



STATE OF CALIFORNIA

Modeling the Path to Award

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Introduction and Executive Summary: In August 2013, after more than one-year implementing the fifth acquisition of the Master Service Agreement (MSA) for Information Technology (IT) Consulting Services, the Department of General Services (DGS), Procurement Division's (PD), Multiple Awards Program Section (MAPS), was confronted with the prospect of awards to less than 25 of 179 participating proposers. The low award rate ran contrary to expectations. At the onset, MAPS set the MSA's Request for Proposal (RFP) scope through information from state customer agencies and supplier surveys; advice from state agencies' Subject Matter Experts; usage data from Leveraged Procurement Agreements (LPA); activity in delegated competitive acquisitions; input from industry providers and experts; usage trends from prior MSAs and other state contracting methods; and industry market research. The industry expressed extensive interest in a "refresh" to add new contractors. Statewide users voiced a strong demand for a large, broad array of contractors, competitively set prices and flexibility to use MSAs for larger dollar value projects. Those agencies, worried about fiscal year-end loss of funding, decided to contract with current MSA holders in fear of a smaller pool of new contractors with higher rates, while others delayed purchases hoping to see more choice and lower prices. MAPS had a short timeframe to award the new MSA without extending the current contract. It made the customer modifications and used an acquisition approach under a unique statutory authority that expedited the award and protest resolution process. The 13 percent award rate to service over 350 California state government entities (statewide departments, commissions, boards and programs), did not meet the stakeholders needs.

With the knowledge that neither the solicitation process nor the MSA structure met the stakeholders' needs, MAPS needed to quickly change both process and resulting contract structure. Under DGS' executive approval and direction, MAPS cancelled the fifth MSA acquisition and extended the current MSA until new awards were made. It was time to be innovative without change to statutes or policy. A reorganized team, including stakeholders, brainstormed to identify and remove existing and potential obstacles. MAPS combined diverse techniques in new ways to minimize risks and to maximize probabilities for success. It collaborated with other state departments as required by law, to acquire consulting services, clear outsourcing challenges and labor conflicts, involving the California Department of Technology, the Department of Human Resources, and the state labor unions, respectively. Recognizing shortfalls in the prior MSA procurement process and contract, the team formed new multi-layer objectives to create a flexible process and an agile, "elastic" contract. Over 475 suppliers indicated interest in competing for award. MAPS changed the state-proposer interface to increase proposal responsiveness and opportunities for proposers to succeed. Focused on maximum transparency and flexibility, the innovative process was infused with various paths for proposers to achieve administrative, technical and cost responsiveness. Administratively and technically responsive bidders would be given opportunities to change prices several times during and after contract award. Proposers could make business choices, during and after the RFP process, that would structure their contract awards.

Innovation – The project simultaneously yielded two significant changes to California procurements: new models for a flexible solicitation process and an elastic contract. State agencies and supplier communities were satisfied with the unprecedented results. The project was used to achieve objectives in a parallel Better, Faster, Cheaper project and a Strategic Planning effort for process change and cycle reduction already in progress.

- Transferability – Both the procurement model and the contract model can be readily operational in broad venues. As soon as it was shared within DGS, the model and its elements were immediately and successfully used by the statewide Pharmaceutical Acquisition Section. Its flexibility allows elements to be extracted and applied to other acquisitions in progress or development. DGS acquisition programs are integrating model elements, while MAPS has adopted the models for mainstream use. The models are being shared through customer forums and conferences.
- Service Improvement – MAPS established a cross-agency procurement team that designed a process and solicitation requirements reflecting cross-agency needs and procurement practices. Feedback from the team on its experience and knowledge transfer was considerable, and favorable. The ability to vet requirements and responses through consensus enhanced the solicitation, evaluation and post-award usage.
- Cost Reduction – Prices for highest chargeable hourly rates dropped across the board, as much as 54.4 percent in one classification. Proposers recognizing the RFP's pricing mechanism, drove all classification price averages and hourly caps downward to eliminate competitors, to the benefit of the state agencies. The newly competitive pricing structure, tiers, and competitors allow state agencies to reduce resources invested in competitively bidding higher dollar value contracts, lower rates, or to seek broader qualifications. The MSA's agility provides faster acquisition of services through further reduces costs associated with project failure.

