



## State of Tennessee

Department of General Services

Division of *Central Procurement Office*

# 2017 George Cronin Awards for Procurement Excellence

## Collaborative Value Development (CVD)

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## Executive Summary

When the State of Tennessee learned of an award-winning collaborative contracting model developed at the University of Tennessee known as the Vested methodology, State leadership immediately recognized its value and sought to find a procurement apt for its application. This philosophy has been used in the private sector to great success by companies for large procurements, but has never been utilized in state government. As part of its strategic and continual efforts to improve and increase efficiency in procurement, the State adopted key elements of the Vested methodology into an approved procurement process known as Collaborative Value Development (CVD).

When the State decided to go out to bid for a new Facilities Management ("FM") contract to cover the remainder of its portfolio in late summer 2015, it knew it had found an excellent candidate for the first implementation of the CVD process. The pilot FM contract covered Facilities Revolving Fund ("FRF") facilities; which comprised 10M square feet (of the State's 94M total square feet) of office space in downtown Nashville under DGS management. The contract had been hugely successful by consolidating services previously managed under 430 separate contracts under a single vendor, improving facilities management services and customer satisfaction, and saving the State approximately \$26 million over three years. The State looked to replicate the same successes across the remaining 84M square feet of the State's portfolio by creating a comprehensive Statewide facilities management contract. The scope of this project included specialized facility types such as prisons, hospitals, and athletic facilities across many different business units that included not only the majority of State agencies, but approximately fifty higher education institutions as well. Multiple industry leaders in Facilities Management Services stated this project is the largest known facilities management services sourcing effort ever conducted in the public sector. The unprecedented and massive nature of this project required the State to consider new and innovative procurement methods.

Facilities Management Services ("FM Services") was the pilot procurement to utilize the CVD process. It is discussed in this Cronin Award submission only as a vehicle that helps outline, with real-life scenarios, the benefits of the CVD process. This CVD process delivered great results and has transformed the way the State thinks about procuring certain large contracts with complex subject matter. The process was met with great praise by all vendor and State stakeholders who participated in the procurement, exemplified by the fact that several of the vendors who participated said this was a "game-changer" and benchmark for their industry as it relates to public sector procurement.

## Innovation

### Introduction

*Collaborative Value Development and the Vested methodology:* The CVD process supplements normal State procurement methods (RFI, RFQ, and RFP) with a new and innovative component called CVD Workshops. The purpose of the CVD Workshops is to gain knowledge from the Qualified Respondents (QRs); who are vendors that have already been pre-qualified by the State to assist with defining the cost model, work allocation, and other requirements that will be incorporated into the procurement. Each QR (selected using a RFQ) selects representatives to participate in this process. QR representatives work collaboratively with each other and the State to help the State better understand industry best practices and standards, and assist in formulating the requirements that will be incorporated into the RFP. The framework for the workshops derives from the Vested methodology, which provides a proven roadmap (with step-by-step instructions) for defining requirements for complex sourcing initiatives. Vested seeks to create highly collaborative business relationships that enable true win-win relationships in which both parties are equally committed to each other's success and also to foster an environment that sparks innovation, resulting in improved service, reduced costs and value for both parties.

*Facilities Management Services Project:* The overall goal of the CVD Pilot Procurement, the FM Services project, was to improve FM services while lowering costs through use of an FM service provider for the State's real estate portfolio. FM Services require significant taxpayer investment and consist of a large portion of State spend, but they are not part of a core competency of a state government. This makes getting the subject matter expertise needed to manage or procure these services extremely difficult. The State realized not only that the private sector should be pursued as a viable option for procuring these services, but that the best way to leverage private sector for this high volume and complex subject matter area is to have a more collaborative process that would allow for greater vendor involvement in crafting the procurement. The group governing this project made seeking expertise, efficiency, innovation, and quality in the services to be provided another strategic objective, which made this procurement a perfect candidate for the CVD process.

