



Traditional -vs- Alternative Procurements

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Traditional -vs- Alternative

- Traditionally programs viewed the procurement process as “that nasty step before we get our contractor”.
- Programs took two years to get project approval and planned three months to go through the procurement cycle.
- Alternative procurements have brought back some personality to contracting.



Traditional -vs- Alternative

Rigid

- Iterative Process
- Best Value Selection
- Multi-Step Process
- Bus. Requirements
- Cost Considerations
- Past Performance
- Process Flexibility
(somewhat)
- FSR

Flexible

- Iterative Process
- Best Value Selection
- Multi-Step Process
- Bus. Requirements
- Cost Considerations
- Past Performance
- Process Flexibility
(Highly)
- APBJ/FSR



Traditional Procurements

- Require Feasibility Study Report approval prior to initiating procurement.
- Only two types available (IFB/RFP).
- Must follow a prescribed methodology with defined process steps.
- Marginal bidders can remain in the process draining staff time.



Traditional Procurements

- Potential solutions are limited and driven by prescriptive requirements.
- Best value is considered but usually does not give preference to stronger solutions.
- Contractor/Program interaction is limited by process.
- Bidder selection is made with strict evaluation requirements.



Advantages of Alternative Procurements

Ability to be creative with your procurement.

- The program can design an approach to fit their project needs and not have to follow a prescribed methodology.
- Programs have the ability to maximize pre-qualification of bidders at the earliest possible stage in the procurement.
- Process steps can be developed and structured to meet program needs and timelines.



More Advantages

- Greater emphasis can be given to “Best Value” criteria (product, past performance, etc.).
- Programs are able to start-up faster due to more streamlined project approvals (APBJ/APR in lieu of FSR).
- More creative discussion/interaction encouraged with the bidders.
- Ability to phase your procurement as a means to optimize your team resources and timelines.
- Ability to bring department management into the evaluation process.



Plan Your Procurement

- Define the goal of your procurement.
- Determine the type of procurement you will be using and how it will meet your goal.
- Develop an evaluation methodology that will give you your desired results.
- Give consideration to time, staffing, project management, addendums and approvals.
- Plan for a protest.



Use the Right Process

- Select a procurement method that fits your program and needs?
- What steps are being used in your procurement to be sure that the right interaction with your contractor is there?
- Do you have the right resources for the job?
- Have you designed your process for efficiency?



Build Business Requirements

- You need to know enough about your project to write an effective procurement document.
- Write your solicitation requirements to allow contractors to offer creative solutions, don't be prescriptive.



Consider the Contractors' Side

- Allow the contractors to use their best skills.
- Allow for shared risk.
- Be careful about asking for things that increase contractor costs, such as security documents, bonds, source code, etc.
- Be objective about what you ask for in your procurement.



Use the Right Steps

- Information gathering - run requirements by selected bidders, product demonstrations.
- Bidder pre-qualification
- Bidder conferences
- Conceptual Proposals
- Detailed Technical Proposals
- Discussions
- Interviews
- Draft Proposals
- Final Proposals
- Contract Language



Conduct Your Procurement With Integrity

- Evaluate all proposals to the same standard.
- Conduct all steps professionally as they have been defined in the solicitation.
- Reinforce ethical behavior with team members.
- Be careful not to steer processes, or requirements.
- Assume there will be a protest.



Formula for Success

- Plan your procurement.
- Determine the right procurement process for your project.
- Use process steps that add value to your procurement.
- Develop business requirements.
- Consider the contractors' side.
- Conduct your procurement with integrity.



PERFORMANCE BASED PROCUREMENT

A Model for Project Success



History of Performance Based Procurement

- **In the early 1990's the State was in a deep recession**
- **Large-scale reengineering projects denied (no money)**
- **In 1993 a conference was held by the Dept. of General Services (attended by government executives and private businesses) to develop and use a new procurement approach**
- **A two-year pilot project was recommended in which a new procurement model would be developed and tested.**
- **FTB offered to develop and test this new procurement model**
- **Results were successful implementation of the pilot project**
- **New projects followed and are now in progress**



Critical Business Need

- **Bank and Corporation Income Tax System**
 - \$172.4 million project
 - **Business Entities Tax System (BETS)**
 - **Collection Accounts Process System (CAPS)**
 - **Pass-Through Entity Automated Screening and Support System (PASS)**
- **Accounts Receivable Collection System (ARCS)**
 - \$39.4 million project
- **Integrated Nonfiler Compliance (INC)**
 - \$61.2 million project
- **California Child Support Automation System (CCSAS)**
 - \$ to be determined



A Better Solution Should

- Provide creative business solutions**
- Reduce risks**
- Share risks and benefits**
- Provide alternative funding**
- Add value to the department**
- Provide cooperative teamwork**



Strategic Partnerships

- **Establish a pool of qualified partners (selection criteria)**
 - **Financial stability (i.e., Letter of Bondability)**
 - **Expertise in large systems integration projects**
 - **Proven track record of success**
 - **Qualified and knowledgeable staff in business area**
 - **Customer references for projects similar in size and scope**
 - **Agree to share risks and benefits**
 - **Commit to honest and open communication, and teamwork**
 - **Agree to be paid from realizable benefits**



