

NFMT2015

PBC

Performance-Based Contracting



Date: March 11th

Session: W 4.37

Presenter: Vince Elliott



Session Outline

What is PBC?

PBC : A New Strategy?

Traditional vs. PBC Contracting

Key PBC Principles

ROI – Industry Study

Lightning Tour of PBC

Questions

What is PBC? PBC means

Outcome Performance



A PBC should describe the buyer's specification of the **results** to be achieved, not **how** it is to be done.

The **buyer** establishes the **results** required, giving the contractor freedom to achieve them based on the **contractor's** best practices and management.



PBC: A New Strategy?

Federal Adoption - 45%¹ of federal service contracts are performance based

- Federal Acquisition Regulation (*FAR*, Part 37.102-Policy)
- Defense Procurement and Acquisition Policy

State Level Adoption

- Washington State Executive Order²
- Department of Mechanical Engineering Industrial and Systems Engineering Program University of Minnesota

Private Sector Adoption

- Logan International Airport
- Exelon Corporation – PECO Energy
- Federal Reserve Bank
- Citibank
- Hundreds more

1. (Newell, 2008:1)
2. http://governor.wa.gov/office/execorders/eoarchive/eo_10-07.pdf



Example

Traditional Question:

How was the Building cleaned?

The Traditional focus is on **how**:

- Process of cleaning
- Inputs to the process
- Frequency of tasks
- Labor Resources



Example

PBC Question:

Is the Building clean?

The PBC focus is on **Outcomes**:

- Delivered Results
- Process innovation
- Problem prevention



But Vince...

Doesn't the buying organization *need to know how* to get things done to put together a proper RFP?

*No; but they do need to know the **performance results** they want to achieve.*



Traditional vs. PBC

What	Traditional	PBC
Specifies Results	Contractor	Buyer
Risk of Performance	Buyer	Contractor
RFP Focus	Price	Capability
Success	Worker	System
Who Manages Job?	Buyer	Contractor
Co-Employment Risk	High Risk	Low Risk
Price reflects Spec?	No	Yes (Results)

Let's Pretend



PBC Principles

Buyer specifies *Results*

Contractor designs for the service delivery *process*

The difference between contractors:

- Experience of their manager
- Effectiveness of their cleaning system design
- Innovation culture of the company



PBC Principles

Only the buyer defines performance

Contractor is responsible for *everything*; there are no “extras.”

Contractor payments are adjusted, based on *performance* against the KPIs specified.

The most important focus of performance management is **C**onstant **S**ystem Improvement.

- Innovate, Improve, Innovate , Improve again!

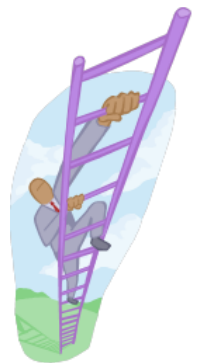


Traditional vs. PBC

In many ways the traditional outsourcing strategy creates a buyer-contractor relationship resembling a see-saw; one party gains at the expense of the other.



The performance-based relationship is more like a ladder. Both parties win together, or lose together, based on what is important to each.



PBC vs. Traditional Contract: Industry Study

Profile	Total
Number of Sites	145
Geography	Nationwide
Total Square Ft.	39,154,000
No. Inspections	33,866
No. Interviews	513



ROI: Industry Study

	# items	# int.	% Cln	Cust Sat	\$/sf
PBC Avg.	19,192	249	78.0	78.1	1.31
T/F Avg.	15,041	264	59.5	74.5	1.96
Database	34,233	513			
Data Diff	4,151	-15	19	4	-1
PBC % Diff	27.60%	-5.68%	31.09%	4.83%	-33.2%

What's Your Performance-Based Price?

