

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 Constant System 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

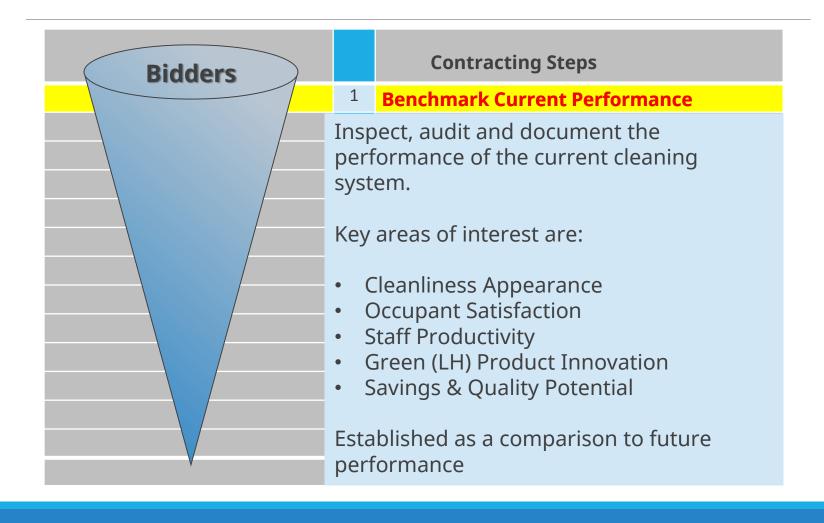


14-Step PBC Overview

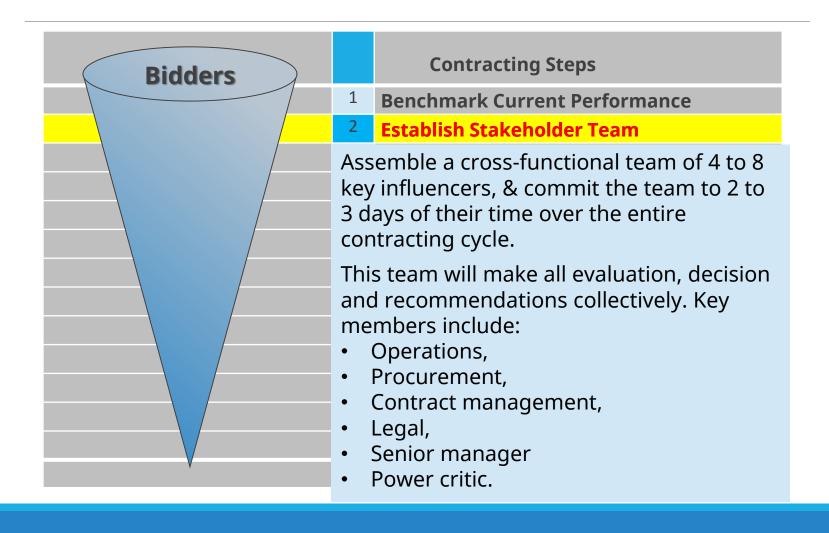


Bidders		Contracting Steps
	1	Benchmark Current Performance
	2	Establish Stakeholder Team
	3	Pre-Qualify to Shortlist
	4	Create RFI & RFP Documents
	5	Pre-Qualification Conference & Tour
	6	Vendor Proposal + Verification
	7	Reference Verification
	8	Vendor Clarification Interview
	9	Best And Final Proposal
	10	Award
	11	Transition
	12	On-Going Performance Measurement
	13	Manage to Improve
V	14	Shareholder Annual System Reset