Business-Driven Solution

- **Business partner conference (kick-off meeting)**
 - **Determine who will participate**
- **Business problem documentation**
 - **Solicitation for Conceptual Proposal (SCP) written to describe business problem (no preconceived solution)**
- **Iterative confidential meetings with Business Partners**
 - **Business Partners fully understand the business problem**
 - **FTB fully understands the solution being processed**
 - **Results in the generation of real alternatives to the business solution**



Business-Driven Solution (cont'd)

- Submittal of draft conceptual proposal (provided detail information on business solution)**
- Continued confidential meetings with business partner to allow final proposal to be the best the partner could offer**
- Final proposal, including costs, submitted by partner**



Best Value Evaluation

- **Quality**

- **Partnership**

- **Solution features**

- **Management features (reporting aspects, flexibility, meet customer needs)**

- **User-friendliness (seamless, navigation, help, references)**

- **Training Approach**



Best Value Evaluation (cont'd)

- **Risk**

- **Project management**
- **Costs**
- **Data center impact/production platform**
- **Development/implementation**
- **Ease of maintenance**

- **Benefits**

- **Net benefits to the State**
- **Infrastructure improvements**



Performance Based Payments

- **Supplier Financing and Payments**

- **Project dollars funded by partner**

- **Fixed price contract**

- **Payments made from realized benefits**

- **As a result:**

- **Both parties have incentive for on schedule and within budget implementation**

- **Both are incentivized to implement a solution that works and provides benefits**

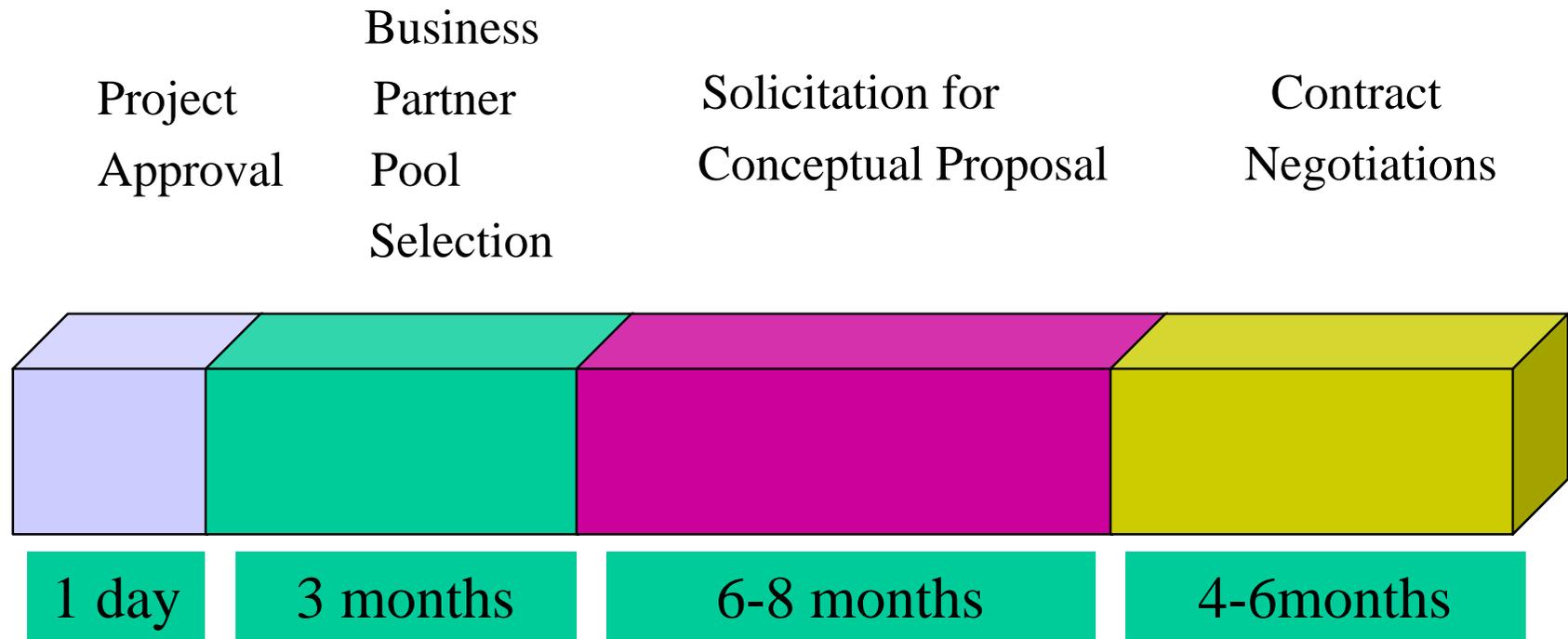


Contract Negotiations

- **Following the selection, all participating partners were debriefed on the evaluation and selection rationale**
 - **Allows them to challenge the process**
 - **Mitigates any grounds for protest**
- **Contract language negotiation with selected partner**
 - **Must focus on the system and not the pieces and parts**
 - **Contract language needs to allow for flexibility in the management of the project**
 - **Benefit validation/measurement methods/payment schedule**
 - **Fixed cost**
 - **Inventory, maintenance, royalty issues**



