

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** June 19, 2013

**Agenda Item:** Campus Service Cooperative Contract Approval Exceeding \$3 Million for Cycle Two (IBM)

- Proposed Policy Change       Approvals Required by Policy       Other Approvals       Monitoring  
 Information

**Cite policy requirement, or explain why item is on the Board agenda:**

*Board Policy 5.14, Procurement and Contracts*, requires approval by the Board of Trustees of contracts exceeding \$3 million.

**Scheduled Presenter(s):**

Sue Collin, *President*, Northeast Higher Education District

Karen Kedrowski, *Vice President of Finance and Administration*, Northeast Higher Education District

Laura King, *Vice Chancellor of Finance, CFO*, System Office

Colin Dougherty, *Managing Director*, Campus Service Cooperative

Jason Cavallo, *Strategy Director and Lead Project Manager*, Campus Service Cooperative

**Outline of Key Points/Policy Issues:**

The Campus Service Cooperative (CSC) recommends that the Board approve execution by the Chancellor of the CSC Cycle Two (IBM) contract for shared services and strategic sourcing. The CSC Cycle Two will be a twelve month effort, August 2013 through July 2014. This action is needed in order to maintain continuous support to the CSC beyond August 2013, maintain momentum for all elements of the program, and accelerate potential savings.

**Background Information:**

The CSC is a multi-year, multi-cycle program that focuses on efficient, high quality, and transformational delivery of services, while respecting the distinct educational mission of each college and university. The scope of the effort includes shared services and strategic sourcing across the colleges, universities, and system office. CSC Cycle One (IBM) contract was initiated in February 2013 and is currently funded through July 2013. CSC Cycle One is on-track to deliver \$14.7 million in potential savings over three years. The CSC Cycle Two contract will extend support through July 2014, including systemwide rollout of the CSC Cycle One business processes and delivery of signed contracts with \$21.4 million in potential savings in additional sourcing categories.

**BOARD OF TRUSTEES**

## MINNESOTA STATE COLLEGES AND UNIVERSITIES

### BOARD ACTION

Campus Service Cooperative Contract Approval Exceeding \$3 Million  
for Cycle Two (IBM)

#### REQUEST

Board Policy 5.14, Procurement and Contracts, requires approval by the Board of Trustees of contracts exceeding \$3 million.

#### BACKGROUND

The Campus Service Cooperative is a multi-year, multi-cycle program that focuses on efficient, high quality, and transformational delivery of services, while respecting the distinct educational mission of each college and university. The scope of the effort includes shared services and strategic sourcing across the colleges, universities, and system office. CSC Cycle One (IBM) contract was initiated in February 2013 and is currently funded through July 2013. Cycle One is on track to deliver signed contracts or sourcing actions with \$14.7 million in potential savings over three years. ***Note bene: the actual savings realized are dependent upon the level of adoption and participation in the new contracts by the colleges, universities, and the system office.***

#### Strategic Sourcing – Cycle One Savings

Cycle One strategic sourcing actions are yielding greater savings value than the estimates presented at the January 2013 Board of Trustees Study Session. Current projections are \$4.9 million or 19% in savings from Cycle One strategic sourcing actions versus the \$4.6 million estimated in January.

#### Shared Services – Cycle One Business Process Value

By August, the CSC, in partnership with campus and system office leaders, will have launched a series of pilots with the goal of validating and refining standard practices based on both internal and external best practices as well as industry trends, for the eleven services identified during functional area workshops in the fall of 2012. These services fall into three functional areas across MnSCU – Finance, Human Resources, and Financial Aid Processing – and include:

- Finance (Business Office)
  - Purchasing Cards
  - Business Expense Processing
  - SWIFT to ISRS Reconciliation
  - Payroll (w/HR)
- Human Resources
  - On-boarding
  - Faculty Assignments
  - Retirement Administration

- Payroll (w/Finance)
- Financial Aid Processing
  - Tracking Verification Setup
  - MN State Grant Unit Counting
  - Direct Loan and Pell Grant Reconciliation
  - Return to Title IV (R2T4)

Based on 2012 payroll data, across the Finance, Human Resources, and Financial Aid Processing functional areas, MnSCU expenditures over \$60 million and employs approximately 850 staff members. Preliminary estimates suggest that the eleven processes addressed in Cycle One account for approximately \$14.1 million of these expenditures.

