Bridging Program Procurement

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Arizona State University

Best Value Delivery Procurement Expert
Sunday, August 24 at 10:15 – 11:45AM

How do you differentiate between an expert supplier and one that claims to be an expert? How can a procurement agent guarantee the success of the best value supplier even though the agent is not an expert in the service being delivered? Learn that best value is not limited to one particular service. This presentation includes a case study that involves a best value human-related delivered service, a solicitation from the Bridge Family Service to provide the recruitment of foster homes and the placement of foster children.

Presenter: Dean Kashiwagi, Ph.D., P.E., Director, Performance Based Studies Research Group, Arizona State University, Tempe, AZ

$14.4M Research, 20 years, 1700+ tests, 98%

Satisfaction
Best Value Research

#1 Worldwide

- Construction Projects: 1,622
- Construction Projects ($): $4B
- Non-Construction Projects: 95
- Non-Construction Projects ($): $2B
- Projects on Budget: 96.7%
- Projects on Time: 93.5%
- Largest Awarded Client: ASU
- Total $ Award to Date at ASU: $1.7B
- Testing in Number of States: 31
- Testing in Number of Countries: 6

Best Value Approach

- Changed the supply chain actions including procurement in the Netherlands
- Arizona State University [ASU] change bought $1.7B of services using BV
- BV testing in 32 states and 6 countries
- Increase vendor capability without MDC
- Utilizes expertise to lower cost and increase quality

“Traditional” Perceptions

- Contract is important to ensure performance
- Negotiation skills are required to ensure the best value
- Management, direction and control or negotiation [MDC] is required to get the best price
- The best value costs more
Best Value Approach

- Best value is the best value for the lowest cost
- Everyone is doing their best
- Everyone thinks they are doing their best
- Price based competition and negotiations [MDC] will not bring the best value
- Utilize expertise to lower cost [not MDC]
- Expert utilizes expertise and is a project management expert
- Client/buyer is the biggest source of risk [90% of all deviations]
- 10 – 30% of cost can be avoided by utilizing expertise

Natural Laws

<table>
<thead>
<tr>
<th>Past</th>
<th>Present</th>
<th>Future</th>
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<tbody>
<tr>
<td># of Natural Laws</td>
<td># of Natural Laws</td>
<td># of Natural Laws</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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</table>

Natural Laws are discovered and not created

Conditions Always Exist

<table>
<thead>
<tr>
<th>PAST</th>
<th>PRESENT</th>
<th>FUTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique Conditions</td>
<td>Unique Conditions</td>
<td>Unique Conditions</td>
</tr>
</tbody>
</table>

Conditions are unique and change according to natural laws
Unique Conditions Are Related

Event [by Observation]

Information Measurement Theory [IMT]

- Natural laws govern reality
- Natural laws govern the change of conditions over time
- No one can override natural laws
- Risk increases when people attempt to overcome natural laws
- When risk increases, observations are inaccurate
- Understanding natural laws minimizes the need to acquire data to understand the unique conditions
“No control”

- Control and influence [form of control to alter final outcome] causes risk and transactions
- Decision making accompanies MDC
- Control is not used in the Best Value approach
- BV PIPS is different because there is no use of control
- Cannot override NL

Observation/Logic over 20 years and 1,700 tests

- Utilization of expertise is the only real way to minimize cost
- MDC leads to low performance and minimum standards
- Concept of control of contractors is not effective
- Utilization of expertise and transparency is the only way to minimize risk
- Project non-performance is not a technical engineering or construction issue that can be resolved by construction technical expertise
- Hire based on expertise [system to measure]

Industry Structure

- **Negotiated Bid**
  - Minimized competition
  - Long-term relationship
  - Vendor selected based on performance

- **Value Based**
  - Buyer selects based on price and performance
  - Vendor uses schedule, risk management, and quality control to track deviations
  - Buyer practices quality assurance
  - Utilize Expertise

- **Unstable Market**
  - Wrong person talking
  - Management, direction, and control
  - No transparency

