



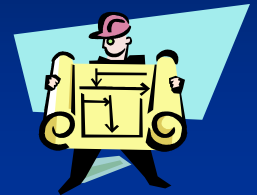
\$ave Oregon

A Plan for Incentivized Cost
Reduction in State Government



A Plan for Incentivized Cost Reduction in State Government

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- Some Definitions
- Why typical cost reduction programs fail to deliver
- Why does a cost reduction program need incentives?
- What is a comprehensive cost reduction program?
- What is an incentivized cost reduction program?
- Who pays for all these incentives?
- How do you make this all work?



Overview

- Organized cost reduction programs have been around for some time in both industry and government.
- Usually manifested as an employee suggestion program
- Government examples
 - Value engineering
 - DoD Industrial Modernization Improvement Program (IMIP)
- Usually not a comprehensive integrated program involving
 - Employees
 - Contractors
 - Suppliers
 - Customers
- Usually tactical and not strategic



\$ave Oregon is a comprehensive program where

- Everyone works together
 - Is centrally managed and reporting high up
 - Leverages all groups together to achieve cost reduction and avoidance at all levels
 - Is a state-wide state level program, which will have a much greater impact than a collection of similar programs each administered at the agency level.
- The whole can be much greater than the sum of the parts.**



Some Definitions

- **Cost reduction** – A project or change affecting a procedure, rule, process, etc. that results in a budget reduction, contract price revision or refund of an expense.
- **Cost avoidance** – A project or change that avoids a future cost or limits budget growth in the future.
- **Evaluation** – Unbiased review of a cost reduction idea that includes an analysis of technical feasibility, cost/benefit financial analysis, implementation analysis and other impacts.
- **Incentive** – An award, usually financial that is used to affect behavior (in the case of individuals) or provide an acceptable return on investment for companies or other business entities.
- **Suggestion** – An idea for a process change or improvement, action or cessation of action, specification or standards change.



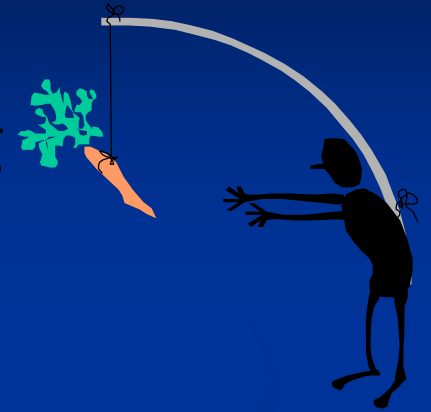
Why typical cost reduction programs fail to deliver?

- Limited scope – sub-enterprise
- Unwilling/uninterested evaluators and biased evaluations
- Incentives to not suggest or accept suggestions as opposed to taking/accepting/implementing
- No “teeth” to actually take the reductions



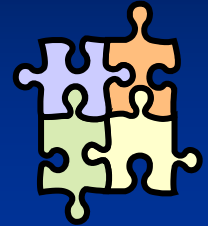
Why does a cost reduction program need incentives?

- Expand the feedstock by encouraging suggestions from all sources
- Facilitate the unbiased evaluation and implementation of ideas
- Facilitate cross organizational cooperative cost reductions
- Create a financial viability for supplier reductions



What is a comprehensive cost reduction program?

- An integrated single program
- Includes both cost reductions and cost avoidances
- Designed using a purpose down approach
- No constraints on the source or scope of a suggestion
The suggestor would be decoupled from the evaluation
- Analysis, administration, incentives and implementation funding would be generated out of the savings captured by the program
- Eliminates issues associated with who has to spend their budget to obtain the savings for the enterprise



What is an incentivized cost reduction program?

- Includes various forms (although typically financial) of incentives to **all** the participants of the program
- Facilitates cost reductions
 - Generation of ideas
 - Evaluation
 - Selection
 - Implementation
- Creates the necessary cultural change to create a cooperative cost reduction environment



The general nature of these incentives would be



- Originators would receive incentives for making suggestions and financial awards for suggestions that are implemented.
- Evaluating departments will be compensated for their evaluation efforts so that they can perform rigorous unbiased evaluations.
- Managers making suggestions that reduce their department budget and/or staff would be rewarded and not penalized.
- Managers of departments being reduced by cost reduction suggestion that they are asked to evaluate would not be penalized for a favorable evaluation.
- Organizations that had to spend money so that another organization could save money for an overall net savings, would be funded from the savings
- Suppliers and contractors that needed to make capital investments to reduce agency cost would receive a financial award to achieve their hurdle rate



Who pays for all these incentives?

- Properly structured, an incentivized cost reduction program would be self-sufficient, generating enough savings to pay for itself.
- If such a program is not able to succeed in this manner, then
 - either the enterprise has reached equilibrium and all that can be reduced has been (unlikely) or
 - it is not comprehensive enough to cover the overall program administration costs



Can this really work?