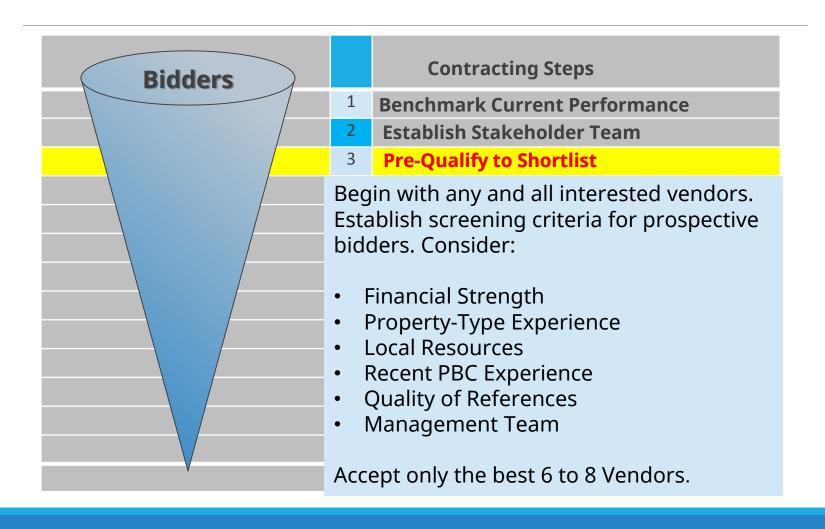














Bidders	Contracting Steps	
	Benchmark Current Performance	
	2 Establish Stakeholder Team	
	3 Pre-Qualify to Shortlist	
	4 Create RFI & RFP Documents	
	The team reviews the past RFI & RFP	
	documents.	
	All documents are modified to reflect the move to a performance-based model.	
	Performance scope of work and related metrics are defined.	
	Performance incentive and deduction system is defined.	



Bidders		Contracting Steps
	1	Benchmark Current Performance
	2	Establish Stakeholder Team
	3	Pre-Qualify to Shortlist
	4	Create RFI & RFP Documents
	5	Pre-Qualification Conference & Tour
	Revissu con	ite pre-qualified vendors to a bebid conference and site tour. view PBC concepts and scope of work ues. Vendors can opt in or out of further insideration. Indeed the remaining vendors are sent the uired proposal documents for inpletion and submission.



Bidders		Contracting Steps
	1	Benchmark Current Performance
	2	Establish Stakeholder Team
	3	Pre-Qualify to Shortlist
	4	Create RFI & RFP Documents
	5	Pre-Qualification Conference & Tour
	6	Vendor Proposal + Verification
	Pre-qualified vendors submit their propose service system. The team will evaluate and rank each proposal and identify two of the best of the best for further review. Evaluation criteria might include: Vendor best practices & technologies Vendor management team experience Reasonableness of pricing Cultural compatibility.	



Bidders		Contracting Steps
	In preparation for interviewing the final two best vendor companies, contact and/or visit their selected references. The goal is to verify that the vendor's performance and client relation was a positive one and applicable to this project.	
	7	Reference Verification
	8	Vendor Clarification Interview
	9	Best And Final Proposal
	10	Award
	11	Transition
	12	On-Going Performance Measurement
	13	Manage to Improve
V	14	Shareholder Annual System Reset



Bidders		Contracting Steps
		two best of the best vendors are invited a face-to-face presentation and interview.
		e evaluation criteria may include:
		Vendor management team answers
	PresentationSatisfactory clarification to team issues	
	8	Vendor Clarification Interview
	9	Best And Final Proposal
	10	Award
	11	Transition
	12	On-Going Performance Measurement
	13	Manage to Improve
V	14	Shareholder Annual System Reset

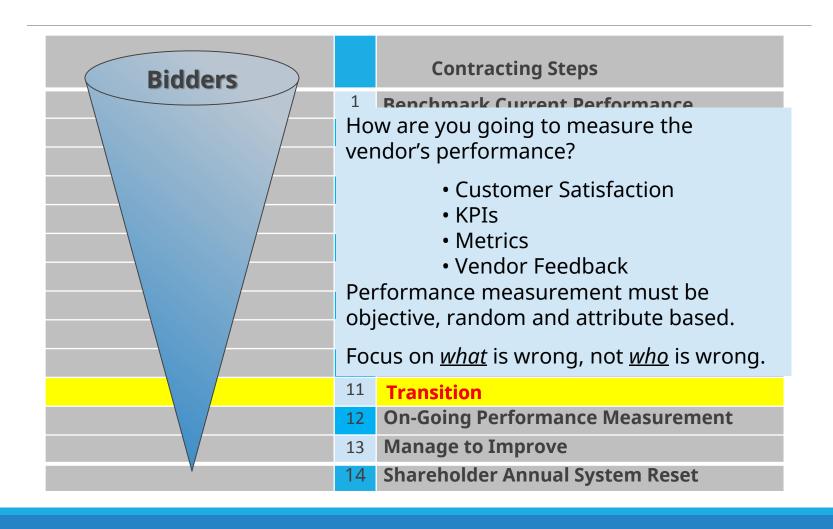


Bidders		Contracting Steps
	Vendor interviews will raise a number of questions that could affect the proposed service system design and/or pricing. Based on the interview exchange, the vendor is ask to submit and best and final proposal. No more than a few business days are allotted for this BAFP.	
	9	Best And Final Proposal
	10	Award
	11	Transition
	12	On-Going Performance Measurement
	13	Manage to Improve
V	14	Shareholder Annual System Reset

