THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: June 22, 2012 REPORT NO: 12-082

ATTENTION: Council President Young and Members of the Rules Committee

SUBJECT: Update on Vendor Registration and eProcurement System

REFERENCE: Reports to Council # 07-135 and # 11-104

BACKGROUND

The City of San Diego has a long standing commitment in ensuring all entities interested in doing business with the City are provided an equal opportunity to participate in competing for City purchases of goods, services (includes professional services) and public works construction contracts. A report to Rules Committee dated August 1, 2007 (#07-135) identified a Centralized Bidder Registration System and a Review of Contracting and Procurement Procedures, including use of "E-Commerce" as two initiatives which could contribute toward that commitment. The intent was to enable the use of targeted electronic outreach and solicitation of bids and proposals in a way that would enhance access to City contracts by small, local, minority and women owned businesses.

Based on a request from a Mayoral Equal Opportunity Task Force in August 2007 Purchasing and Contracting worked with San Diego Data Processing to develop and implement a Contractor/Vendor Registration System which went live in June 2008. The system provided on line vendor registration capabilities but its effectiveness was limited because it did not interface with the Purchasing System (OPIS) or other contract bid and award tracking systems. As a result the system required labor and time intensive manual processing of the data in order to send electronic notices to potential vendors and contractors.

Report to Council #11-104 was presented to the Rules Committee in July 2011 and summarized the City's intervening actions related to vendor registration and procurement systems including: implementation of SAP in 2009, the PRISM System for SLBE/ELBE certification and notification in 2010, and implementation of DemandStar (2011) which is used for vendor registration and notification for goods and services procurements. The report talked briefly about the Supplier Relationship Management Module (SRM) available through SAP for which $900,000 had been budgeted. However, the report indicated that DemandStar would be utilized as the permanent solution for Purchasing & Contracting and that the funding allocated for SRM would be recommended for other uses that facilitate vendor interaction with the City and further streamline the contracting process.

Based on feedback from the Rules Committee in July regarding a preference to consider utilization of SRM rather than DemandStar as a permanent bidder registration product, staff returned in September, 2011 and agreed to evaluate the strengths and weaknesses of each system. This evaluation has been on-going and extensive and has been aided by a recent change in leadership within the Purchasing & Contracting Department.

This change in the leadership has resulted in a new approach to assessing the City's business needs and an opportunity to revisit past conclusions. In particular, rather than limiting the perspective to that of Purchasing & Contracting, it was recognized that a broad range of internal stakeholders have an interest in the vendor registration and procurement processes and the application of technology. These include all City departments as customers, but also City Council, City Management, Purchasing & Contracting, Public Works, ERP, Administration, Comptrollers, and Department of IT.

At the highest level, the shared objectives among these stakeholders include:

- A comprehensive Citywide Vendor Registration System that interfaces with the City procurement processes for goods, services and public works construction to facilitate vendor awareness of procurement opportunities
- An efficient user friendly eProcurement System that better engages vendor participation throughout the process, facilitates optimal sourcing decisions based on the appropriate criteria including cost, quality and vendor characteristics, and interfaces with the City's financial system which is used for requisitioning of department needs as well as subsequent goods receipt and invoice payments
- A system that allows analysis and reporting on all aspects of the procurement process. This includes reporting on the levels of vendor registration, notification and participation in solicitations, and award of contracts and reporting on success in directing purchases to existing City contracts which maximizes cost effectiveness.

Based on these objectives the City desires to move toward a comprehensive solution that considers the impacts on the multiple departments that are affected by the decision. Additionally, through evaluation over the past several months it has been determined that the DemandStar system does not provide the extensive vendor registration or electronic procurement functionality that the City needs to effectively engage the vendor community nor to implement best practices in the areas of effective and transparent procurement and expenditure of public funds.

SRM

In conjunction with staff from the ERP department, Purchasing & Contracting renewed discussions regarding implementation of the Supplier Relationship Management for the Public Sector (SRM-PPS) module with staff from Public Works, Administration and Comptroller's Office. Purchasing & Contracting staff attended week long training on SRM-PPS in late March to assess system capabilities. Staff noted that other vendor registration software (i.e. specialized stand alone products) was much more intuitive and user friendly which could significantly

impact the desired level of vendor participation. Similarly, it was communicated that the complexity, cost, and impact on current City users associated with integration of the SRM-PPS module into the City's existing SAP system was of concern. Staff understood SRM-PPS would need to integrate with all financial data tables in SAP and would replace the existing purchase requisition process.

The City met with SAP in early April to discuss these concerns and how to accurately evaluate the costs, benefits and timeframe involved with SRM implementation. At that time SAP advised the City that the Vendor Registration Component of the software had been enhanced and redesigned and was now available as a standalone module of SAP known as Supplier Lifecycle Management (SLC). This re-design was done to update the usability of the product, and to compete with stand alone products designed specifically for web-based vendor registration.