- **Price Based**
  - Manager, Direct and Control (MDC)

- **Low Perceived Competition**
  - High Performance

- **High Perceived Competition**
  - Low Performance
MDC Systems Create Confusion, blindness, and reactivity

Owners
"The lowest possible quality that I want"

Contractors
"The highest possible value that you will get"

Utilization of Expertise

Customers
- Outsourcing Owner
- Partnering Owner
- MDC Environment

Vendor X

- Expertise
- Medium Trained
- Minimal Experience

THERE WILL ALWAYS BE SOMEONE WHO SAYS THAT THEY CAN DO IT CHEAPER... BUT AT WHAT COST?
"No control"

- Control and influence [form of control to alter final outcome] causes risk and transactions
- Decision making accompanies MDC
- Control is not used in the Best Value approach
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Definition of Experts

- Minimize cost by seeing into the future
- Understand people and risk that they cannot control
- Risk mitigation through transparency
- Do not cause risk
- Uses metrics to create transparency

Plan

- Detailed schedule from beginning to end
- Milestone schedule to create transparency
- Expertise used in areas where there is insufficient information [II]
- Identify risk that cannot be controlled

<table>
<thead>
<tr>
<th>[II]</th>
<th>[Risk]</th>
<th>[Risk]</th>
<th>[II]</th>
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<tbody>
<tr>
<td></td>
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<td></td>
<td>Milestones [metrics]</td>
</tr>
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</table>
Expertise identified by natural law

1. Expertise is utilized
   - Risk Management using metrics
   - Quality Control
   - Quality Assurance

Dominant Skill
- Simple
- Differential (non-technical performance measurement)

Expertise is utilized
- Clarification
- Technical review
- Detailed project schedule
- Resource & Man-power schedule
- Expectation vs. delivered

Level of Expertise Submittal

Claim: best project manager in company, does only clean room projects, best in the Midwest area

Verifiable performance metrics:
1. Last 10 years
2. 20 clean room projects
3. Scope $50M
4. Customer satisfaction 9.5
5. Cost deviation 1%
6. Time deviation 1%

ICT Project Submittal

- Claim: vendor has completed two similar projects in the last year.
- Supporting Metrics:
  - Customer satisfaction: 9.5, cost/time deviation LT 1%
  - Scope: $10M, project duration: 1.5 year average
  - Function: ERP platform
  - Interface into average of six existing software packages
  - Users had six different departments, ten heavy users in each department, 10K transactions per month
  - Two maintenance managers, 120 hours training on system, $1K maintenance support for the first five years
Longest Sustaining U.S. Effort

State of Oklahoma Central Purchasing Best Value Project Results

<table>
<thead>
<tr>
<th># of Awarded Projects</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td># of projects given to lowest bidder</td>
<td>12</td>
</tr>
<tr>
<td># of cancelled projects</td>
<td>6</td>
</tr>
<tr>
<td>Estimated $ of BV Projects Procured</td>
<td>$ 137.7M</td>
</tr>
<tr>
<td>Average $ per project</td>
<td>$ 6.2M</td>
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<tr>
<td>Estimated $ Cost Avoidance</td>
<td>$ 71.8M</td>
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<tr>
<td>Average $ cost avoidance per project</td>
<td>$ 3.3M</td>
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<tr>
<td>Customer Satisfaction</td>
<td>9.0</td>
</tr>
<tr>
<td># of customer satisfaction surveys</td>
<td>9</td>
</tr>
</tbody>
</table>

PROJECT #16 - BRIDGE RESOURCE HOMES

- Oklahoma Department of Human Services [DHS]
- Highly visible/political project
- Partial Privatization of Foster Care [govt/vendor]
- $9.2 Million Budget
- Contracts to be awarded to multiple vendors in 5 Regions covering entire state.
- Potential for five to twenty contracts.
- Lead Contracting Officer: Gerald Elrod