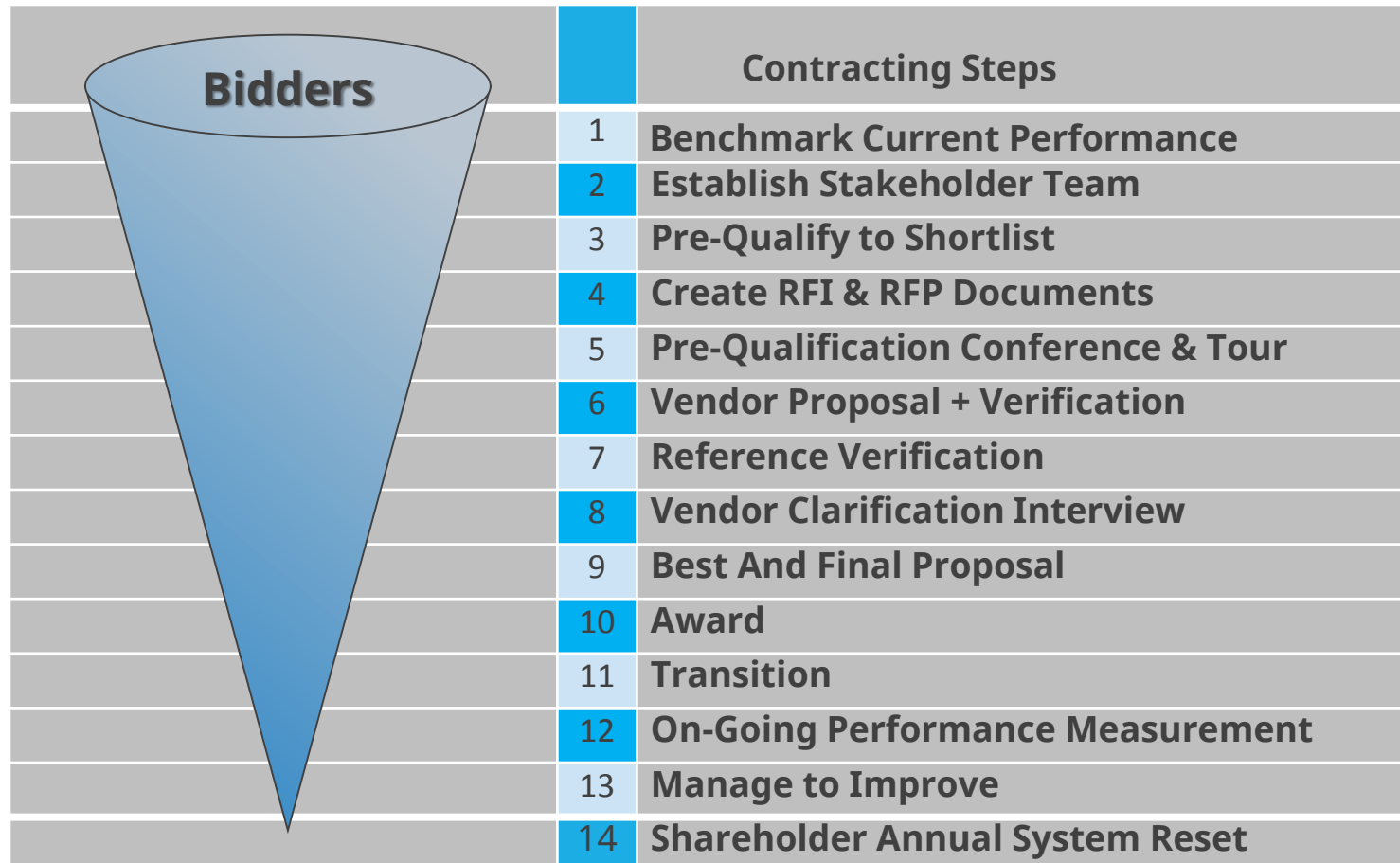




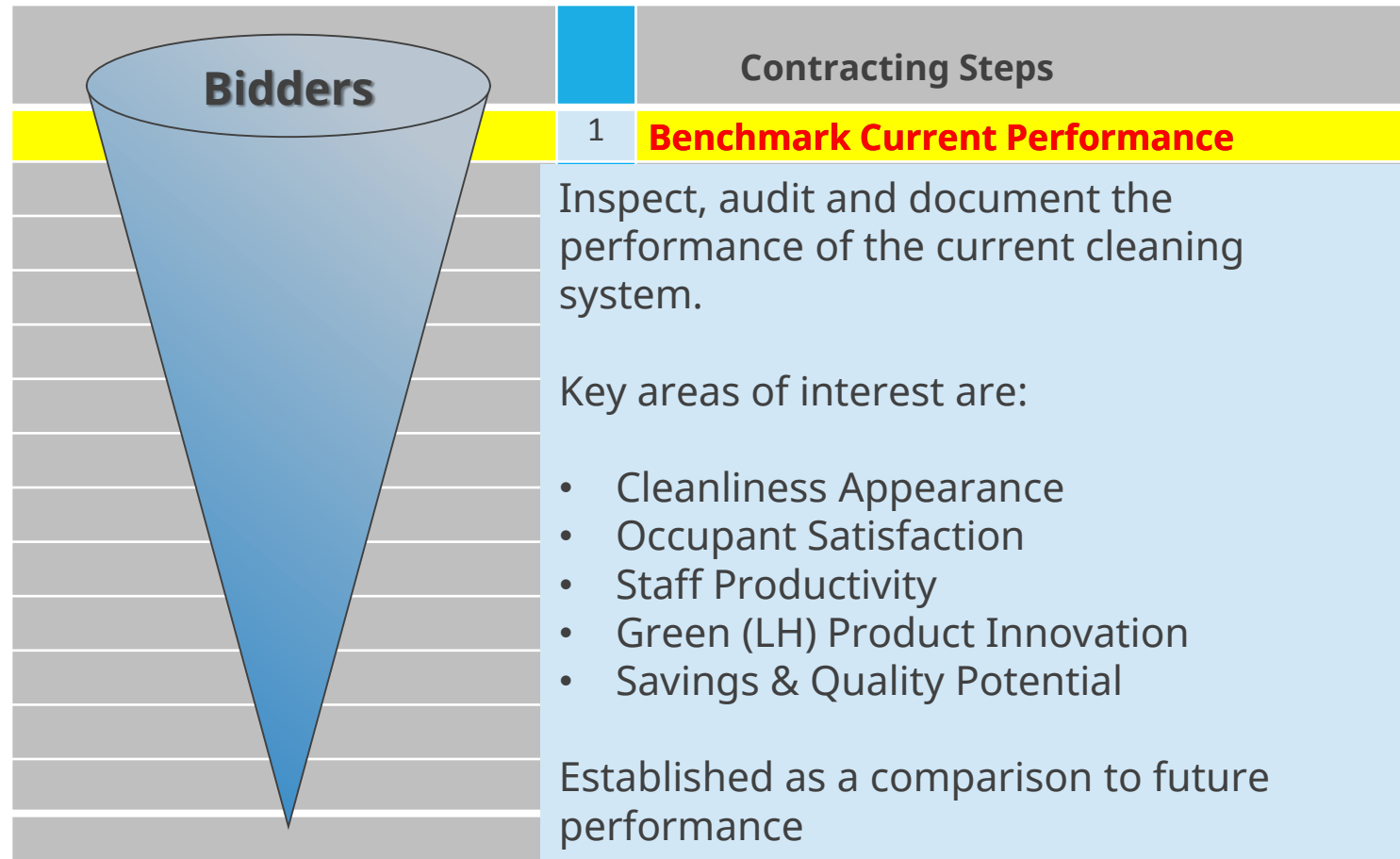
A Lightning Tour of PBC

14 Steps to Success

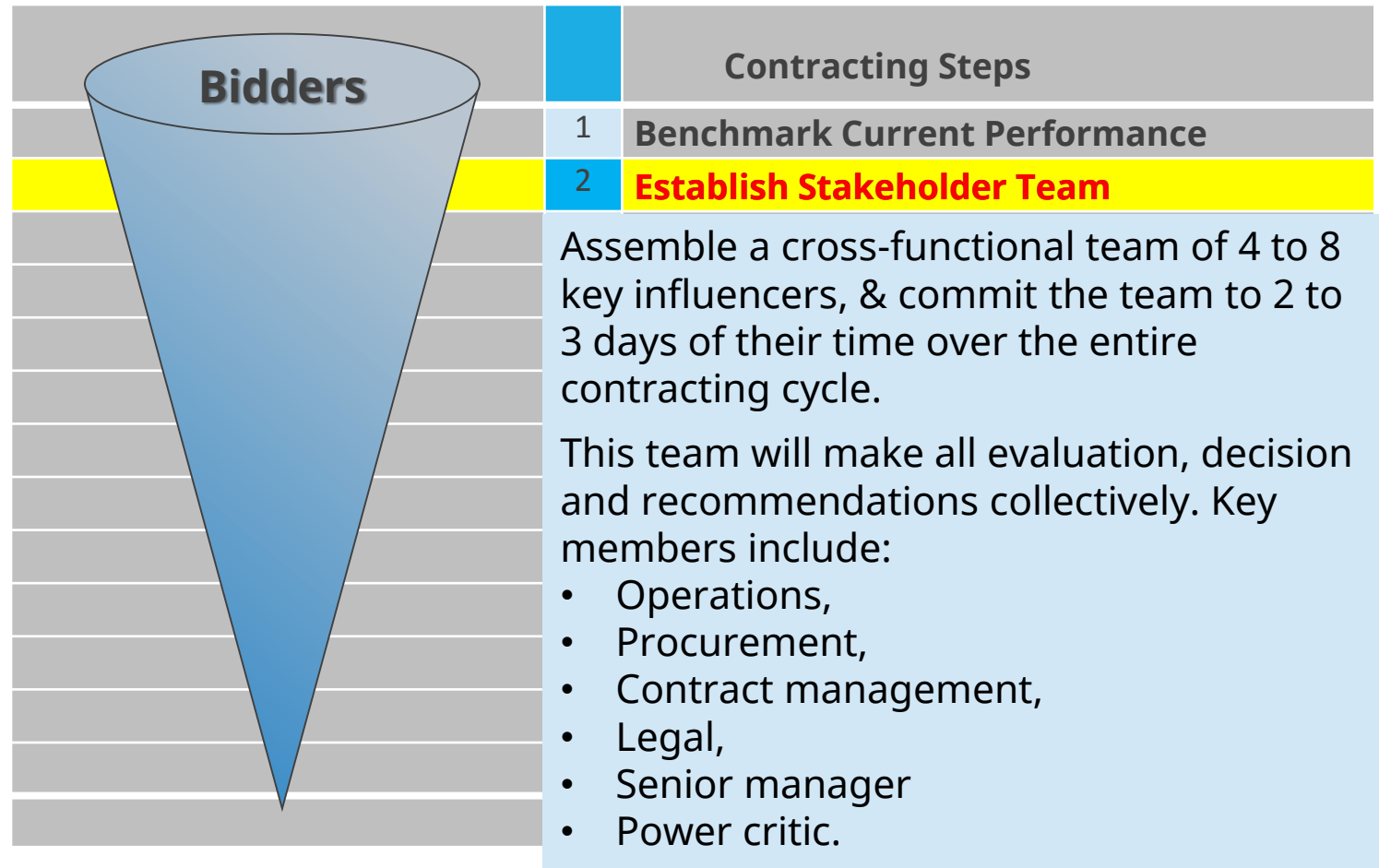
14-Step PBC Overview