Sample Procurement Time Line



Sample start date - September 4, 2000

Sample end date (award of contract) - December 31, 2001



Advantages of Performance Based Procurement Model

- **Take advantage of partner's knowledge and expertise to solve a business problem**
- **All parties have an incentive to complete project on time and within budget**
- **Provides solutions that work at a fixed cost and reduces project risks**
- **Provides alternative project funding with payments derived from project benefits**
- **Overall project development time is significantly reduced**



Some Things to Think About.....

- The Performance Based Procurement worked well on large scale systems integration projects**
- Requires executive management commitment, support and involvement**
- The process is resource intensive**
- Shared decision making and teamwork (between business partner and agency)**
- Contract flexibility for project management decisions**



In Addition.....

- **A strategic plan or direction should be documented**
- **Benefits must be measurable**
- **Not a cookbook, requires sound management decision making throughout the process**
- **Not for the faint-hearted, must be willing to take risks**



MM 98-12 Procurement

- Requires Alternative Business-Based Procurement for major acquisitions (Any Project \$5 Million or Mission Critical)
 - RFI to qualify bidders
 - Solicit bidder proposals to meet business functional requirements
 - Iterative discussions with bidders
 - Negotiate contracts concurrently
 - FSR at the end--with alternatives evaluated and costs verified by the bidders



DOIT's Big Questions

- Technical, not Fiscal
 - Can technology solve the business problem?
 - Does the project conform to statewide standards?
 - Will this project be successful?



DOIT is Responsible for IT, Not Your Business, But DOIT Does Read the Business Case

- To find out if the solution matches it
 - Is the business problem defined in business terms?
 - Has the department researched available solutions?
 - Who are the sponsors?
 - What are the consequences of delay?
 - What are the consequences of budget overruns?



Business, not Technology

- Give the supplier community your problem, let them provide a solution
 - Business-based specifications
 - Broad latitude for supplier solutions
 - Contract for business functionality, not technology
 - Your current environment is valuable, but not more important than your business



The Old Order

- Prefer accommodation to environment
 1. COTS that fits technical standards and all business processes
 2. Build to suit that fits technical standards and all business processes



The New Order

- Prefer working solutions
 1. COTS that fits technical standards and essential business processes
 2. COTS that does not fit technical standards but supports essential business processes
 3. Build to suit that fits technical standards and essential business processes
 4. Build to suit that does not fit technical standards but supports essential business processes



COTS is a relative term

- DOIT preference is to limit custom coding
- COTS need not be specified by name
 - Require existing, production system if competitively available
 - Department should be willing to modify business processes to reduce customization
 - Procurement should not encourage customization
 - Least customization should lead to least cost



Project Plan

- Structure Project for Success
 - Is the schedule realistic?
 - Is the project phased?
 - Are payments based upon measurable deliverables?
 - Are assumptions identified and realistic?
 - Is Scope clearly identified and constrained?



Project Management

- Prepare to Deliver the Plan
 - Project manager qualifications identified?
 - Project consultant need identified and met?
 - Program management involvement ensured?
 - Project scheduling and monitoring in place?
 - Project budget controls in place?
 - Change and Issues Management in place?



Risk Assessment

- Identify All Risks, and Plan Mitigation
 - RAM is not sufficient
 - Assessment must be thorough
 - Mitigation must be sufficient and realistic
 - Consequences must be tolerable



Enterprise Policies

- Data Center Consolidation
 - No new data centers
- Enterprise Systems
 - Common functions, common systems
- CIIN--telecommunications contracts
 - Use consolidated contract
- Interoperability
 - Internet and directories--emerging standards



Data Center Site and Operation Is Required

- Unless Business Requirements Compel Other Site
 - Costs justification only if funds are strictly limited--and must be verified by DC
 - Department competence is necessary, but not sufficient
- Why?
 - (Perceived) Efficiencies
 - Real Staffing Issues



Beyond the FSR

- Is the Department Ready?
 - Business Process Reengineering Done?
 - Strategic Business and IT Plan current and consistent with project?
 - Project Management Practices in Place?
 - Other skills available?
 - Other workload?
 - Performance history?



Ongoing Project Requirements

- Independent Oversight
 - DOIT will usually contract; Department will reimburse DOIT
 - IEEE IV&V if substantial development
- Periodic Reporting
 - At least quarterly progress reports
 - Perhaps regular meetings
- Project Steering Committee
 - DOIT encourages, and will participate
- Health Checks and Critical Assessments
 - DOIT may require if concerns arise



Bottom Line

- Involve Us Early
- Involve Us Frequently
- Consider Us Knowledge Based Organizations that Can Assist You With Successful Projects and Business Solutions.