

Chapter highlights

Purpose: This chapter provides guidance on how the acquisition of IT goods and services is different than the procurement of non-IT commodities and also provides guidance on the IT procurement process.

Key points:

- IT sourcing is constantly changing and requires the application of specialized best practices.
- Technology risks must be analyzed and mitigated during solicitation development and prior to contract execution.
- Applying strategies and principles to technology procurement, positions the Commonwealth to maximize the benefits it receives from technology and reduces the risk of supplier and technology failures.

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2.0 Introduction

This chapter focuses on how the process of technology acquisition is different from other types of commodities and services sourcing. It also explains why IT procurements require special diligence and the application of specialized best practices to obtain best-value IT solutions for the Commonwealth. IT procurement differs in complexity and analysis from commodity-driven procurements because technology is constantly changing due to new service offerings like cloud computing, constant technical improvements, software changes like open source software and security enhancements. Unlike general commodities, IT goods and services may have very complex interdependencies, continuity requirements or serious risk considerations that support the operational backbone of the Commonwealth's public safety and citizen services.

Refer to **Chapter 1** for discussion on IT procurement delegation and authority and unique processes and procedures that agencies are required to comply with.

VITA is committed to using technology procurement processes supported by the VPPA and industry best practices. These IT procurement business processes will enable VITA and the Commonwealth to achieve an IT sourcing environment which:

- leverages Virginia's ample IT buying power which enables the procurement of innovative IT tools and solutions at competitive prices and terms
- promotes the increased use and usefulness of statewide technology contracts
- provides fast and flexible sourcing processes
- drives positive business relationships between the Commonwealth and its IT suppliers
- promotes an evaluation process for IT goods and services which is value-oriented, not price-oriented
- encourages sourcing processes which are business-driven and enterprise-oriented
- results in fair, standardized contract vehicles which are performance-based and can easily define the scope of the IT purchase
- improves the ability of suppliers to do business with the Commonwealth
- promotes a consistent IT procurement approach across the Commonwealth

2.1 The Commonwealth's dependence upon technology grows and evolves

The Commonwealth is increasingly dependent on data, systems and communications that deliver information and services to its citizens and stakeholders, including systems that integrate and share data with other federal, state and local agencies.

Our dependence on technology necessitates that procurement professionals use efficient and repeatable procurement and project-related processes that comply with the VPPA; industry best practices; Commonwealth security, data privacy, project management and other technical standards; and that prompt careful analysis and mitigation of technology risks are carefully considered while staying within the Commonwealth's budget and strategic technology plan.

The increase in value of IT means a corresponding increase in risk to the Commonwealth and the services it provides to its citizens. Commonwealth IT procurement professionals must assess these risks and adapt agency IT strategies and outcomes to match business objectives. IT procurement professionals are experiencing fundamental changes in their roles and responsibilities—transitioning from commodity buyers to negotiators and from transactional order placers to strategic IT solution managers.

VITA's technology procurement process encompasses much more than sourcing and buying IT goods and services. It includes planning; developing requirements; compliance with Commonwealth and federal, technology standards or regulations, assessing risk factors; preparing the solicitation, evaluation, award and contract documents; approval, formal acceptance and receipt of deliverables; payment; inventory tracking and disposition and post-award supplier performance and compliance management. Regardless of whether the technology product or service required is procured by the agency under its delegated authority, purchased off a statewide contract or procured by VITA, the workflow is essentially the same. [Appendix 2.0](#) sets forth some key factors to be considered in making a technology purchase.

2.2 Critical factors in IT procurement

The Commonwealth can maximize the value it receives from technology and reduce the risk of supplier and technology failures by using smart sourcing and contract strategies. Listed below are examples of IT sourcing and contract strategies to mitigate some potential IT procurement difficulties:

