

ICMA Press / PM Magazine / Current Issue

MAY 2011 · VOLUME 93 · NUMBER 4

COVER STORY

Shared Services & Cost-Saving Collaboration Deserve Respect

by **Monte Mercer**

Shared services, many of which are public-private partnerships (PPPs), refer to the operational philosophy that involves centralizing functions once performed by individual organizations. In day-to-day operations, problems and opportunities arise that are ideal for collaboration. This abundance of possible shared services and partnership opportunities can be overwhelming though, and it can lead to difficulty identifying which projects to try. The best determining factor for success is for the customer to be the driving force behind any collaborative effort.

The North Central Texas Council of Governments (NCTCOG) serves 240 member governments—or customers—of which 170 are cities. It has had the opportunity to spearhead a large number of shared services and PPP initiatives in recent years, and in this article I want to share what we've learned.

In fact, shared services fulfill NCTCOG's mission to strengthen the individual and collective power of local governments and to help them recognize regional opportunities, resolve regional problems, and make joint decisions. These initiatives are primarily designed to solve common needs of NCTCOG's member governments, but they often reach a statewide audience as well.

STEPS FOR A SUCCESSFUL COLLABORATION

A common recipe for success can be applied to any collaboration effort. By nature, however, shared services are unique and have elements that will apply exclusively to each individual project. For projects to be successful, it is best to tailor an approach that takes individual differences into consideration for each shared services program.



After identifying a problem or opportunity that can be remedied through a shared services approach and also identifying the local government stakeholders, NCTCOG then takes the next step in the process and functions as the coordinating organization. This is followed by determining which entity or entities—also called organizations in this article—can serve as a project champion. Project champions need to be recognized leaders within the stakeholder community because they are crucial for the success of any shared services project, as they lend both credibility and energy to the project.

CREATE A WINNING APPROACH

When deciding whether a proposed shared services project is feasible to pursue, NCTCOG and the prospective participants use these criteria:

- Does it have the potential to save money?
- Does it have the potential to provide equal or better service levels?
- Can a governance structure or operational process be devised that assures that the participating local governments share in the control of the program?

If these questions can be answered in the affirmative, then we proceed to the next step.

DEVELOPING THE REQUEST FOR PROPOSALS

The request for proposals (RFP) process begins with research by the planning organization, the project champions, and any other entity that desires to participate in identifying potential solutions to the chosen problem or opportunity. This leads to an understanding of the project dynamics and sets the stage for initial discussions with prospective private and public sector service providers. Conversations with service providers allow insight into opportunities for standardization and other cost-saving measures while validating the parameters necessary to create a credible RFP.

Identifying opportunities for standardization is one of the most important due-diligence steps, and it should be performed collectively. The 80-20 rule is a good guide for assessing opportunities for standardization. In other words, ferret out the things that each participant does in common 80 percent of the time so that they can be the focal point for maximizing efficiencies and economies of scale.

After this step is accomplished, it is essential to visit with the potential service providers and get their input and understanding of the program being suggested. Doing this allows potential failure points to be exposed.

It is recommended that a significant amount of time be spent with the subject matter experts (SMEs) and the technical experts from potential service providers during this step. Opportunities for cost savings using this approach will generally be significant.

Our experience has been that an element vital to crafting the RFP is understanding how the private or public sector provider will deliver the service. If the procurement is based solely on our understanding of the problem and the solution, we may inadvertently limit the opportunities to provide a more innovative and cost-effective approach to solving the problem.

When the due diligence has been performed, a nonbinding statement of interest is sent to potential users of the service. After these statements are returned, this information will be summarized for the RFP. One critical piece of information for the responders is an indication of the volume of activity or transactions that can be anticipated, as this will be important as pricing discounts are considered.

Participation usually far exceeds the initial statements of interest that are returned. As the RFP is developed, it may take several iterations to reach a version that satisfies all groups; therefore, maintaining some flexibility will allow for creative responses. The RFP should also be scalable to various group sizes. After the RFP draft is completed, it needs to be reviewed by the participants or a representative committee to create the official version.

It is helpful for the committee to be composed of SMEs. For best results, they should be from various-sized entities in order to gain varying perspectives concerning the shared services initiative.

After responses to the RFP have been received, a selection committee should meet to review the submittals. RFPs should be scored on the basis of predetermined selection criteria so scoring is unbiased.

IMPLEMENTATION

It is often a good idea to assemble a pilot group to participate in the initial implementation, again including entities of various sizes for this group. Pilot programs are an excellent way to discover unforeseen problems and remedy them before rolling out the program to a larger audience.

During this implementation phase, encourage communication among the stakeholders to get a reading of components working well and those in need of improvement. These are ready-made networks for exchanging ideas and information and are invaluable during the process. When the pilot has proved successful, a more robust rollout can be initiated.

PLANNING ORGANIZATION AND FACILITATOR

The streamlining of administrative activities is one of the biggest opportunities for shared services projects. Here are ways to streamline access to the project:

- The planning organization executes a master agreement with the selected service provider, and it is structured to allow the participating organizations to gain access through interlocal agreements.
- The participants execute an interlocal agreement with the planning organization.
- The participants can then engage the service provider through a service agreement to perform the required services.