The new award rate of 82 percent represented MSA awards to 155 of the 189 proposers, which included 102 small businesses and 20 Disabled Veteran businesses. Based on the MSA's spend in the first 2 months, there is a potential for the 6-month spend to exceed the prior MSA's spend in the last 24 months.

Innovation: With a focus on transparency, the streamlined, paperless proposal process engaged the supplier through a continuous variety of electronic communication tools and techniques, including webinar walkthroughs on how to complete the RFP's proposal template. Almost all prior mandatory RFP terminology such as "must," "shall," or "will" were replaced with "may," and "encouraged." The RFP process called first for Administrative and Technical proposals, allowing the State and proposer to openly discuss problem areas and acceptable revisions. The team conducted the phase via phone conferences, many times a short as a few minutes, and did not require suppliers to engage their legal counsel. Although the step was similar to a RFP draft proposals, it allowed a significantly more open exchange of information to improve mutual understanding of what was needed to achieve responsiveness. Proposers were allowed to submit revised Administrative and Technical responses (it did not require the entire proposal to be resubmitted). The evaluation teams then invited all Proposers evaluated as administratively and technically compliant to submit cost proposals.

The RFP provided at least six (6) events to drive pricing during the acquisition process and three (3) secondary competition scenarios to improve price competitiveness. Flexibility in price negotiations and process transparency allowed proposers multiple opportunities to formulate pricing for their MSA through the following techniques:

- 1) Proposers chose 1 of 3 Tiers in which to compete. Tiers corresponded to dollar values associated with RFP references and subsequent secondary competition for contracts: Tier 1 for less than \$1.5 million, Tier 2 for over \$1.5 million and under \$5 million, and Tier 3 for over \$5 million and up to \$10 million. Proposers were able to target a tier to meet their revenue goals.
- 2) Proposers in each tier competed to set the Tier's average and highest hourly (cap) rates. A proposer self-eliminated by proposing rates above the cap. Many proposers able to weather lower rates, eliminated competitors by proposing lower than normal rates. Rates dropped across the board and challenged some competitors to consider next steps.
- 3) Proposers were allowed to proposed rates for all classifications regardless of prior contract experience. The evaluation focused on corporate experience and capacity to perform contracts, not individual personnel references. A company with experience in 3 classifications could propose and achieve award in all seven (7) classifications.
- 4) A "tier jumping" opportunity allowed proposers competing in a lower Tier to achieve rights to participate in secondary competition in the next highest by earning a near perfect Administrative and Technical score. Tier jumping also helped proposers to grow their firms' experience with larger contracts for future tier jumping. Tier jumpers were allowed to choose its MSA classification award rates from its proposal rates or from the lowest awarded rates in that next higher tier, not from both or in a combination. The option to pick the higher of two rates for their MSA classifications awards during the process, allowed proposers to make changes in its prices during the solicitation process. Awards were "downward compatible," allowing contractors to compete in secondary competitions for any value equal or less than its awarded or jumped Tier (In secondary competitions, Tier 2 awardee could participate in Tiers 1 and 2, but not Tier 3, unless it earned a jump to Tier 3.)
- 5) Prices were submitted after Administrative and Technical compliance. Of the 163 proposers invited to participate in the cost phase, 160 proposers submitted prices that set the average prices and hourly caps for Tiers 1, 2 and 3. Public access to the list of current MSA contractors allowed proposers to weigh pricing strategies. At that juncture, the risk of self-elimination left Proposers with two potential, unattractive scenarios to change their hourly-rates.
 - a. If the State achieved 60 percent Tier award, to accept the Tier's lowest hourly awarded rates; or
 - b. If the State did not achieve 60 percent, to enter into State invoked negotiations.
- 6) Refresh to keep the MSA elastic will begin approximately 6 months after the initial awards. The refreshes may require pricing changes, competition or negotiation, only new proposers would need to submit to an Administrative and Technical evaluation, and existing proposers would only compete in pricings. A refresh can at a minimum add classifications to MSA contractors who wish to commit to lowest hourly rates, add responsive contractors who decide to commit to the lowest hourly rates, add/delete classifications, add responsive contractors opting to accept classifications at a later date, or allow contractors gaining experience to jump tiers and to commit to new hourly rates. Refresh cycles will transpire semi-annually or annually, continually providing flexible opportunities to suppliers to gain contracts, and to create a changeable, elastic MSA that can expand and contract to reflect changes in services, usage and supplier's business decisions.