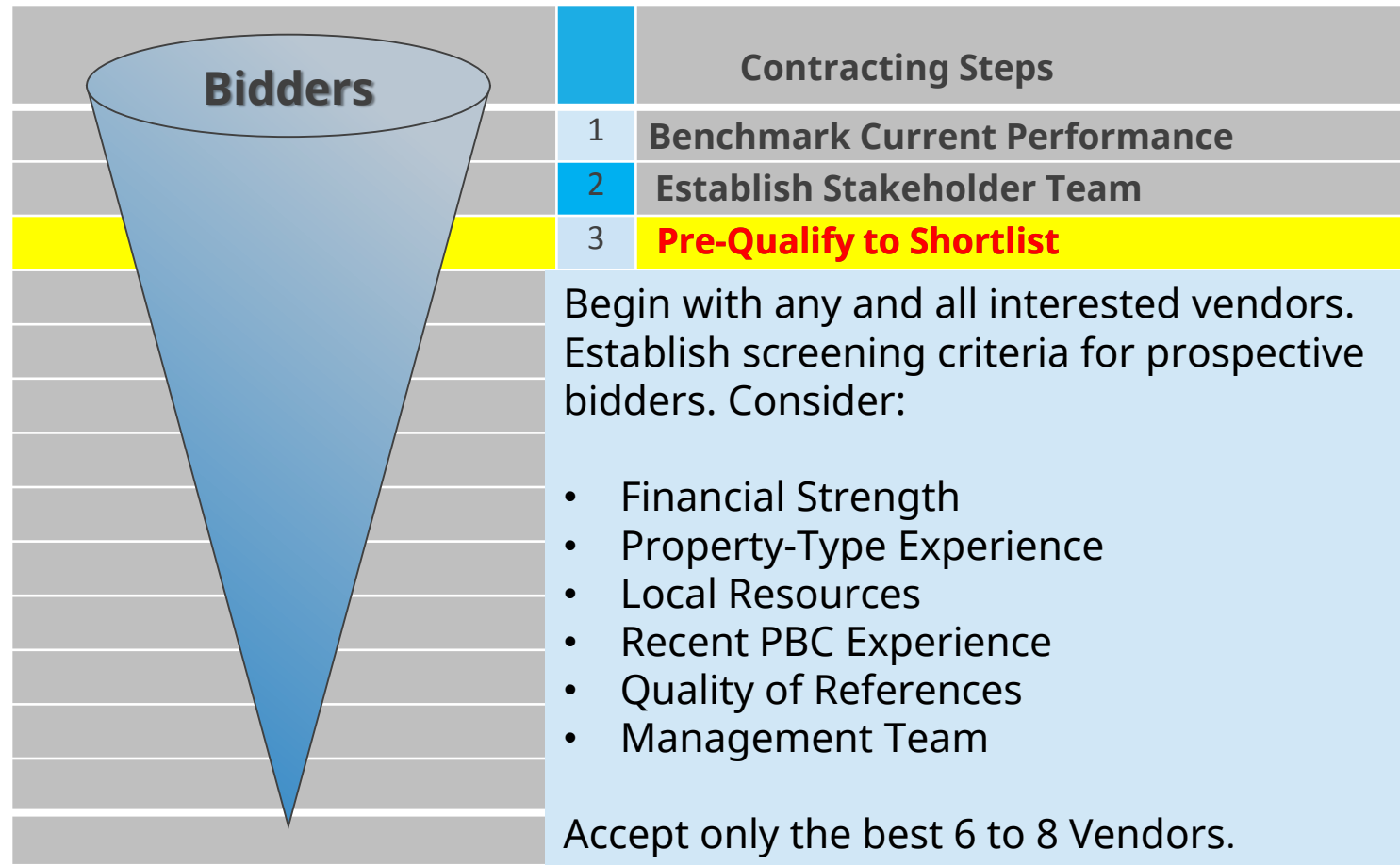
14-Step PBC Cycle



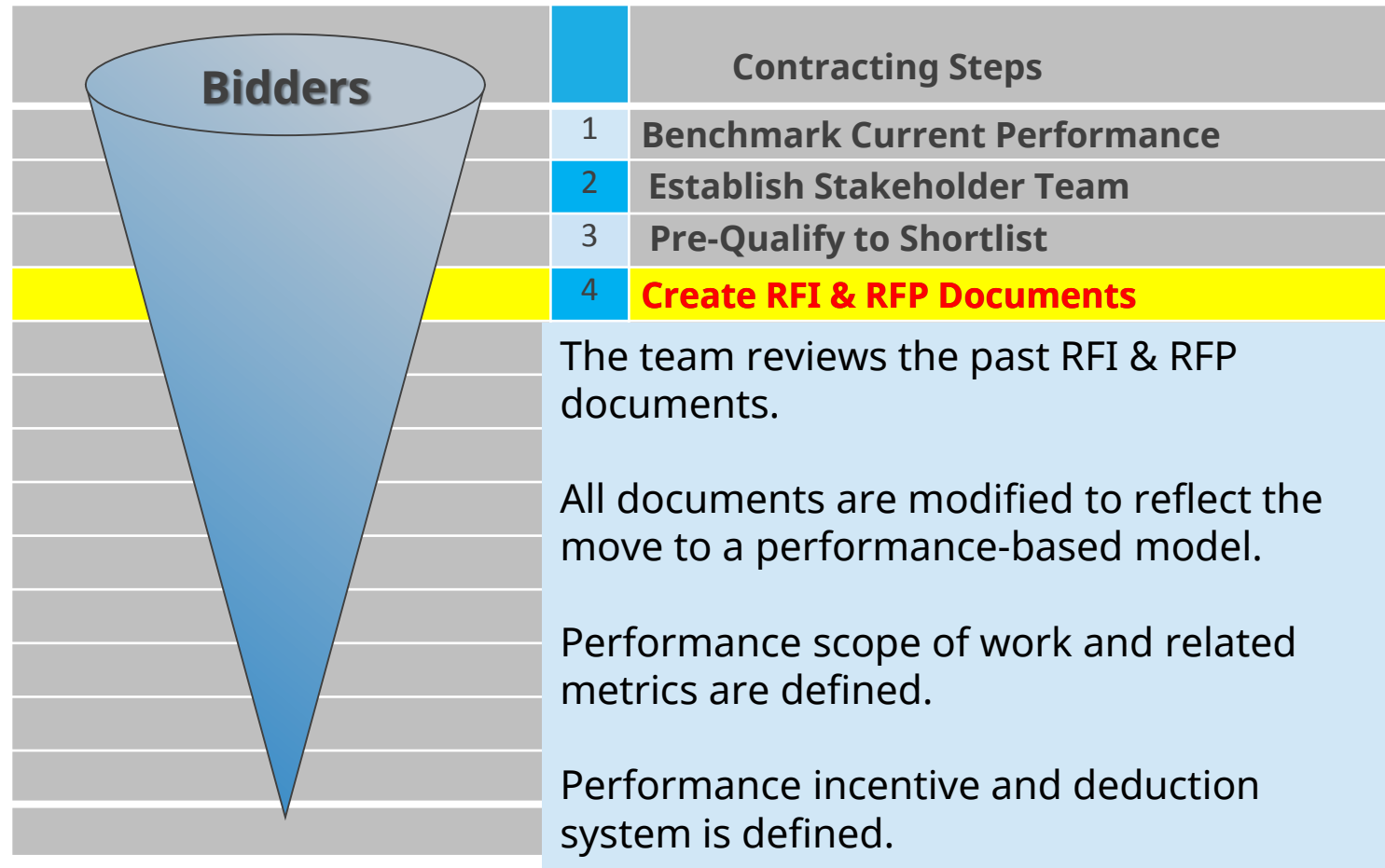
14-Step PBC Cycle



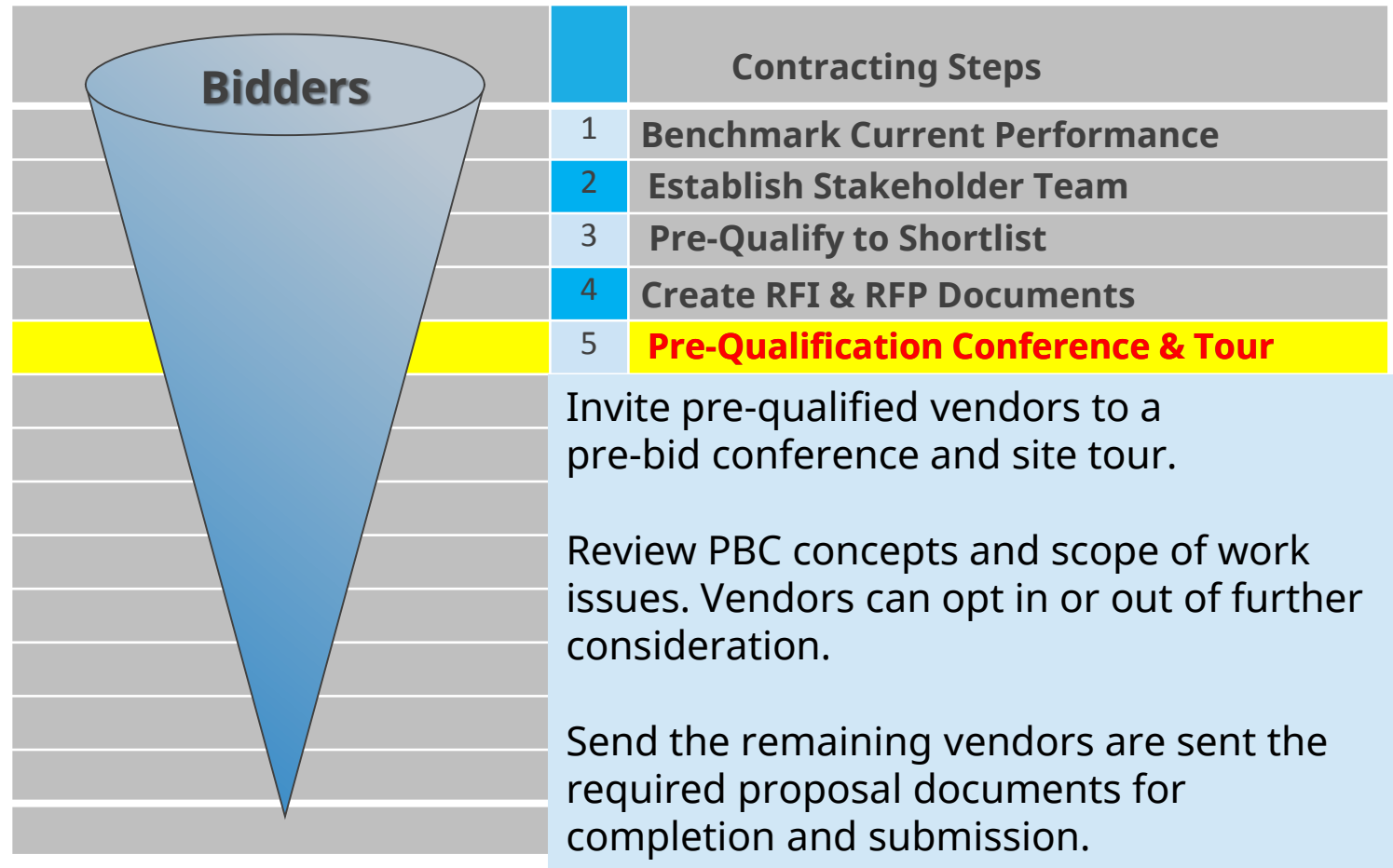
14-Step PBC Cycle



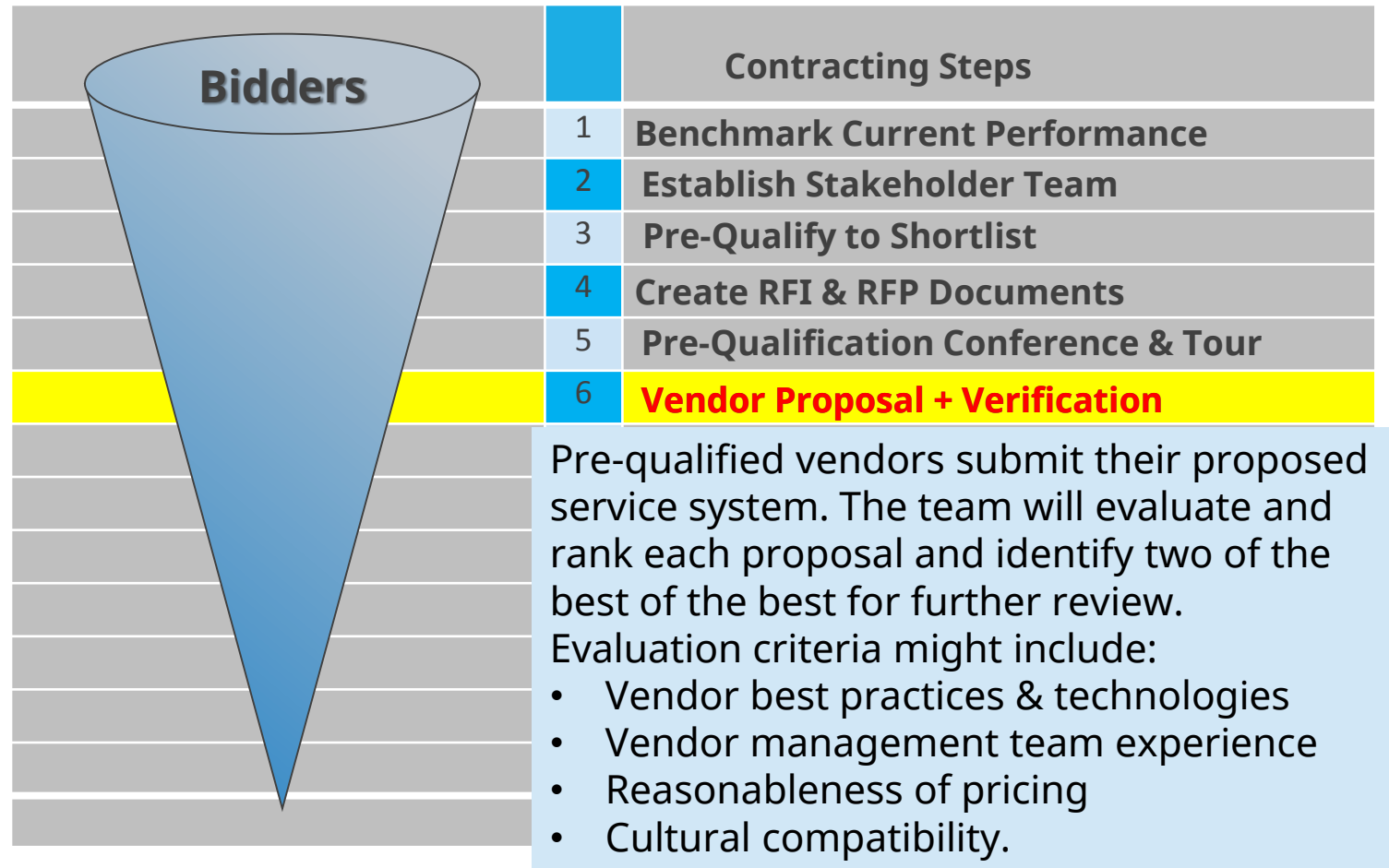
