Executive Summary:

As states manage through difficult economic times and decreasing budgets, the need still exists to purchase ever increasing services from third party vendors to fulfill each state’s mission. As with any business, most states do not have the manpower, expertise or inclination to develop core competencies required for various service categories. As service contract elements become more comprehensive and ubiquitous, the need to select high performance companies that can deliver according to promise is increasing; the economic risk of contract failure can be devastating to state budgets. State’s need to develop new ways to solicit and manage service contracts to decrease inherent risk and increase success probability. Idaho is no different.

In 2008, the Idaho Division of Purchasing (DOP) State Procurement Office (SPO) began work to improve the success rate and decrease risks associated with service procurements. With service procurements approaching approximately 80% of the state’s spend (based on strategic spend data), the risk in selecting the right experts and ensuring service fulfillment over contract life was increasing. At this time, we had seen
some contract failures and cancellations on long-term projects; particularly in the IT realm. These cancellations proved costly and could no longer be absorbed. We needed to change the way we select suppliers and managed service contracts.

At that time, DOP SPO began discussions with Arizona State University’s Performance Based Studies Research Group (PBSRG). PBSRG had developed a Best Value (BV) Performance Information Procurement System (PIPS) and proved it to be extremely successful in construction projects; aimed at identifying the vendor and related vendor personnel best suited for the project (the expert) while providing an environment that permitted them to be efficient and succeed without increasing costs. These objectives were the same of our state’s non-construction based service procurement objectives. Two primary hurdles came to mind; “How could the State of Idaho overlay this process on top of state statutes and make it work in the non-construction public arena” and “How could we engage the new process throughout the state and with the vendor community?” These hurdles were overcome.

Since its implementation, the State of Idaho has used the BV PIPS process to obtain a statewide university student health insurance program, inmate medical care, a major food services program, an asset management program, the replacement of the Division of Motor Vehicles automated business systems, and most recently a Child Support Receipting provider. To date, Idaho’s SPO has engaged internal agency and external vendor training, has promoted the Best Value concept for WSCA states (some of which
are now engaging the process), has scheduled this as a main discussion topic for the NASPO annual conference (September, 2011) and has assisted ASU in transformation of the process from a predominately construction focused process to a mainstream public procurement sector solution. Results to date have been as follows:

- Intent to award to the BV vendor is based on dominant information, not marketing hype – past performance, key personnel interviews (those who will actually work on the project), and risk minimization plan and cost analysis is well vetted.
- The BV vendor selection process is quicker.
- More time is spent in contract risk minimization pre-planning which results in increased contract success. Contract award is only made after pre-planning has occurred and the BV vendor has demonstrated they are the expert.
- Vendor assumes weekly reporting of service contract metrics/milestones over the contract life. The state verifies data quality. Because risk has been evaluated and risk mitigation plans set in place, change orders are minimized over the contract life and contract success rates are improved.
- Through his efforts in developing this methodology for the State of Idaho and WSCA, Mark Little, Idaho State Purchasing Manager was awarded the “State Purchasing Manager of the Year” by Arizona State University’s Performance Based Studies Research Group.
Innovation:

Idaho’s DOP SPO’s approach to discovery of a better way to buy and manage statewide services is unique and innovative in several ways as follows:

Best Value Supplier selection phase:

- Best Value vendor selection based on Dominant Information (no more than 5 written pages) where vendor identity is unknown to the evaluators (with the exception of the interviews):
  - Past Performance - vendors are required to submit letters of recommendation (for the company and the key company personnel that will perform the work) from their clients where similar services were provided.
  - A Risk Assessment/Value Add (RAVA) and Work Plan (technical capability) - Vendors submit:
    - An assessment of program risks (both controllable and uncontrollable) and what they will do to minimize these risks.
    - Value added options are provided to differentiate and promote the value the vendor can provide over other suppliers.
    - The work plan (technical capability) details the project timing and key milestones for service delivery.
  - Key personnel (performing the service) will be personally group interviewed by evaluators.
Cost information received by SPO is combined with evaluator ratings of past performance, RAVA, work plan and interview.

Best Value vendor selected based on the point method of award and **Intent to Award letter** is issued to the Best Value vendor.

**Best Value Detailed Project Planning Phase – Pre-Award**

- Detailed project planning pre-award phase -Selected BV vendor prepares in-depth pre-plan from project start to finish, detailing project weekly performance reporting. The risks that the vendor does not control, are also identified, mitigated, and managed by the vendor. All documents including promises made during interviews are incorporated into the contract. If acceptable to the state, the contract award is then made. If not, the next place vendor will be asked to do pre-planning or the procurement will be cancelled.

