Chapter IX

To Shop and Buy in L.A.:
Mining Cost Out of Old Processes in Building a New Supply Chain for the City of Los Angeles

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Executive Summary

This case study focuses on the modernization of purchasing practices and policies by a large city government. It hinged on harvesting savings from existing processes as the sole means of funding the introduction of a new enterprise procurement or supply chain technology system. The case demonstrates the essential role of changing organizational behaviors, re-engineering processes, assessing risk, and judging the level of benefits that can realistically be achieved through the introduction of new information systems.
Background

Founded in 1781, the City of Los Angeles, California began as a distant outpost under Spanish rule. Two centuries later, Los Angeles had a solid claim to being the second largest city in the United States by population, which was estimated at 3.96 million persons in 2005. The city’s 470 square miles contain 11.5% of the area and 38.7% of the population of the County of Los Angeles.

Best known as home to the film, television, and recording industries, the largest employers in the city include health care (Kaiser Permanente, Cedars-Sinai, Providence), aerospace and technology (Northrop Grumman, Boeing, Lockheed Martin, SBC Communications), education (University of Southern California, California Institute of Technology), finance (Bank of America, Wells Fargo, Washington Mutual, CitiGroup), logistics (FedEx, UPS) and retail (Kroger, Vons, Target). Significantly, government as a sector is second only to trade, transportation, and utilities in size as an employer.

City History and Structure

Under the state constitution, charter cities are generally independent of the state legislature in matters relating to municipal affairs, and in their ability to raise revenues. The city is a charter city originally incorporated in 1850 with its most recent charter adopted in 1999. The city is governed by the mayor and the council. As the chief city executive, the mayor is responsible for administration and service delivery. For its part, the city’s full-time 15-member council is the legislative body which levies taxes, authorizes public improvements, and approves contracts among other functions.

The city provides a full range of public services, including: police; fire and paramedics; residential refuse collection and disposal, wastewater collection and treatment, street maintenance, traffic management, storm water pollution abatement, and other public works functions; enforcement of ordinances and statutes relating to building safety; public libraries; recreation and parks; community development, housing, and aging services; and planning through the 40 departments, bureaus, and commissions that rely on the council for its operating funds. Five other departments—including the water and power utility, harbor, airport, and two pension systems—have an arm’s length relationship to the rest of city government. These five outliers are under the control of boards appointed by the mayor and confirmed by the council.

By fiscal year 2005-06, the city’s budget was pegged at $5.985 billion, which includes $3.3 billion for departmental expenditures. A decade earlier, members of the council were openly skeptical about the efficacy of those expenditures. They knew that over a dozen city departments were spending almost a billion dollars on goods and services. They also knew the departments were storing over $53 million of inventory in almost a hundred warehouses that dotted the city. They feared that the bureaucracy had become bloated, that the city had too much of what it did not need and not enough of what it did need—and no disciplined way to tell the difference.
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