14-Step PBC Cycle



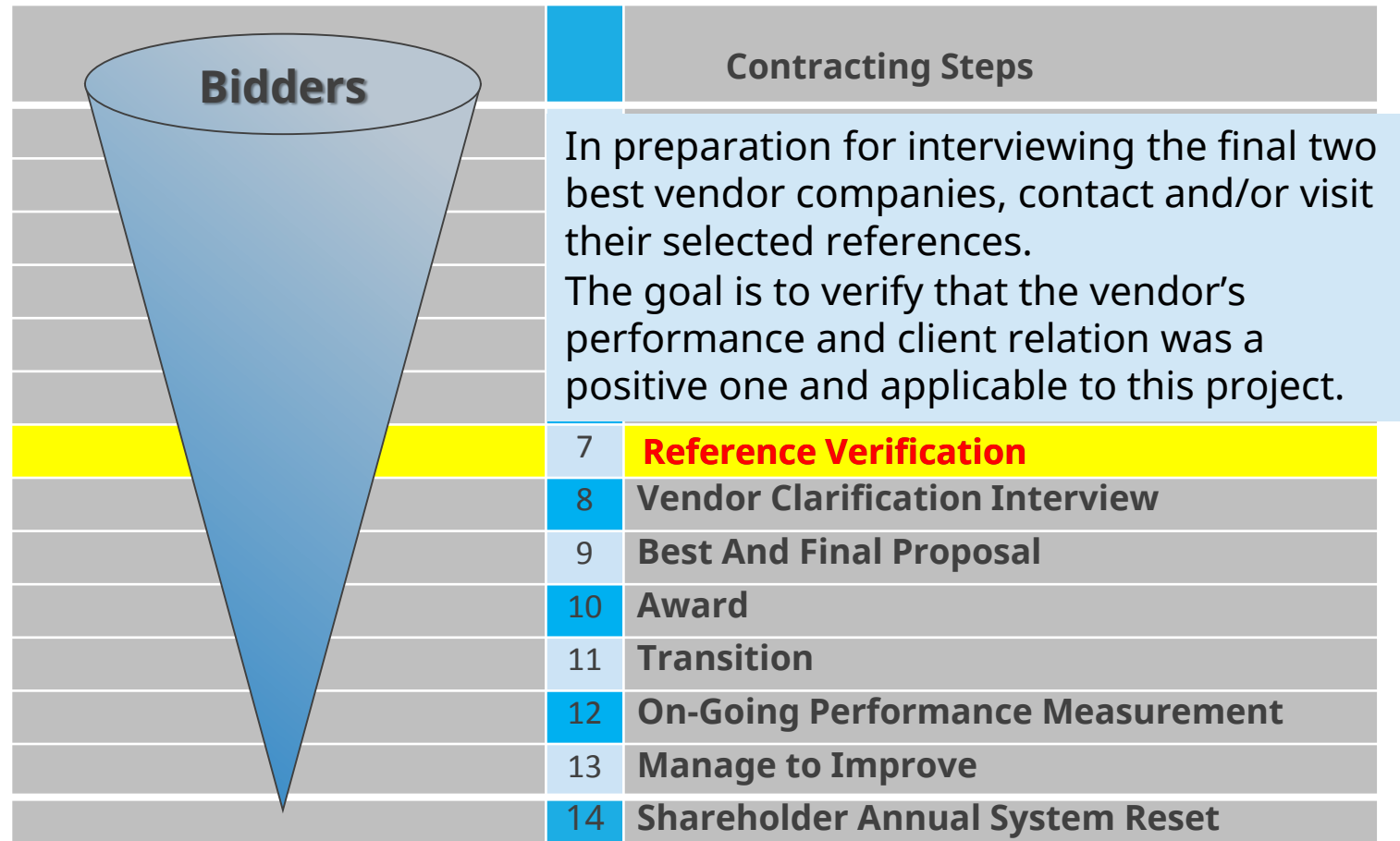
14-Step PBC Cycle



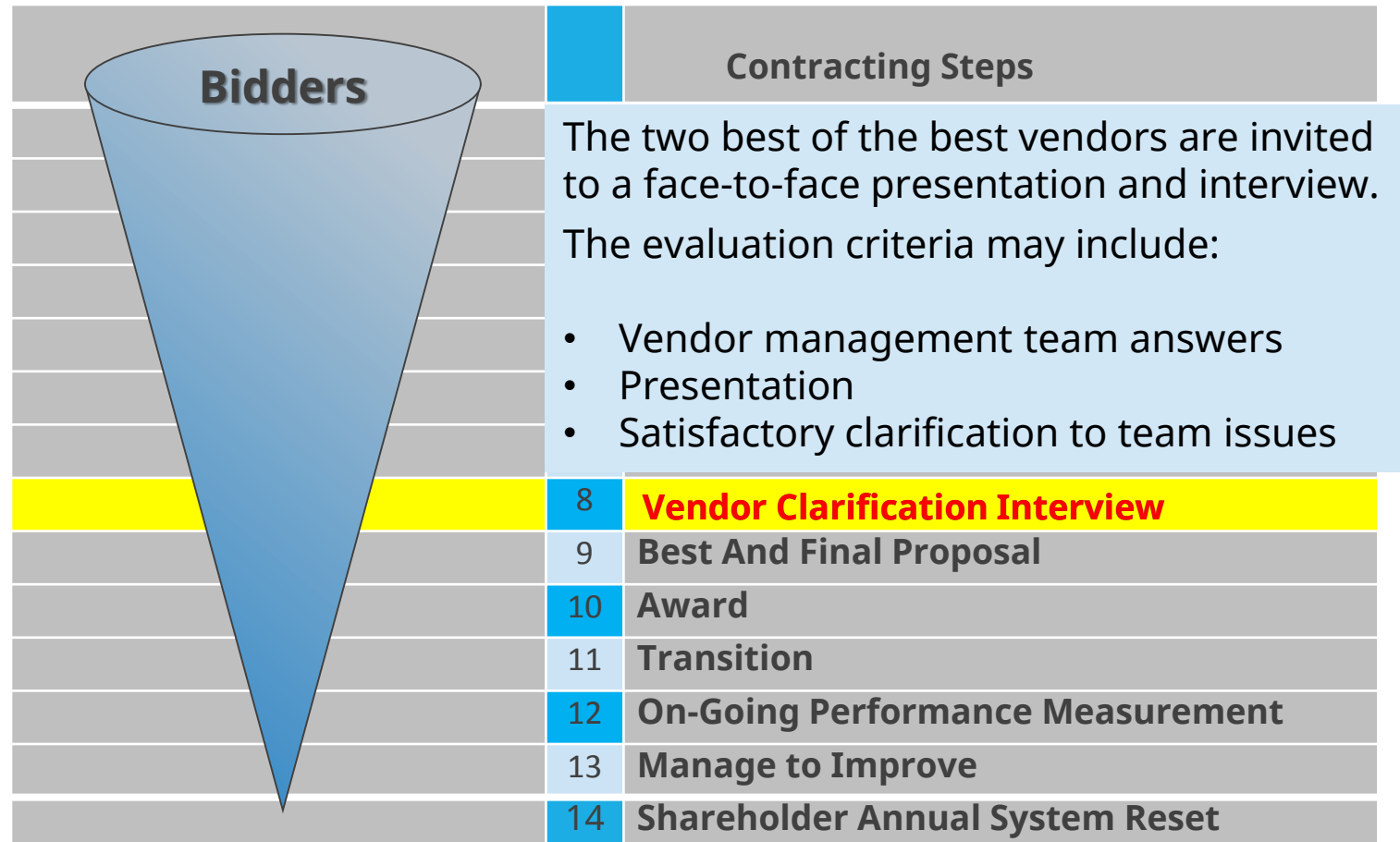
14-Step PBC Cycle



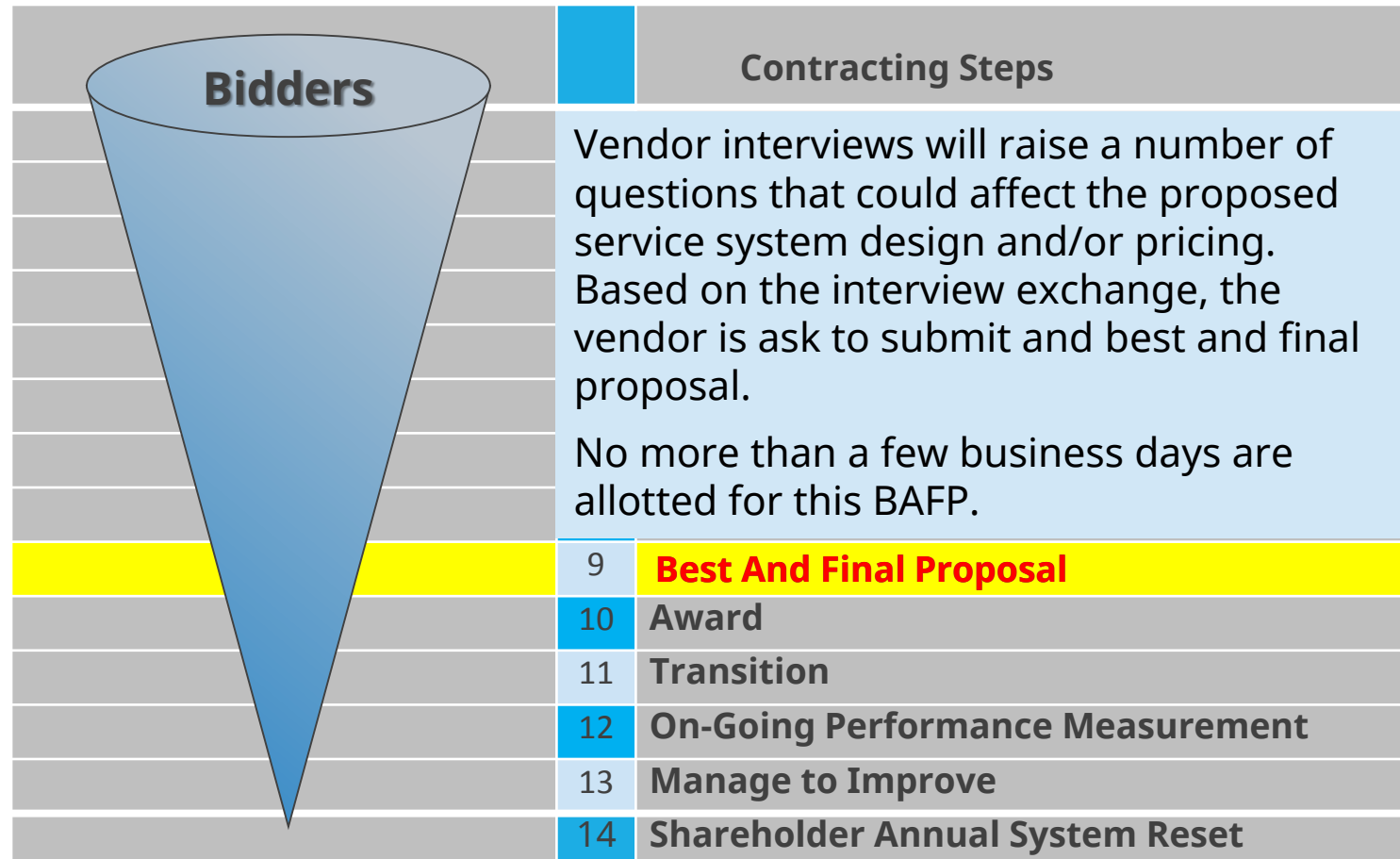
14-Step PBC Cycle