**Post Contract Award Phase**

- Contract management – the vendor controls the project and weekly reports status to the state. The state validates the reporting.

**Comparison to our previous process:**

- Speeds up the selection of the best value supplier prior to award
  - Focuses heavily on risk and risk minimization.
Previous selection was based on 300 page marketing/technical proposals (in some cases) that evaluators had to wade through and discern technical capabilities hidden in marketing hype.

- Allows greater time to focus on detailed work planning and risk minimization prior to final contract award – this is where significant value for the state and the supplier is realized – getting all the cards on the table prior to award.
  - The use of dominant information for BV vendor selection and the pre-planning phase are the KEY to this process and the KEY to project and service success, significantly reducing change over the project life.

- Best Value has provided us with an alignment system that allows for simple measurements and minimized information flow while allowing for change and minimized bureaucracy. It has allowed us to clearly and concisely identify goals and minimize giving direction to the supplier experts on “how to do their work”.
Scale

This process can be performed for any state service. DOP SPO presented the approach to WSCA states. To date, several states are considering the approach. Alaska will be using the BV PIPS process on a statewide ERP system and Oregon has used the process to obtain a Facilities Management Software program. Oregon is also using BV to obtain a new State Tax program.
Effort:

This has been a mammoth effort by SPO.

- We have been training state purchasing and agency (contract manager) personnel in the process along with the vendor base (internally and through ASU). We will be incorporating this training in internal Idaho training sessions.

- SPO cleared the legal statute issues for the process.
Conceptual Originality in the Public Sector

- Although not new to the public construction sector, this process is new for non-construction service procurements. We will expand this process to high risk IT service projects (a couple of these are in-process).

- Most “best value” public sector procurement is defined as a procurement process that considers factors other than cost for supplier selection and award. The best value process noted in this document extends this concept and engages a complete process to improve service supplier selection and contract success.
Transferability

As noted earlier, this process is highly transferable. Based on strategic spend data, the State of Idaho estimates that approximately 80% of all state spending is for services. We would anticipate that other states have much of the same procurement profiles. Being a process, it is portable to other states (as in the Alaska example). The major issues states have to handle are:

- Acceptance of change. Process modification for a major business fundamental presents perceived risk to agency users and contract managers.
- Training of purchasing staff and instruction to agency service evaluators.
- Adherence of process to state statutes

Many states execute contracts based on vendor proposal data from an RFP. Much of the vendor selection evaluation is based on lengthy proposals that do not contain dominant information required for selecting the BV vendor. As states work through the BV process for the first time, they will usually note that one (or possibly two vendors) floats to the top. Since the BV selection process is abbreviated from current practice, time will be spent working with one vendor in detail project planning and risk minimization prior to award. This has extreme value and agency personnel will recognize and support the value presented by this BV process. That was seen in Idaho.
Service Improvement

We have found suppliers and agencies are thinking differently and as a result are seeing improvements in service delivery while enjoying a decrease in transactions. The BV supplier has been able to improve service delivery because they are being proactive and not reactive to the agency demands. They are able to identify potential problems (before they become reality) and implement solutions without impacting cost or schedule. Agencies don’t have to micromanage the vendor and the process is transparent so delivery systems are clearly understood and vendor is in control as the expert.
Cost Reduction

The impact of the Best Value process to service procurements has been significant. The actual proposal cost impact to the vendor decreases. Proposals are restricted to approximately 5 pages versus 300 (in some cases). In addition, we have heard from companies that because the data submitted is significant in quality and limited in volume, this has made them rethink how they articulate the services they provide and value they can add over their competitors.

Soft costs to the state are not changed significantly. However, evaluators spend considerably less time in the selection of the BV vendor and greater time in working through issues presented by the BV vendor in their pre-plans.

For the Idaho Student Health Insurance program, the process allowed the vendor to understand the State’s and students needs much more fully and had the following results:

- Student Premium has decreased by 2%
- Spouse & Dependent Premium has decreased by 19%
- In general, Benefits/Coverage have been increased
- Premiums were fixed for two years
For the Correctional Medical service, cost was a constraint and the BV vendor has been able to meet the medical needs of the inmate population within the per diem constraints.

Cost savings per se may or may not be achieved in the actual charges per the contract. True cost savings are born by fewer change orders to the programs, risk minimization as characterized in the pre-planning segment and lower chance of contract cancellation and the resulting loss of time and money previously incurred. Although we do not have significant data here, we believe that this is the compelling result we seek which will be measured over time. Historically, ASU has tracked this for over 800 contracts with significant decreases and savings in time and money.