- The B-2 Stealth Bomber Program (early 90s) had an incentivized cost reduction program that saved \$464 million
- Recent Oregon experience with incentives
 - Oregon Lottery. - \$1,093,750 saved on video lottery terminal upgrade
 - Department of Human Services saved over \$500,000 on Oregon Health Plan application checklist



How do you make this all work?



- Enabling legislation – Legislative enablement required
- Seed money for startup as a loan recoverable from the savings
- A single central Cost Reduction Program Office (CRPO)
- Well defined program scope, goals, procedures and guidelines
- CRPO reporting to the Governor and dotted line to the Legislature – *A key to the success of this program is that it must report as high up in the executive branch as possible.*
- Communication – The CRPO should be charged with producing and maintaining an extensive communication program ensuring that the cost reduction program is well understood, marketed, and reported
- Ongoing program of metrics collection – Metrics on the program are vital to its management and the measurement of success.
- Periodic program health check – Using the metrics, once past the start up period, the program should be monitored and subject to periodic health checks based on the metrics.



More on the CRPO

- Responsible for development of the processes to be used
- Marketing and evangelizing the program
- Communicating and reporting the program to all concerned/interested
- Providing cost reduction consulting services to other local government agencies around the state
- Managing the evaluations of the cost reductions
- Supporting subordinate agency sponsored program offices
- Training and coaching the evaluators
- Working with potential participants both within and outside of the state government
- Documenting and tracking the suggestions
- Insuring that the savings are actually realized



Call to Action

- A comprehensive incentivized state-wide cost reduction program has significant potential for reducing the cost of state government while improving services.
- To be a success, such a program must be carefully designed using system design methodologies and implemented following a well defined plan.
- This is not a technology solution.
- It is a management solution augmented by technology and should be approached in that context.



Major Components of the Program



■ State employee suggestion program

- Include all state employees and would pay out a portion of the savings as financial incentives to those making valid actionable suggestions.
- All employees at all levels should be eligible to participate and should be encouraged to make suggestions that affect any aspect of state government, not just their own organization, department or agency.

■ Incentivized budget reduction

- Department and agency management would be incentivized to reduce the cost of providing the services of their department or agency without adversely affecting the services they provide.
- Managers would not be penalized by downsizing their departments or budgets.

■ Incentivized contract reductions

- Reward state contractors that come up with ways to reduce contracts that they have been awarded to provide goods and services.
- Help contractors make capital improvements that would result in immediate and longer term cost reductions for the state.

■ Citizen suggestion program

- A single incentivized statewide program for citizens to make cost saving suggestions and also receive recognition and financial rewards funded from the savings their ideas generate.



Three Phases for Implementation

- Phase One - Feasibility Study
- Phase Two - Program Startup
- Phase Three - On-going operations



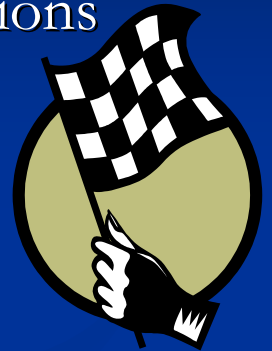
Phase One - Feasibility Study

- A review to determine the enabling legislation that may be required including potential legal and cultural roadblocks
- Quantified estimates by category of possible cost reduction opportunities would be included to provide some data to determine program value
- Documentation for the establishment of a CRPO including sample charter, staffing, organization chart and reporting structure
- Proposed cost reduction advisory and facilitating committees, their makeup and proposed agency advocates
- Functional features requirements document for the IT services that would be needed to support the CRPO and related efforts
- Public and government staff briefings to explain the proposed program
- Recommended communications plan to evangelize and market the program
- Proposed metrics and analysis items to be used to assess program success
- Project plan and documented budget request for Phase Two to support legislative funding.
- Phase One can be expected to take approximately 6 to 8 months with a four to six FTE team



Phase Two - Program Startup

- Funding release, CRPO is staffed and initiates operations
- CRPO
 - Communicates program
 - Solicits suggestions and ideas
 - Processes suggestions and ideas
 - Implements IT services identified
- CRPO issue first annual report after year of operations
- Comprehensive review will be performed to determine how well the program is meeting the proposed expectations
- Successful review of the program viewed as an approval point for continuation of the program.



Phase Three - On-going operations

- Upon successful completion of the first year review, the Save Oregon would be off and running as a self-funding comprehensive program.
- It would provide constant status and metric visibility through its website and published annual reports.
- It would be subject to an annual review to insure continued goal achievement.
- Once it has paid off all seed money, it will be a no cost line item in the budget.



Questions