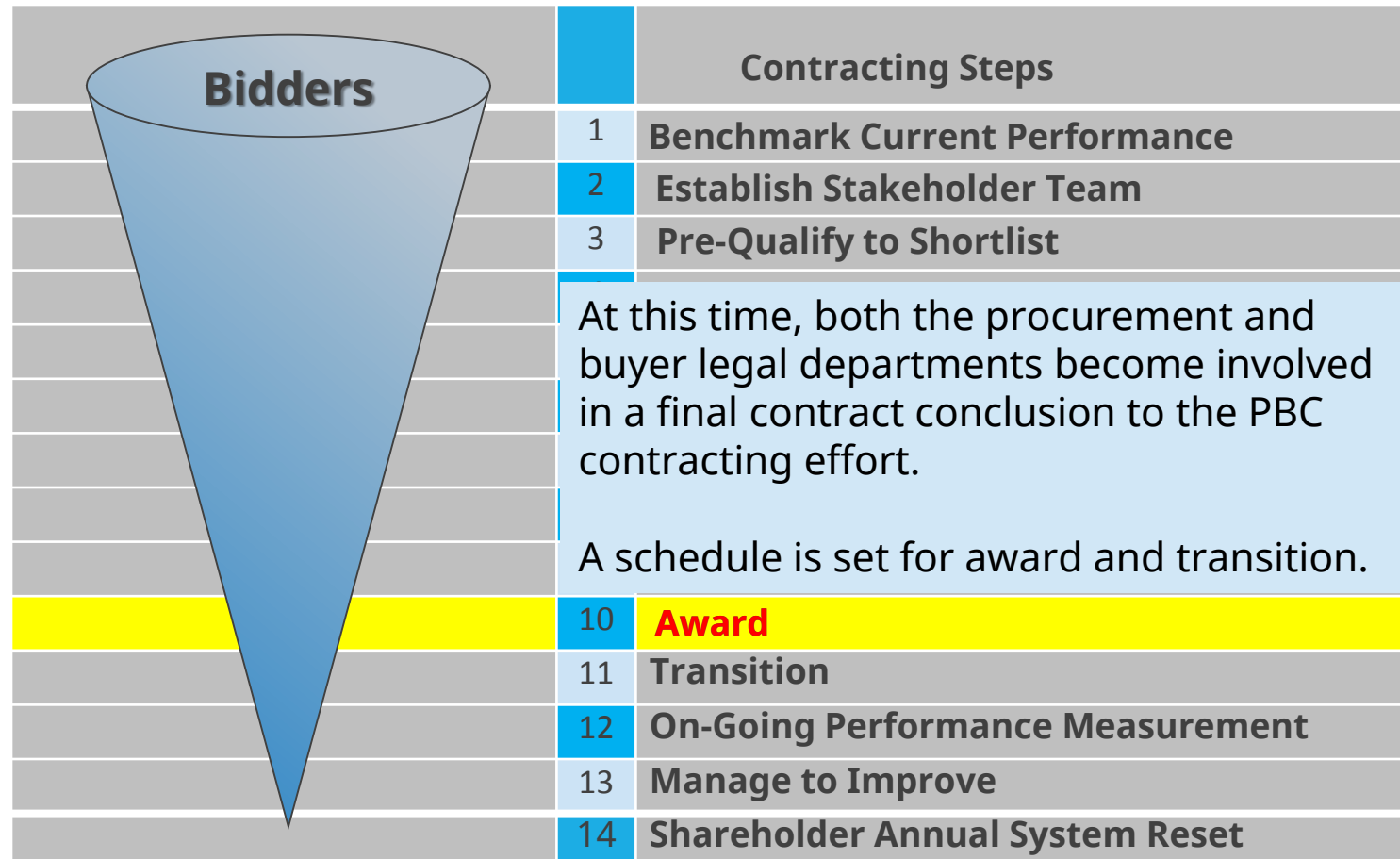
14-Step PBC Cycle



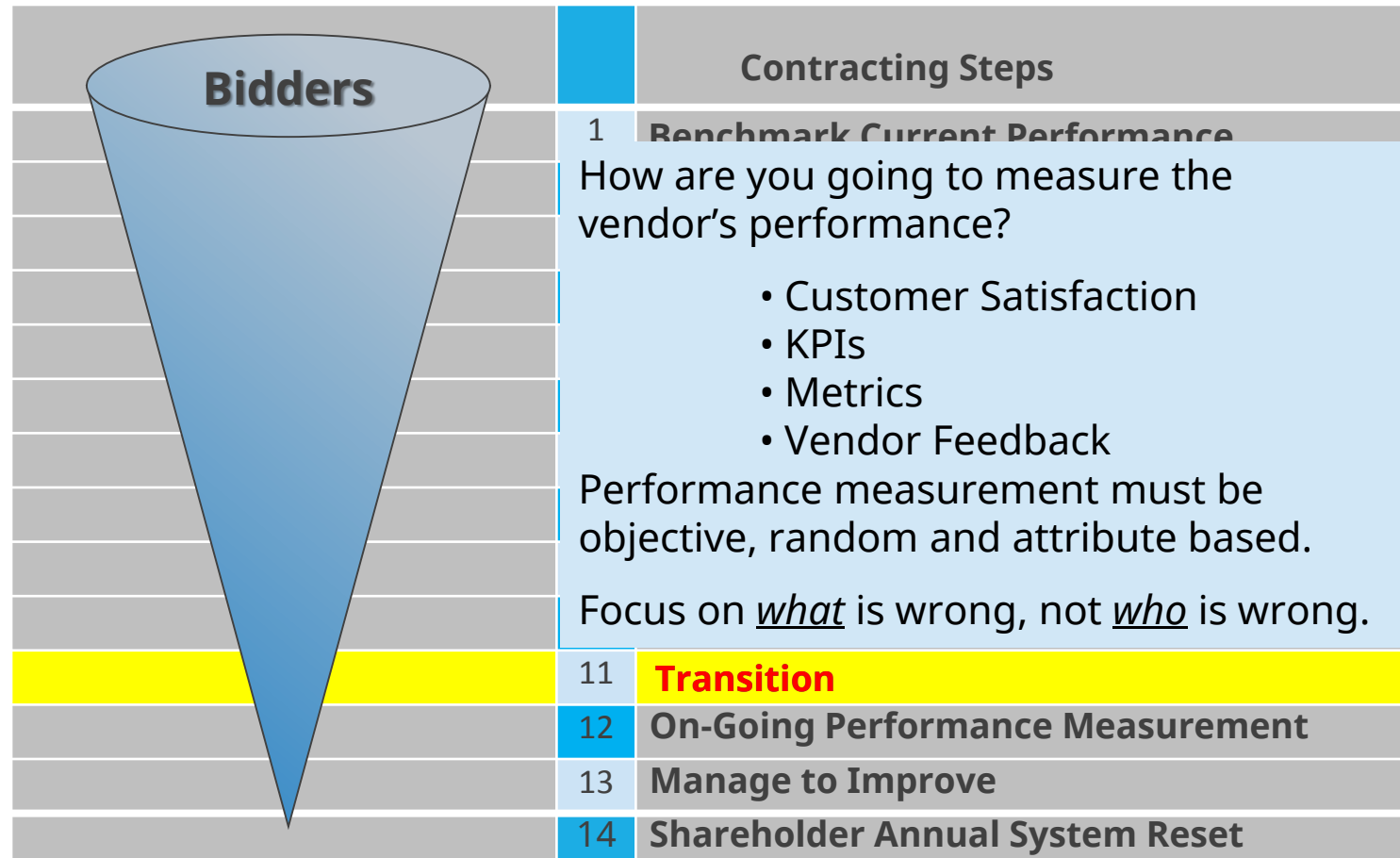
14-Step PBC Cycle



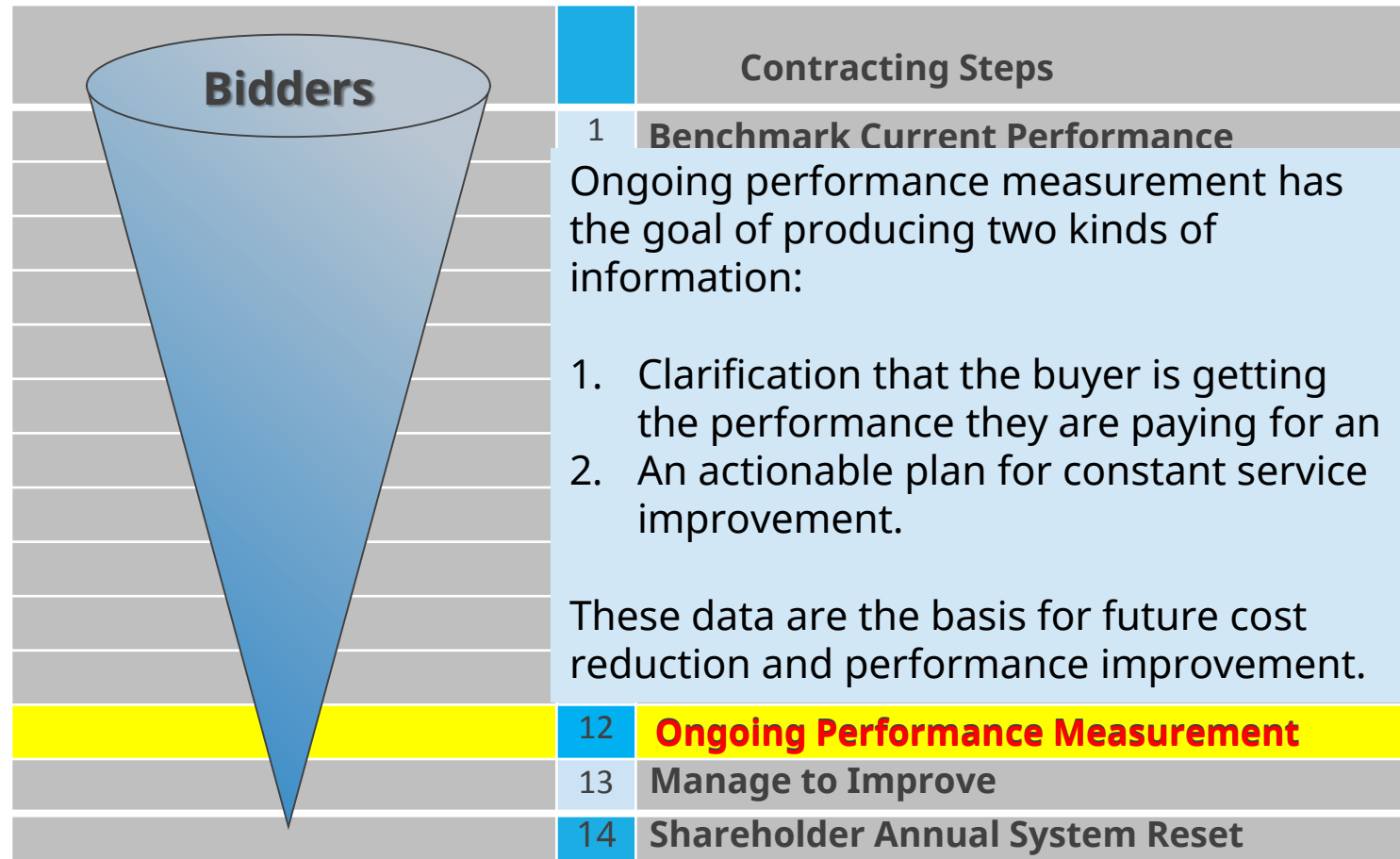
14-Step PBC Cycle



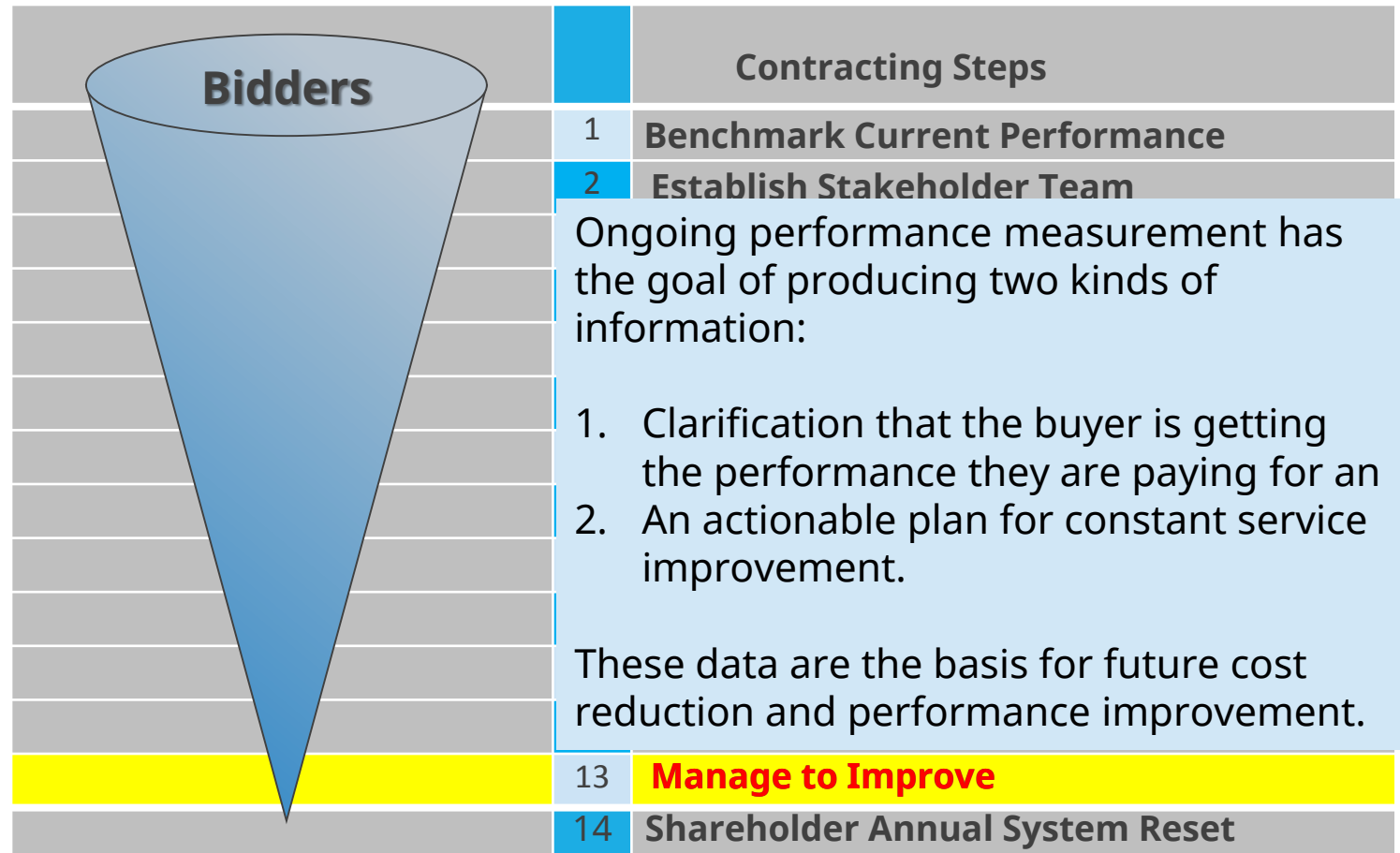