Challenge	Impact/risk	IT sourcing principles to employ	IT contract approaches to mitigate
Complexity of business functions, technology and legal issues make procurement long and difficult	major omissions from a business, technical or legal standpoint are anticipated and prevented	use a structured IT acquisition process that provides a framework to ensure all areas are part of the screening and selection process	draft a clear, easy-to-use contract that documents the business relationship, and includes only mandatory and specialized IT terms and conditions and the essence of the deal
Industry consolidation/ monopoly suppliers	key products lie with powerful suppliers	use solution-based solicitations that focus on business problems and solutions, not technical specifications or requirements	adopt meaningful service level agreements (SLAs) and business performance commitments and measurements to monitor if solution continues to meet business need assign incentives/remedies in the contract to incentivize Supplier performance
Products and solutions are intangibles	difficult to specify and evaluate products	collaborate in an evaluation process that incorporates all areas needed for successful IT solution: business, technical, legal and financial include subject matter experts (SMEs) on evaluation team who will only evaluate their area(s) of expertise provide contract template with solicitation, not prepared after selection incorporate offeror response to contract template as part of the evaluation	use strong warranty language with significant business remedies give significant attention to intellectual property rights and alternatives to ensure the right to use, access, transfer to other Commonwealth entities

Rapid and planned obsolescence	versions out of date new entrants into market	conduct market research to evaluate market risk evaluation based on value-to-cost ratio include total life cycle costs in evaluation	tie contractual commitments to providing solution, not product provide support of version and upgrades for appropriate period of time
Significant barriers to exit	customer is locked into products or services	decision-making process anticipate transitions/exit strategies	provide system data, back-up; ownership of work product or perpetual license to work product, including third party products needed to run systems/solutions; provide a strong transition/exit plan for agency
Complexity of IT products and services	difficult selecting the best from value solution due to complexity of needed IT good or service	collaborate in a team-based process to ensure all necessary requirements are appropriately evaluated address all project, security, data privacy and cost risk factors use data-driven evaluation processes to coalesce many different perspectives	base contract on solutions, not buying of specific product or version include protections against product splitters or bundling include risk mitigation project activities and contract language to align with risk potentialities
IT must support business function	evaluation criteria focused on business value and needs; not specification-driven process	use solution-based solicitations that focus on solving business problems and incentivizing Suppliers to offer solutions, not just meet technical specifications	include meaningful SLAs and performance commitments and measures to monitor solution continues to meet business need assign incentives/remedies in the contract
Solutions being procured are highly interdependent	No accountability for full solution the weakest component will drive your risk profile	take a full supply chain view of solutions evaluate suppliers and components on strength of solution,	give prime contractor accountability for performance, but also allow Commonwealth to reach through to subcontractors to maintain services

		both independently and collectively	
Contracts must protect Commonwealth data and systems	compromise of sensitive Commonwealth data unauthorized disablement of Commonwealth data and citizen services	understand the data sensitivity of the procurement/project collaborate with your business owner, project manager, information security officer and other SMEs	VITA SCM has cloud terms available if the procurement is for Software as a Service Agency may inquire at: scminfo@vita.virginia.gov

A structured IT sourcing process provides a comprehensive framework to ensure agencies that:

- omissions from a business, technical or legal standpoint are anticipated and prevented
- the costs and resources for the IT sourcing process are appropriate and are efficiently deployed
- the business case in support of the IT procurement is reaffirmed prior to selecting a solution
- across the board executive buy-in to the new system or technology is measurable as a result of user group involvement throughout the IT sourcing process

Regardless of the nature of the anticipated IT procurement, its size, cost and complexity, the following core principles of IT sourcing apply:

- Use a structured solicitation process which incorporates multiple complex domains, e.g., legal, technical, business functionality, financial.
- Sourcing should be a data-driven business process, which incorporates and balances concerns across multiple domains.
- Contract formation and negotiation are part of the decision process. It is critical to include an appropriate contract in the solicitation. If the supplier is not committed to providing the Commonwealth with value through the negotiation process, the Supplier should be evaluated accordingly.
- Business needs must be supported in the solicitation requirements and any statement of work. Focus less on specification-driven solicitations for major systems/solutions and write solicitations that are structured for IT suppliers to offer innovative and cost-effective solutions.
- The sourcing evaluation process should include a comprehensive cost analysis that includes the total cost of ownership and all cost components including maintenance and not just the price of software or hardware.
- Long-term issues such as obsolesce, technology replacement and compatibility must be part of the evaluation, negotiation and decision-making process.
- Negotiations must be conducted prior to the selection of a particular IT solution or supplier.
- Intangible rights, software ownership and other critical terms and conditions must be considered in evaluation and negotiation.

- Risk analysis and trade-offs must consider the security of Commonwealth systems/data and continuity of operations for the Commonwealth and the solution and/or supplier's potential impact on the Commonwealth's ability to protect Commonwealth assets and service its citizens without interruption.