The facilitator normally assumes responsibility for many of the administrative duties that would ordinarily be done by an individual organization or a service provider.

PARTICIPATING ORGANIZATIONS

Participating entities can benefit significantly from shared services. Because individual purchasers are consolidated into an organized, volume-purchase arrangement, the participants are able to realize lower prices while still benefiting from a high-quality provider. This approach also eliminates the need for each entity to go through an individual selection process and to incur the costs involved in issuing and evaluating proposals. This is especially true for small to medium-size organizations.

NCTCOG has been able to leverage the collective bargaining power of several groups to negotiate a lower price for the contract. With the importance of cost reduction during these difficult economic times, it's notable that NCTCOG's shared services programs have been able to generate savings of 25 to 50 percent for participants.

SERVICE PROVIDER

The service provider benefits by being able to reach many organizational clients with just one proposal, thus increasing its market penetration and enhancing its ability to sell other services in the future. The provider also benefits from the standardization of operations realized in the shared services arrangement, which reduces risk for the service provider and allows better pricing to be experienced by the participants.

The clients also can forgo the expense of conducting individual contract negotiations. All of these factors give a service provider ample motivation to reply to an RFP and to partner with the planning organization.

EXAMPLES OF NCTCOG SHARED SERVICES

iCommunities: A Success Story. The iCommunities program created an extensive Internet mapping service that was combined with a set of powerful GIS, database, and Internet technologies. These tools allow local governments to distribute key information to their constituents and other communities within the region.

Residents are able to access specific neighborhood information such as zoning, building and activity statistics, and event notices. Information can be distributed to organizational staff on various program, asset, and work management activities. Traditionally, establishing a tool such as iCommunities would mean that each entity would incur hefty costs for hardware, personnel, and networking. Through this shared services program initiated by NCTCOG, cities can have ready access to this powerful tool for a low cost.

Participants pay a fee to support one network and a group of technicians who service the entire participant list. As individual participants request additional functionality from the iCommunities program, the enhancements become available to all participants. A base-level functionality is automatically applied to all participants.

Additional functionality is offered on a fee basis; specific features can be set up to accommodate unique needs of a specific organization and costs charged according to complexity and extra support needs. The sharing of knowledge and innovation is one of the most positive by-products of this collaboration.

The Small City Accounting Project: Lessons Learned. Even with the best of intentions, not all PPPs are successful. With each new collaborative effort, however, lessons are learned. NCTCOG's Small City Accounting Project is one such example. Riding on the success of a shared services initiative to acquire enterprise resource planning software to handle accounting, purchasing, and human resources functions for three large-member groups, participants decided that smaller entities could benefit from a similar project.

The project, unfortunately, never really progressed. The reason for this lack of advancement is that, although the larger entities were already interested in the concept and approached NCTCOG to facilitate the purchasing process, the smaller entities were contacted to determine their interest after all the parameters had been developed.

In this case, the project would have found more success had it been customer driven. The best shared services occur when the planning organization is either approached by the entity or seeks ideas from it directly.

Compensation Management Services: Looking to the Future. A current NCTCOG initiative is under way to assist with compensation analysis, design, and best practices implementation. Salary costs usually make up, on average, 70 percent of a local government's general fund budget. Yet tools that readily provide the ability to quickly and accurately analyze, monitor, and control these costs are lacking, as is the ability to assess the impact that changes to salary structures have on benefits and other components of compensation packages.

Various city managers in NCTCOG's 16-county region requested assistance in identifying potential solutions for evaluating these costs in real time. Through the procurement process, a vendor with a multifaceted web-based solution has been identified. The vendor's web tools have the capability to provide projections of personnel costs using scenario-based analytics, and they also contain current salary data so that any participating organization is able to determine the competitiveness of its compensation and benefit plan.

Other features make it easy to measure internal compensation equity. A major benefit of this program is that it increases the ability of an organization's human resources staff to carry out many functions that are currently done by consultants. This project was approved by the NCTCOG executive board in January 2011, and we are now in the implementation stage.

STRATEGY FOR SUCCESS

Consider this course of action for shared services success:

1. First and foremost, underpromise and overdeliver! It is important to establish achievable results. If you set unattainable milestones or goals, you can undermine your credibility.

2. Begin the procurement process with the end goal in mind. Look toward the future throughout the RFP research, development, and scoring process. With forethought, you can avoid many of the traps and delays that can evolve during the process. Look for opportunities to standardize because standardization is usually one of the largest contributors to reducing risk and achieving cost savings.

3. Use a grassroots approach based on a crawl-walk-run philosophy. It is best to start with a small pilot group and perfect the program before rolling out to a larger audience. Project champions are crucial in building a strong foundation for shared services projects as they have a real interest and commitment to performing the due diligence necessary to support the program and to assuring its success.

For more information on the NCTCOG shared services programs, visit the website at www.nctcog.org/sharedservices.asp. I think our recipe can be used successfully by other local governments that want to navigate the shared services options available today.



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