

Making Money by Helping the Government Save Some

SmartProcure has found a lucrative niche culling data to find affordable service vendors for public-sector agencies.



BY JEREMY QUITTNER
Staff writer, Inc. @JeremyQuittner
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In an era of endless government cutbacks and partisan squabbling over public budgets, it would seem that creating a startup around government services might be foolhardy.

But in fact the opposite is true. Sensing a big opportunity, hundreds of startups have rushed into a nascent industry that's taking advantage of advances in cloud technology and big data, and the need for government to update and streamline its operations.

One such company is [SmartProcure](#), of Deerfield Beach, Florida. Founded in 2011, the company connects businesses looking to sell to government agencies that are in search of lower prices from vendors. SmartProcure says it wants to offer **vendor transparency** and significantly expand the pool of businesses with access to government clients, among other goals.

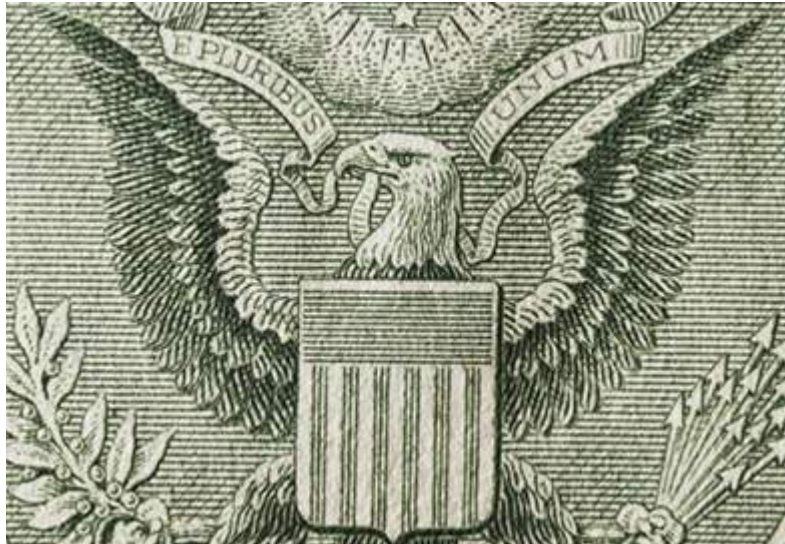
"It's a huge opportunity," says [Jeff Rubenstein](#), the founder and chief executive of SmartProcure. "If you combine the purchasing power for all government agencies, they would be the largest purchasing organization in the world, by several orders of magnitude."

There are some 90,000 local, state, and federal government departments in the U.S. that will purchase around \$7 trillion worth of products in 2015, Rubenstein adds, citing various industry data. And while SmartProcure, which has 55 employees and less than \$10 million in annual revenue, gets its data from a more modest-sounding 6,500 agencies, Rubenstein expects that number, and revenues, to double in the next year.

Among the biggest customers SmartProcure has attracted so far is the city of New York, where 100 contract officers in numerous agencies including the Department of Environmental Protection and the Office of the Comptroller use the system. The company also is in talks with the city of Los Angeles, and has ongoing projects going with cities and towns throughout the U.S.

How SmartProcure works.

For Rubenstein, the sweet spot is the 80 percent of government purchases that fall below the \$25,000 threshold, for which a request for proposal typically is not required. RFPs result in "a cattle call," Rubenstein says, where the lowest bidder with the biggest economies of scale always wins.



There's huge variation in pricing when it comes to government purchases. A laser jet printer, for example, can be sold to one government department for \$800 and an identical model to another for half that price. SmartProcure's software pulls the disparate details from millions of government purchase orders into a central database that both the agency and the hopeful vendor can search via a Web interface. The government buyer can select the vendor with the most favorable prices for whatever he or she is seeking. Similarly, the business can be proactive and reach out to an agency and offer better prices than a legacy vendor.

The data also allows businesses to search for the areas where their product is likely to be in highest demand, often yielding unexpected results. For instance, Rubenstein notes, the city of Boca Raton, Florida, recently spent about \$3 million on mulch, while the much smaller nearby city of Greenacres spent \$10 million.

"You can find the best places to spend your time and effort," Rubenstein says.

One agency that has used SmartProcure to great effect is the Aventura, Florida, police department, which began as a beta tester for the software in 2012. So far, police captain Tom Labombarda figures he's saved the department as much as \$25,000 in the past two years by using SmartProcure.

For example, he says, in the past few months he's saved several thousand dollars on the thermal paper the department uses for its printers by searching similar purchase orders from other agencies around the country and finding a vendor who sold it for one-quarter the cost charged by his legacy vendor.

"On at least two occasions, I've gone back to vendors and said, 'We found you sold this [cheaper elsewhere],' and the next thing we found, we also got it at a lower cost," Labombarda says.

Successes and challenges.

A corporate attorney turned entrepreneur and police officer—he's been on the force since 2000—Rubenstein has led, started, and sold three other tech companies over the past 20 years. These include a business that focused on Web hosting, and another that created a voice command system for laptops, cell phones, and other equipment that helps police officers avoid accidents as they speed to crime scenes.

Venture capitalists have taken notice of SmartProcure. In the past two and a half years, the company has gotten about \$10 million from sources including [Govtech Fund](#), a new fund that provides seed and Series A funding to tech startups servicing the government.

"My companies can go into a government agency, and because the cost structure of the cloud has allowed cost to come down dramatically, they can bid and offer products at more competitive prices," says Ron Bouganim, founder and managing partner of Govtech Fund. In addition to SmartProcure, Govtech finances a company that helps government departments create better maps, and one that helps them collaborate on documents.

Challenges remain for SmartProcure and its competitors, which include Silicon Valley startup Govini, and an older company called Deltek. They must contend with the often slow pace of government decision making, introducing government administrators to a new, updated way of doing things, and the difficulty of persuading them to regularly contribute their data, as well as the laborious process of normalizing the data so customers can use it.

But none of that fazes Rubenstein. "Our social mission is to make government more effective purchasers," he says. So far, he seems to be off to a pretty good start.

SmartProcure



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