In addition to the savings realized from the strategic sourcing work, implementation of the common processes defined in Cycle One will produce significant value to campuses across MnSCU in the form of more efficient processes, higher quality outcomes, reduced processing time, better use of existing resources, increased staff flexibility, and dramatically improved ability to share workload across locations. The intent of this effort is to redeploy time from transactional processing activities to higher-value professional services, including student, faculty, and staff-facing activities.

Analysis to date suggests that the CSC is on track to deliver an aggregate 30% productivity improvement across the eleven processes. In addition to this value, through a systemwide perspective, campuses and the system office will benefit from greater alignment and focused collaboration with IT, audit compliance, common training and materials, and the potential for clearer professional development.

### **Cycle One Business Case**

In January 2013, the Board of Trustees met for a Study Session to review the business case for Cycle One of the shared services and strategic sourcing contract (IBM). Table 1, below, is a cash flow-only view, as presented at the January Board of Trustees Study Session. Savings figures in Table 1 assume 100% participation by the colleges, universities, and system office.

**Table 1: Forecast Program Economics – Cash Flow by Fiscal Year (\$ millions)**

<b>GROSS SAVINGS</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Strategic Sourcing	0.9	11.8	23.9	32.6	40.0	40.0
Shared Services	0	4.0	10.0	15.0	20.0	20.0
<b>Total Savings</b>	<b>\$0.9</b>	<b>\$15.8</b>	<b>\$33.9</b>	<b>\$47.6</b>	<b>\$60.0</b>	<b>\$60.0</b>
<b>COSTS</b>						
IBM – Sourcing/Shared Services	2.3	4.5	3.8	2.9	1.9	0.5
Internal CSC	0.5	1.0	1.2	1.4	1.7	1.9
Technology*	0	0	2.9	6.5	0	0
<b>Total Costs</b>	<b>\$2.8</b>	<b>\$5.5</b>	<b>\$7.9</b>	<b>\$10.8</b>	<b>\$3.6</b>	<b>\$2.4</b>
<b>NET SAVINGS</b>						
<b>Annual Savings</b>	<b>(\$1.8)</b>	<b>\$10.3</b>	<b>\$26.0</b>	<b>\$36.8</b>	<b>\$56.4</b>	<b>\$57.6</b>
<b>Cumulative Savings</b>	<b>(\$1.8)</b>	<b>\$8.5</b>	<b>\$34.5</b>	<b>\$71.3</b>	<b>\$127.7</b>	<b>\$185.3</b>

*\*NOTE: Technology investments could include e-procurement, workflow, expenditure analysis, intelligent back office, CRM, supplier lifecycle management (vendor management), enhancement of SWIFT-ISRS integration, and other enhancements (SWIFT, etc.) to support further improvement opportunities in shared services and/or strategic sourcing.*

Due to Cycle One starting one month later than the original plan, the CSC anticipates both costs and savings for FY13 will be less than the estimated figures presented at the January Board of Trustees study session. However, the CSC is still tracking to net savings for FY14 and beyond as outlined in Table 1.

### **THE OPPORTUNITY**

The Cycle Two contract will extend support through July 2014, including systemwide rollout of the eleven Cycle One business processes and delivery of signed contracts with \$21.4 million in potential savings in additional sourcing categories.

Cycle Two will build upon lessons learned in Cycle One, particularly scenarios of college, university, and system office participation and adoption. Other lessons learned include the effectiveness of strategic sourcing and shared services efforts, execution of process pilots, tracking and reporting of metrics, and change management across 31 colleges and universities and the system office. For strategic sourcing, this effort includes identifying and addressing additional expenditure categories, while negotiating systemwide strategic vendor contracts, policies, and incentives. For shared services and business process design, the CSC team will work closely with campus and system office leaders to implement standard practices identified in Cycle One and to expand the number of campuses at which common practices are executed. In addition to this roll-out, the team will actively engage campuses to help identify and prioritize additional processes that can be addressed through common practices, external leading practices and trends, identifying additional practices within Finance, Human Resources, and Financial Aid Processing, and/or extending to new functional areas.