In secondary competition using the Request for Offer (RFO) tool:

- 1) User agencies use RFOs in Tiers matching budget and need. All MSA holder prices are publicly posted, providing all contractors as well as users the ability to price competitively.
- 2) Each Tier requires a minimum number of RFO contacts intended to increase price competition for higher dollar value contracts.
- 3) Rate adjustments are allowed at the end of the initial 3 year term, and each amended term.

Transferability: The model's techniques created flexibility that allowed proposers to make in-process decisions, to become responsive and save resources. The DGS/PD believes the model is easily transferred to any leveraged or master agreement procurement. The model demonstrates effectiveness on larger scale procurements or when there are numerous participants and awards. Elements of the model have been used effectively to address smaller procurements and to mitigate specific pricing challenges. The team decided to simultaneously test the model as a benchmark for a parallel Better, Faster, Cheaper (BFC) process to reduce cycle times. The efficiencies shortened procurement cycle time well below the BFC goals that was already in progress. MAPS used its Public Contract Code negotiation authority to respond to DGS executive management and technology supplier community interest in its use for technology acquisitions. At the final step, Best and Final Offers sufficed to allow outlying price proposers to become responsive, and further negotiations were unnecessary. The new model met state agencies' requests for a contracting vehicle that easily accommodates change and offers a broader choice of service providers. Fortune 100 companies as well as small/disabled veteran businesses competed and earned awards in each tier. The DGS/PD believes the award rate reflects the success and promise of the model. By fostering transparency, California can implement the model without special legal statutes or policies. Many states have some degree of negotiation capabilities related to administrative and technical compliance, but the model demonstrated its adaptability without the need for special legal structure or environment. The model is not restricted by venue and would be appropriate for other states and WSCA/NASPO acquisitions.

Service Improvement: The MAPS cross-agency team worked seamlessly for months. Subject Matter Experts (SMEs) worked continuously on site with DGS, through post-award lessons learned. The open relationship provided agencies with means to effect change to the process and outcome. For instance, customer agencies needing contracts valued over \$1.5 million were not able to use the MSA for secondary competition due to the \$1.5 million dollar cap. To acquire the services for larger projects, agencies dedicated and expended resources to conduct one-time, formal competitive purchases. To address the dollar cap restriction that caused agencies to use alternative methods, DGS raised the cap used tiers to reflect increasing large value contract needs. Tier 1 was capped at \$1.5 million, Tier 2 at \$5 million and Tier 3 at \$10 million. Agencies can apply for increases to their purchasing authority to use the MSA. MAPS engaged the DGS/PD's Purchasing Authority Management Section as well as the Policy and Procedures Office (PPO) to coordinate processes to use the MSA at the higher dollar levels. Price caps were not the only reason agencies sought alternative procurement methods; they encountered specialized consultants whose education or experience were equivalent to or surpassed MSA requirements, but could not qualify as a match due to phrasing. Those types of companies would not be able to compete for the MSA. By working again with the DGS Administrative Division and the California Department of Human Resources, MAPS was able to revise requirements to reflect user input, allowing inclusion of comparable qualifications. The customer agency SMEs shared their practices of soliciting entire contractor lists to drive pricing competition, regardless of the State policy requiring far fewer contacts. MAPS increased the number of contacts through the contract's user instructions, vetted the change with the DGS/PD's PPO and executive management. The reason was straightforward; customer agencies realized that not all contractors are created equal and increased competition yielded better prices and a better fit. Customer agencies also wanted to use the RFO process and Scope of Work to tailor the contractor services to the specific project, without hindrance of personnel substitutions deviating from the MSA evaluation. MAPS changed to a corporate reference to evaluate a company's capacity and historical performance instead of personnel subject to high attrition rates. The reaction to the change was favorable since it provided flexibility to the contractor to maintain its workforce and for customer agencies to evaluate personnel fit at the project level.

The California Department of Technology (CalTech), responsible for state technology policy oversight, requested an agile contract, responsive to state agencies' needs for hourly-rate and project-based services. It also needed a contract to add service classifications for undefined, future cloud design and consulting services. MAPS designed the RFP and the process to respond to the requests, and CalTech reviewed and approved the RFP prior to its release. The refresh addressed the need to add classification. Subsequently, CalTech and DGS/PD collaboration levels increased with new trust and confidence to meet program needs. These examples are among the many instances where collaboration allowed for mutual input between DGS and its customer agencies, and helped create better models on a large scale. A customer agency participating throughout the process was the first to actively use the MSA, almost before the ink was dry.