**Collaborative Value Development Procurement Method:** The State sought to improve the way in which the State procured these high volume, professional services by utilizing the CVD process, a four-tiered procurement process outlined below:

- *Tier 1 - Request for Information (RFI):* An RFI was publicly posted in August 2015; 27 vendors provided responses on topics such as their knowledge and experience providing FM services to a variety of facility types, cost structure and ranges, and what information they would need to respond to a future solicitation for these services.
- *Tier 2 - Request for Qualifications (RFQ):* The State issued an RFQ in April 2016 to evaluate vendors through both a written response and oral presentations based on their technical qualifications and experience managing facilities for ten different facility types that are representative of the State's real estate portfolio. Three vendors were deemed the "Qualified Respondents" (QRs) that would participate in the next step of the procurement process.
- *Tier 3 - Collaborative Value Development (CVD) Workshops:* Representatives from the three Qualified Respondents jointly attended workshops from August to November 2016 along with a "Core Team" of State stakeholders representing the CPO, Comptroller, the two major public university systems, the State's Real Estate Asset Management Group, and the governor's Customer-Focused Government agency spearheading the initiative. Additionally, State subject matter experts for IT and HR attended certain parts of the workshops to assist in answering vendor questions and crafting language related to their respective subject matter areas.

Towards the end of the process, vendors were given the opportunity meet individually with the State to ask targeted questions to the State concerning certain innovative ideas for responding to the RFP and whether or not the State would accept them. Vendors were also given a chance at the end of the workshops to provide feedback or point out any potential issues with the State's standard Terms and Conditions prior to the RFP release so that the State could address certain things that could affect vendor's risk and pricing early on in the process. While the vendors provided valuable input into deliverables that were incorporated into the solicitation, the final content of the RFP was independently crafted by State personnel.

- *Tier 4 - Request for Proposals (RFP):* A RFP was issued to the three QRs in December 2016 that sought to award a Statewide contract that would serve as a master service agreement where a State agency or higher education institution (referred to in the solicitation as an "Authorized Entity") wishing to utilize the contract negotiates and signs Participating Addendums (PAs) to the Statewide Contract. All three QRs submitted proposals to the RFP.

There were six site visits conducted as part of the RFP that had been requested by the QRs during the workshops, along with certain data about buildings, finances, and personnel, in order for them

to be able to provide quotes for the six sites. There were also oral presentations and cost proposal evaluations. The State ultimately negotiated a contract with the awarded vendor and executed in May 2017 with an initial five year term and up to five renewal option years.

**Successful Outcomes:** The CVD process propelled the State to success in its FM procurement. In procuring services that come with significant taxpayer investment and services state government is inherently unfamiliar with, the State assumes greater risk and therefore is ethically obliged to turn over every stone in its effort to achieve success. The CVD process facilitated this quest through its innovative method of enhanced involvement, at every level, with all stakeholders.

## Transferability

While the resulting FM contract is specific to Tennessee, the CVD methodology can easily be adopted by other states. The CVD Workshops are the crown jewel of this process and the only major part of the process that challenges standard public sector procurement practices and how the State normally operates. Ideal candidates for the CVD process would be complex, high value procurements such as supply-chain management and logistics, large design-build projects, and IT investments such as healthcare and benefits systems.

Finding more effective ways to utilize and gain from the expertise of private sector during scope and cost model development can benefit many types of procurements even if they are only utilizing some elements from the CVD process without going through the entire process. Another application of this CVD process could be to compare existing service delivery models with best practices in the private sector. CVD workshops can help the internal stakeholders better understand their own needs and requirements because the format engages their expertise in new ways and gets them to think about the subject matter of what they are procuring in a more comprehensive way.

The CVD process is transferable not only because of its potential broad application across many procurements, but because of its appeal to the vendor community. Benefits to the vendors include creating a “win-win” relationship with incentives, minimizing the vendor’s risk, and allowing the vendors more transparency into the State’s needs which gives them a better understanding of state expectations and requirements. This is exemplified by the fact that even the losing QRs of the FM procurement stated that they hoped the contract was successful and that they wished to see CVD become a commonplace procurement practice.