14-Step PBC Cycle



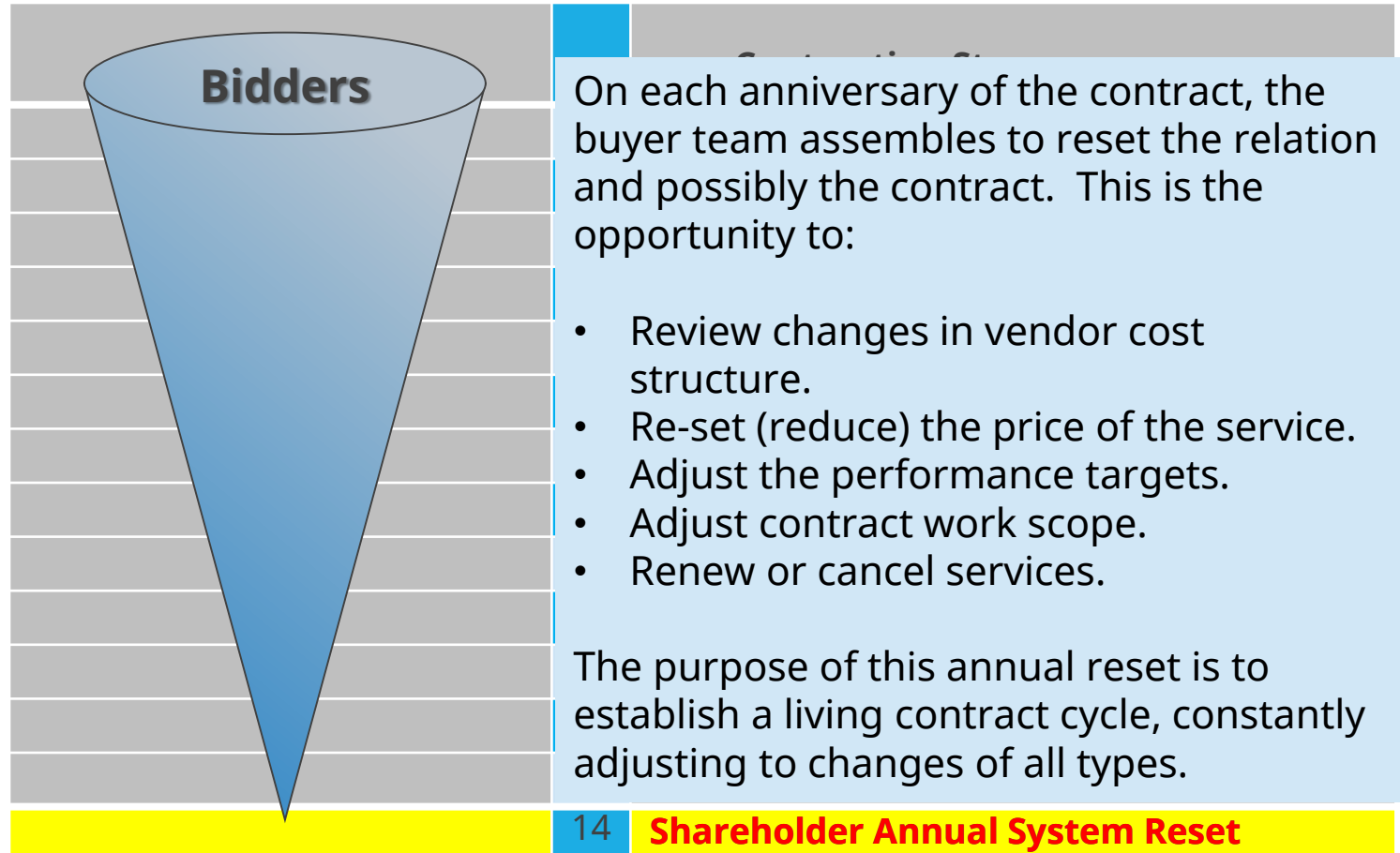
14-Step PBC Cycle



14-Step PBC Cycle



14-Step PBC Cycle



What you should expect from your PBC Program



- ✓ Remarkable Savings -- up to 30% gain on average
- ✓ Extraordinary Quality – up to 25% gain on average
- ✓ Toxic-free, Least Harmful service delivery system
- ✓ LEED Innovation points
- ✓ An Environmentally Sustainable service system
- ✓ A Safer, Healthier indoor environment
- ✓ More effective contract management
- ✓ Constant ***innovation, cost reduction*** and ***quality improvement***

Thanks! Questions?



Booth # 123456 (white paper)

ealtd.com

velliott@ealtd.com