## Strategic Sourcing Opportunity

For strategic sourcing, the total expenditure for the five systemwide contract categories in Cycle Two is \$107.0 million over three years with a potential savings of \$21.4 million. Table 2 summarizes the anticipated expenditure and savings opportunities for each contract category.

**Table 2: Cycle Two Strategic Sourcing Anticipated Expenditure and Savings**

Key Event	Three-Year Anticipated Expenditure	Anticipated Savings
Desktops & Laptops	TBD	15-20%
Travel Services	\$ 3M	15-20%
Purchase Cards	\$29M	15-20%
Food Services	\$60M	15-20%
Construction	\$15M	15-20%

These five categories are described below.

**[1] IT desktops/laptops:** This contract category is currently under review to determine the expenditure over three years across the colleges, universities, and system office. The strategy for this category is to review current contract vehicles and collaborate with the MnSCU Chief Information Officer Sourcing Committee members to define specifications and configurations. This contract (new or existing) explicitly covers desktops and laptops within the category of IT.

**[2] Travel services:** This contract category represents \$3 million in expenditures over three years across the colleges, universities, and system office. The strategy for this category is to review current contract vehicles and collaborate with MnSCU Business Office Managers to develop a sourcing strategy. This contract (new or existing) covers the service fees and other expenses associated with reserving and managing travel.

**[3] Purchase cards:** This contract category represents \$29 million in expenditures over three years across the colleges, universities, and system office. The intent is that this contract would replace two existing contracts with one systemwide contract that represents a savings over the individual contracts currently in place. This contract covers the fees associated with using a Purchasing Card as well as expansion of services and data analytics for the colleges, universities, and system office.

**[4] Food services:** This contract category represents \$60 million in expenditures over three years across the colleges, universities, and system office. The intent is that this contract would replace up to 25 contracts with one systemwide contract that represents a savings over purchasing goods and services through the individual contracts currently in place. This contract covers food, vending, and catering services.

**[5] Construction:** This contract category represents, at a minimum, \$15 million in expenditures over three years across the colleges, universities, and system office. The CSC

will work with Facilities leadership to determine opportunities to provide value within the potential sourcing opportunities.

**Shared Services Opportunity**

For shared services, implementation of the eleven standard business processes defined in Cycle One and deployed systemwide in Cycle Two will result in the tangible benefits for campuses and the system office as defined in Table 3.

**Table 3: Cycle Two Business Process Implementation Benefits**

Process	Leverage Existing Resource/s	Enhance Automation	Improve Productivity	Reduce Processing Time	Standardize Process
On-boarding	X	X	X	X	X
Faculty Assignments	X	X	X	X	X
Retirement Administration	X	X	X	X	X
Payroll	X		X		X
SWIFT to ISRS Reconciliation	X		X	X	X
Purchasing Cards	X	X	X	X	X
Business Expense Processing		X	X	X	X
Tracking Verification Setup		X	X	X	X
MN State Grant Unit Counting		X	X	X	X
DL/Pell Grant Reconciliation	X	X	X	X	X
Return to Title IV (R2T4)	X	X	X	X	X

**RECOMMENDED COMMITTEE ACTION:**

The Finance and Facilities Committee recommends the Board of Trustees adopts the following motion:

The Board of Trustees authorizes execution of an amendment to the contract with IBM for the Cycle Two of the shared services and strategic sourcing not to exceed \$4.5 million (FY14). The Board directs the Chancellor or his designee to execute all necessary documents.

**RECOMMENDED BOARD ACTION:**

The Board of Trustees authorizes execution of an amendment to the contract with IBM for the Cycle Two of the shared services and strategic sourcing not to exceed \$4.5 million (FY14). The Board directs the Chancellor or his designee to execute all necessary documents.

*Date Submitted to the Board of Trustees: June 19, 2013*