SLC's new and improved vendor management functionality has been implemented in production at two SAP customer sites and is now in "general availability" release status. This new vendor functionality is replacing that which exists in the current release of the SRM module so future implementation of SRM would incorporate SLC. Implementation of the SLC standalone module here at the City was considered, however this would not provide the desired eProcurement functionality and would require the City to retain the current DemandStar and eBidboard procurement software systems or replace them with software providing greater procurement functionality.

Full implementation of the SRM-PPS module could provide the procurement functionality however this would cost an estimated $3-4 million and due to the level of financial integration would involve significant process planning prework and integration complexity. In addition, no agency has implemented SRM-PPS integrated with the newly developed SLC. As a result of the limited installation of the software the City is proceeding cautiously and judiciously before making a decision regarding implementation. ERP and Purchasing & Contracting continue to work with SAP to determine if a different approach could meet the City's objectives.

In the last week SAP has proposed implementation of a combination of SLC and some portion of SRM which would provide basic Procurement Operations (RFx) functionality. This deployment will allow suppliers and potential suppliers to self-register, update their corporate information, create company users, and receive solicitations when selected for RFx. This effort initiates SRM functionality and positions the City to implement future integrated enhancements to the system. Demonstration/s of the software are being scheduled, and the proposal will be reviewed and discussed by the stakeholders previously noted to determine acceptability of the functionality provided, implementation time frame, scope and costs of integration. The group will also identify unmet needs associated with this deployment which will require future actions and costs.

OTHER ALTERNATIVES

Research of best practices in the areas of Vendor Registration and eProcurement identified that the market place includes a breadth of software systems intended to provide both vendor registration and electronic procurement processing. These systems reflect varying levels of functionality, cost, and capability to interface with existing software including ERP systems such as SAP, Oracle, PeopleSoft, etc. Because these software packages were developed as standalone systems, most were developed with user functionality as the primary focus and demonstrate a high degree of user friendliness. Their use is very intuitive for vendors and purchasing staff in terms of input screens, user options, and selection of criteria for processing transactions.

As discussions with SAP regarding SRM implementation continued, representatives from Purchasing & Contracting, Public Works, Administration and Comptroller began review of these stand alone systems as an alternative to meeting the City's needs. Based on reviews to date these systems can provide substantially improved functionality across all aspects of vendor registration and eProcurement than the systems currently in place. These systems have been implemented in agencies which have ERP systems, including SAP. Preliminary cost information suggests these systems may be substantially less costly than SAP alternatives with respect to installation and ongoing maintenance and support. Another potential advantage is a significantly shorter implementation time frame on the order of 2 to 5 months.

NEXT STEPS

1. Regarding review of alternatives, discussions with the software suppliers will continue in order to confirm system capabilities, costs and projected benefits. Staff is contacting additional public agencies utilizing these software systems to obtain feedback on their experience with system installation, integration and operation. Areas of concern associated with the different systems are being identified and discussed including installation and integration complexity, data security and internal controls associated with interfaces and data exchange with other systems including PRISM and SAP.
2. Regarding SRM/SLC, a demonstration session will be scheduled in the next month and will be attended by affected departments to determine if SAP's proposed approach meets the City's needs. Staff will contact the organizations which have implemented the SLC software to obtain feedback.
3. After the above reviews, a recommendation will be presented to the Information Technology Business Leadership Group (ITBLG) per the City's administrative policy requiring their review and approval of information technology solutions with citywide impacts. The following criteria are being used to evaluate all software systems and will be the basis for staff's recommendation to the ITBLG:

    - Software Meets Vendor Registration and Notification Functionality Needs
        - Vendor Certification Validation
    - Software Meets Procurement Functionality Needs

    - Purchasing & Contracting for Goods and Services
    - Public Works Contracting for Construction and Professional Services
- Total Installation Cost
- Ongoing Annual Cost
    - Maintenance (City)
    - Licenses
- Ease of Use
    - Vendors
    - Buyers/Contract Specialists
    - Requisitioners
- PreWork Considerations
- Installation Complexities
- Integration Complexities (With/without SAP interface)
- Time to Go – Live
    - Vendor Registration
    - Vendor Notification/Engagement
    - eProcurement
- Data Management
    - Complete Data Integration
        - w/SAP
        - w/PRISM
    - Integrity/Security
    - Ease of Data Reporting

4. Staff anticipates returning to the Rules committee upon request with an update on the results of the demonstration sessions and ongoing software reviews, ITBLG input on software selection, and an updated implementation plan.

Originating Department

Deputy Chief/Chief Operating Officer