position was filled in February 2022. Throughout the implementation timeframe, several of the key objectives have already been achieved and the role and process is now established for continued progress.

## The Results

### Consistency and Reduced Risk

- The request for proposal, request for quotation and statement of work templates and processes were updated to provide clear, consistent instructions for suppliers to make it easier for them to be compliant and learn the submission process.
- The forms were also designed to clearly articulate the Commonwealth of PA non-negotiable terms and conditions early in the process with additional points awarded in the evaluation process for suppliers that are willing to accept those terms without modification. Having suppliers submit term modifications with their proposal forces them to have their legal team look at the requirement in advance so there aren't lengthy negotiations on the back end after a supplier is selected. Using Agency Statement of Work templates minimizes the opportunity for suppliers to introduce additional conflicting terms within their Statement of Work.
- Creating simplified instructions and holding requirements meetings for the scope and technical submission requirements in the RFP makes it easier for the Agency business users to know what kind of information they should provide to get better solicitation results. This includes examples of words "must" and "should" so users understand how to prioritize requirements and avoid accidentally disqualifying a supplier.
- Cost proposals were restructured to provide the ability for "apples to apples" comparisons for scoring purposes but to also allow suppliers to introduce other pricing elements such as conditional discounts. Percent cap increases were added to create better estimates for multi-year costs and minimize the risk that suppliers bid low for the first year and then inflate pricing in out years.
- Terms such as key personnel clauses were added to address potential "bait and switch" tactics where suppliers propose the best candidates but replace them with junior candidates at the same rate.

### Building Supplier Partnerships

- PHFA began utilizing "Invitation to Qualify" Request for Proposals to build a list of qualified suppliers that have contracts in place BEFORE the work is needed. This allows a more agile process for getting quotes on services when they are needed that shortens the amount of time it takes to award a purchase order. This also provides a great opportunity for small, diverse businesses to have an equal playing field with larger suppliers.
- A form was created to gather input from RFP evaluators as they review proposals to document supplier proposal strengths and weaknesses so that supplier debriefs provide more detailed, relevant information to help suppliers strengthen their submissions for future proposals and begin to better understand Agency needs.
- PHFA introduced piggyback language in the RFP template that can allow other Housing Finance Agencies to potentially utilize awarded supplier contracts if their state legal requirements

permit them to do so. This helps build the supplier base across organizations and can potentially improve leverage with those suppliers.

#### Effective Use of Resources

- Creating a focused role for sourcing/procurement has reduced the burden of divisional resources to perform complex procurement tasks and focus on their own mission tasks. It also reduced the burden on the legal team to have to review both the contract language and the sourcing method.

#### Cost Savings and Avoidances (October 2021-April 2022)

- Cost savings (paying less for products and services already being used) for the past two quarters were approximately \$28,000.
- Cost avoidances (paying less for products and services in the future) for the past two quarters were approximately \$2,012,000.

#### Next Steps

To continue progress on the objectives, PHFA will be focused on several key next steps:

1. Implementing a solicitation platform that makes it easier for suppliers to find and submit proposals
2. Develop a diverse supplier mentoring program
3. Better automate the requisition process
4. Add additional categories of qualification contracts
5. Continue cost savings/avoidance strategies throughout the agency as new contracts come up for bid

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