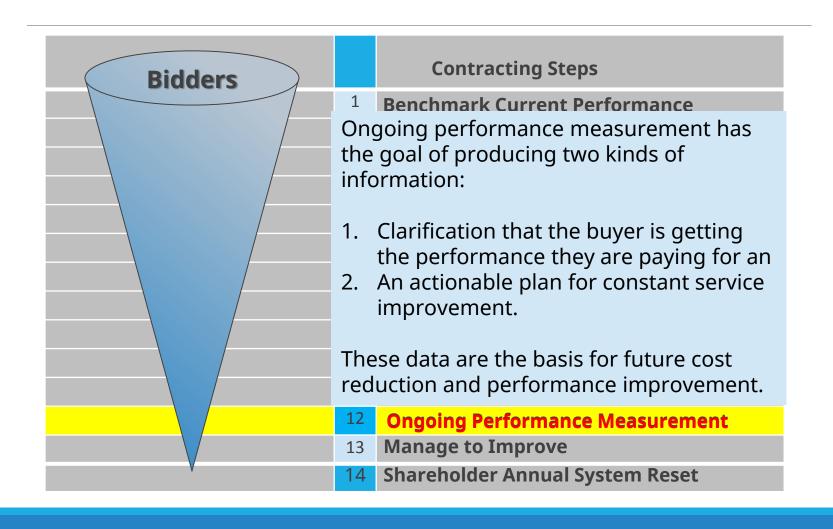


Bidders		Contracting Steps
	1	Benchmark Current Performance
	2	Establish Stakeholder Team
	3	Pre-Qualify to Shortlist
	At this time, both the procurement and buyer legal departments become involved in a final contract conclusion to the PBC contracting effort. A schedule is set for award and transition.	
	10	Award
	11	Transition
	12	On-Going Performance Measurement
	13	Manage to Improve
	14	Shareholder Annual System Reset

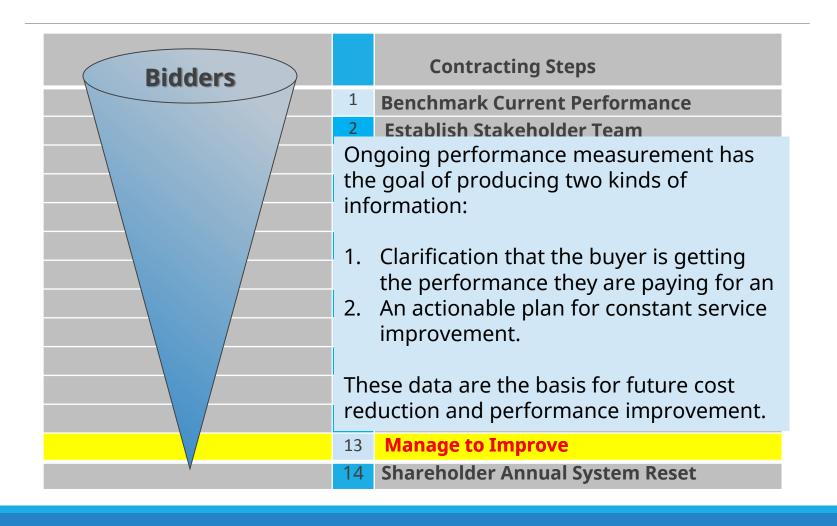




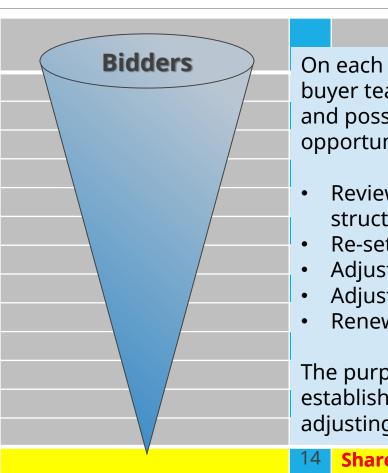












On each anniversary of the contract, the buyer team assembles to reset the relation and possibly the contract. This is the opportunity to:

- Review changes in vendor cost structure.
- Re-set (reduce) the price of the service.
- Adjust the performance targets.
- Adjust contract work scope.
- Renew or cancel services.

The purpose of this annual reset is to establish a living contract cycle, constantly adjusting to changes of all types.

Shareholder Annual System Reset

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)

<u>ealtd.com</u> <u>velliott@ealtd.com</u>