The team moved customer agencies' request quickly up management levels when appropriate. Each request for change was quickly vetted and acted upon to increase the MSA's usefulness to its customer base. Cross-agency representatives on the MSA evaluation team were able to quickly use the MSAs and communicate changes to its agency management.

Cost reduction: DGS/PD offers multiple solutions with different spend caps to its customer agencies, but the existing MSA did not meet user needs. While some agencies turned to the formal competitive process, some agencies cut dollar spend to use lower capped leverage procurements programs with multiple awards, or turn to an "offramp" method tailored to a short RFO process with small or disabled veteran businesses. Customer agencies sometimes turn to the fastest method of acquisition and delivery, even if it translates into smaller buys at higher rates. The new MSA's RFO process allows acquisitions for large projects with higher values, diminishing

the need to invest resources in formal purchases. Customer agencies are able to conserve resources to acquire combined project-based services in a matter of days instead of months.

Hourly cap rates decreased across the board [See supporting "Historical Rate Comparison" sheet). In some cases classification cap rates decreased more than 54 percent. By updating the qualifying requirements to reflect the industry and user demands, increasing the cap limits up to \$10 million, identifying high and low rates for each classification in each Tier, customer agencies are able to use the MSA to free up resources, and avoid monetary penalties and resources associated with delayed project schedules. Current usage for the first 2 months was \$10 million in comparison to \$29 million in the prior MSA's last 22 months. Increased MSA activity, requiring far less resource allocation, should coincide with cost savings and ability to increase efficiently addressing other program initiatives.

Significant change in hourly caps was most noticeable for the Senior Technical Lead classification. In the prior MSA the rate in Tiers 1, 2 and 3 were each \$395; in the new MSA, the caps are \$195, \$195 and \$180, respectively. Curiously, Tier 3 is comprised of larger suppliers. With customer agencies turning to the MSA for services up to \$10 million per contract, large savings are anticipated at the stakeholder sites. Suppliers also benefit by not allocating long-term resources to respond to formally competed procurements between at least 30 days in comparison to an MSA RFO that can be accomplished in less than 2 days.

It was immediately obvious that a company at the top of the Fortune 100 recognized the price mechanism strategies available in the RFP. It proposed very low rates for a company of its magnitude and stature, bringing the Tier 2 average in several classifications unexpectedly lowering the average. By doing so, it eliminated the higher priced competitors, eventually compelling those companies to decide whether to commit to Tier 2's lowest hourly rates that were even lower than their proposed and awarded rates.

Another Fortune 100 proposer who was originally eliminated for proposing some of the highest hourly rates was able to receive a MSA award through the model's pricing technique. The proposer eventually accepted classification awards at Tier 3's lowest hourly rates, after being denied the highest hourly rates it requested. Overall, the pricing strategies drove hourly costs down and increased competition, to the benefit of the users. MAPS is aggressively managing the contract to collect information for process improvement.

Conclusion: MAPS set multi-level objectives when it started modeling the way to successful award. At first, the objectives were to award to a large pool of experienced suppliers to meet state agencies needs for hourly and project-based services at reasonable rates subject to RFO competition and to increase usage. With strong executive management support, the objectives soon morphed into creating a more transparent environment to engage all stakeholders; to aggressively drive pricing and target hourly cap rates; to create a flexible procurement process and establish a living, elastic MSA; to create a model and benchmark for the LPA program, and lastly, to change the face of DGS/PD's leveraged procurement programs. The model procurement and contract structures established a hallmark for change. The phrase "this is the way we've always done it," has been replaced by "can we try to do it this way?" Not only has the project been appreciated by customer agencies and suppliers, it has also become a topic of conversation with representatives in public and private sector. Inquiries on how it was done and why continue are received to this day. Statewide Purchasing Officials and non-procurement individuals have heard of the model procurement, and MAPS gladly shares the model that has become a culture shift. The overwhelming positive feedback is the mark of the projects success that has and will continue to change the face of California procurements. It works. Respectfully, the State of California Department of General Services, Procurement Division requests your consideration for the Cronin Award.