Bridge between foster care and permanent placement of child

- Find new homes for troubled children
- Place children in foster care homes
- Place foster care children in permanent homes
**TRADITIONAL PROCESS**

- Traditional process took 9 months to complete, 24 suppliers responded to the solicitation and 10 suppliers were awarded a contract
- Upon award of the contract, Central Purchasing received 6 protests and 2 legislative complaints challenging the award
- Then they went out and rebid it using BV approach
- BV took about 3 months (1/3 time)

**SPECIAL CONSIDERATIONS**

- DHFS Director very interested in leveraging vendor expertise which led to rebid of canceled traditional RFP
- *Traditional RFP received 8 protests, none sustained*
- OKDHS are experts in foster care, but were willing to utilize vendor expertise

**SPECIAL CONSIDERATIONS**

- Project on an accelerated timeline
- Driven by a legal settlement, the “Pinnacle Plan”
- Extremely complex foster care system with large potential vendor pool. Anticipate multiple vendor award.
- Politically sensitive due to special interests and legislative inquiry.
- Client has high expectations of success. This was the first BV RFP for the State’s largest agency and a major test of the BV PIPS method in the State of Oklahoma. (Performance Information Procurement System)
• 6 vendors invited to Clarification period
• 5 awards made (determined by Pinnacle Plan)
• Supplier expertise was leveraged in the process
• Anticipated savings of $1.8M
• Requisition received April 18, 2013
• Desired Award Date of July 15th, 2013
• Actual August 6, 2013 (4 months delivery compared to previous 9 months)
• The DHS experience with the Bridge project has prompted an additional 3 DHS / PIPS projects

System Created to Increase the Value and Performance of Experts
BV Concepts Optimize Behavior

- Deductive Logic and Leadership Education
- Behavior Optimization

BV Environment Changes People

- Tested concept in Kashiwagi family
- Now testing in ASU honors program
- Optimizes behavior through simplicity, natural laws and transparency
- Minimizes negative behavior (depression, drugs, instability, suicide)
- Creates vision

Case Studies show BV can improve performance of “blind”

- Contractors in Hawaii become experts
- Contractors increase profits and finish faster
- “Blackballed” contractor turns into performer in BV structure
- Goes bankrupt when exposed to traditional environment
- BV contractors deliver at much lower costs
BV DHS Foster Care Results

<table>
<thead>
<tr>
<th>Criteria</th>
<th>SFY13 Predicted</th>
<th>SFY13 Actual</th>
<th>SFY14 Predicted</th>
<th>SFY14 Actual</th>
<th>SFY15 Predicted</th>
<th>SFY15 Actual</th>
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</thead>
<tbody>
<tr>
<td># of homes at the end of FY</td>
<td>1518</td>
<td>2133</td>
<td>-</td>
<td>1863</td>
<td>-</td>
<td>-</td>
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<tr>
<td># of families lost during FY</td>
<td>+209</td>
<td>-</td>
<td>-</td>
<td>+315</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total # of homes opened</td>
<td>796</td>
<td>1197</td>
<td>1219</td>
<td>730</td>
<td>-</td>
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<tr>
<td># of DHS homes</td>
<td>796</td>
<td>-</td>
<td>-</td>
<td>462</td>
<td>-</td>
<td>-</td>
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<tr>
<td># of vendor homes</td>
<td>0</td>
<td>-</td>
<td>1219</td>
<td>268</td>
<td>-</td>
<td>894</td>
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Potential Improvements

- Detailed and milestone schedules
- Milestone schedule using metrics to create transparency
- Identify risk that cannot be controlled
- Identify risk mitigation if deviations occur

Deliverables

How can you identify an expert if you have no expertise?

- Experts have no risk
- Experts minimize the risk they do not control through transparency
- Experts simplify
- Experts use metrics to communicate
- Experts help everyone to see the future
- Experts act in the best interest of others
Metrics Don’t Lie

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Questions [Drop your business cards]

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YouTube
PBSRG.com
ksmleadership.com

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Tempe, AZ
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