## Service Improvement

The CVD process itself has the potential to improve service across all procurements in which it is used by leveraging private sector expertise for large procurements with complex subject matters that are not core competencies of the procuring state. The CVD process utilized during the FM Services project resulted in a contract that could potentially consolidate many contracts and services being provided today under one central management system. The governance structure jointly created during the CVD workshops will ensure that this contract is able to be flexible and scalable enough to meet State service needs as they evolve throughout the contract. The process ensured that the vendor awarded would be fully aware of the State’s needs prior to starting any work and a highly qualified industry leader that could provide comprehensive facilities management services to a variety of building types across the State’s portfolio. This will lead to better management and expertise for this massive expenditure of the State that the Governor has said is not one of its core competencies. The requirements crafted through the CVD workshops also ensured that the State would get access to a robust computerized maintenance management system and leading-edge technology to drive efficient service across the State and better data that can be used to more optimally manage the State’s aging

facilities. The importance of this technology and the best way to include in a subsequent RFP was a large focus during the CVD workshops.

## Cost Reduction

The State expects to see critical and significant savings by utilizing the FM contract that was procured using the CVD process. The CVD framework introduced brought about several cost-reducing features such as the pricing model and the incentives outlined above that ensured the vendors were allowed to bring forth their most creative and innovative solutions to save the State money, both on the front-end, and throughout the term of, the contract.

Among the State agencies and higher education institutions that were provided quotes as part of the RFP, estimated savings are an average of 14.7%. In other words, if only 34% of the State's real estate not already under management of a professional facilities management services provider elected to use the contract, savings would be \$14M annually or \$140M over a 10-year period. That being said, this figure could be dramatically underestimating the savings potential since the rest of the portfolio (including that FRF properties currently under contract that will eventually transition under this contract) are not accounted for and must go through a process with the vendor to receive a quote.

A 2017 [Forbes article](#) quotes that "the contract provides an excellent cost management tool for the agencies and institutions to use to their advantage. If they can use the [vendor's] contract to help them reduce costs - then great. The more agencies and institutions that participate, the lower the price decreases for everyone. The contract is also designed to allow agencies and institutions to have their own local agreement, with local governance and local control over funding and savings."

## Conclusion

This procurement was the first time the CVD process has been adopted in the public sector and the resulting contract from the pilot procurement is truly the first of its kind. The resulting contract from the CVD process will lead to significant overall cost savings, while providing a flexible pricing model that allows the State to quickly address changes "as business happens," while gaining a level of transparency and insight into the vendor's cost structure that ensures fairness throughout the Contract. Additionally, the governance structure put in place will be able to scale up to meet the State's needs as more Authorized Entities choose to utilize this contract, where all entities are working together to achieve maximum savings while promoting accountability and ensuring transparency.

The State met a strategic objective of seeking expertise, efficiency, innovation, and quality in the services to be provided by allowing the Qualified Respondents an unprecedented level of input over the eight CVD workshops. This helped the State craft the best solicitation possible that allowed the vendors to provide their best solutions. The best practices that can be gleaned from these workshops, even in smaller procurements that are not suitable for the full CVD process, can revolutionize the way the State and vendors interact and engage in information sharing during the procurement process. Between the CVD workshops and oral presentations in the RFP, vendors who have participated in the CVD process have described this process as a game changer and benchmark for how they view procurement in the public sector.

### References:

- Forbes Article about the State's CVD process and FM Services procurement: <https://www.forbes.com/sites/katevitasek/2017/06/29/tennessee-inks-collaborative-facilities-management-contract-with-jll/#fbd30fe45bfc>
- LinkedIn Article that briefly discusses Vested: <https://www.linkedin.com/pulse/two-faces-negotiation-public-procurement-richard-pennington>
- Op-Ed about the State's FM Services procurement: <http://www.knoxnews.com/story/opinion/columnists/2017/06/17/opinion-outsourcing-university-non-core-services-not-risky/400244001/>