



BIDDING IN THE 21ST CENTURY – BUYERS PERSPECTIVE

BX Net Conference
January 17 -19th 2017
Byrne Consulting
Jeff.byrne22@gmail.com

Canadian Public Sector Buyer Perspective

JEFF BYRNE:

- *Recently retired Chief Procurement Officer for City of Ottawa*
- *30 + years public procurement experience at both the Federal and Municipal levels of government*
- *Oversaw an annual spend of \$1.2 billion of which more than \$500M was comprised of construction services*
- *Key advisor on \$2.1 billion Confederation Light Rail Transit Line P3 project (2018 implementation)*
- *Long standing working relationship with Ottawa Construction Association*
- *Currently consulting with the Ottawa Hospital who is embarking on building a new world-class \$2 billion super hospital and teaching facility. (2026 opening)*

Today's Presentation & Discussion

- ❑ Overview of changing landscape for construction services;
- ❑ Possible impacts of changing procurement on your plans room operation
- ❑ How best to position your Exchange to work with a major Buyer on bid opportunity communication

Changing Procurement Landscape for Construction Services

Top evolving Landscape Changers:

- *Technology*
- *Cost Control and Savings*
- *Greater Focus on Risk Management*
- *Supplier Relationships*
- *Market*
- *Sustainability*

Deloitte Global CPO Survey 2016



The Deloitte Global Chief Procurement Officer (CPO) Survey profiles the views of senior procurement leaders from around the world on the key issues facing the procurement function.

*CPO's top **priorities**;*

- long term cost reduction (value for money versus lowest cost)
- Increased openness, fairness and transparency

*CPO's are primarily focusing on the following **strategies** to deliver value;*

- Consolidated spend
- Strategic business partner (client relationship)
- Increasing the level of supplier collaboration
- Restructuring supplier relationships

Technology

Canadian Public Sector Perspective

- Emerging technologies, many already here to be leveraged are presenting opportunities for improved value creation (cognitive analytics, open sourcing, scenario analysis, real time performance management)
 - Digital age is here, innovative technologies already exist, icloud, portals,
 - Rapid emergence of automation and robotics in process resulting in better transactional efficiency (E-Procurement)
- Open bidding opportunities
- Greater Buyer transparency
- Buyer / Industry knowledge – better access to information, sharing information, tender rules, rights, bidding processes, new case law, access to third party ombudsman, contact information
- Quick access to influential parties (Board of Directors, Senior management, media, etc
- Shorter cycle times, insight needs to be richer and more agile
- Shortened schedules, heightened expectations, more visibility

Technology

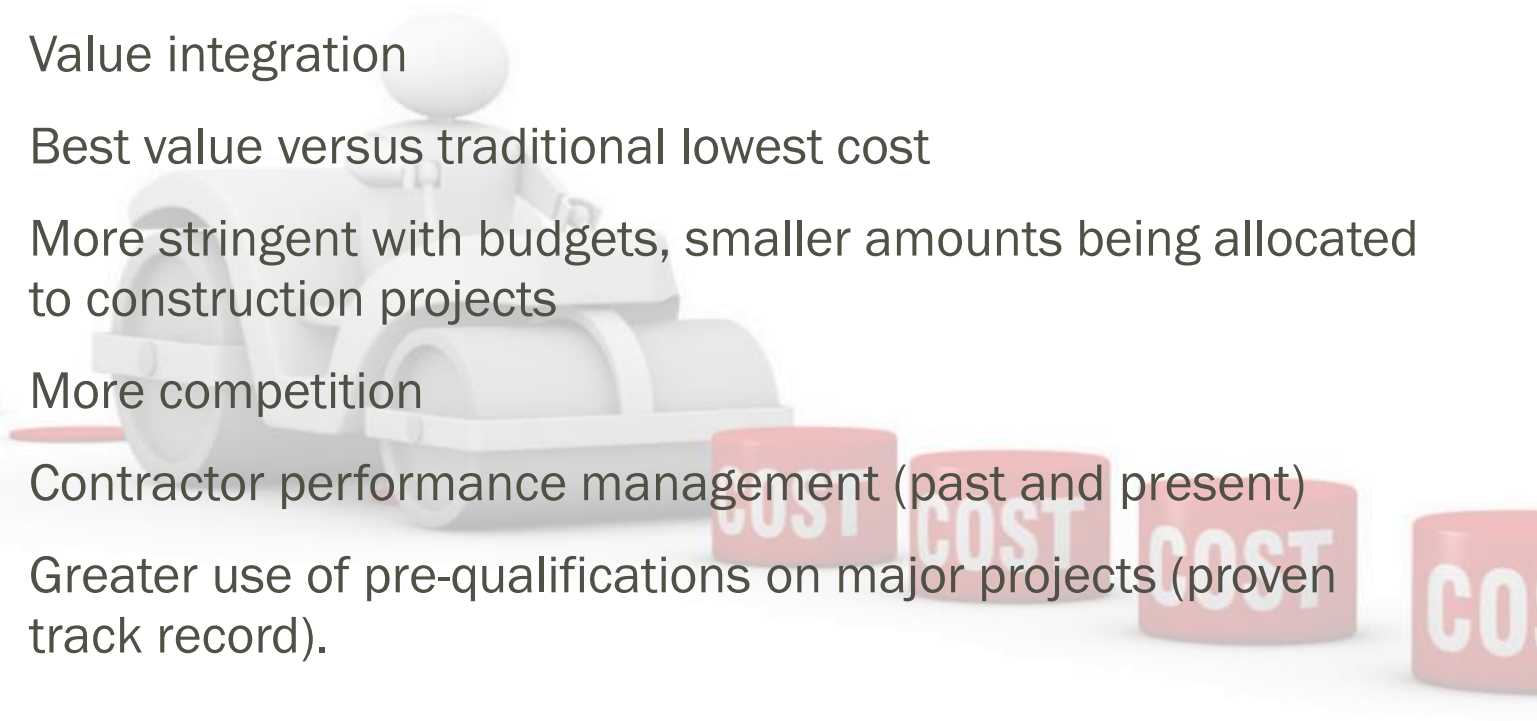


Deloitte Global CPO Survey 2016

- Emerging technologies are presenting opportunities for improved value creation and better transactional efficiency
- CPO's are investing heavily in solutions to support their functions
- Technology presents two parallel tracks of opportunity;
 - *More information to use when formulating strategies and to base business decisions on, and*
 - *Greater levels of self service and increased automation to drive efficiency and effectiveness*
- Top investment areas;
 - *Spend Analysis*
 - *Contract / Performance Management*
 - *E-Sourcing, and*
 - *Requisition to pay (E-Procurement)*

Cost Control and Saving

Canadian Public Sector Perspective

- Value integration
 - Best value versus traditional lowest cost
 - More stringent with budgets, smaller amounts being allocated to construction projects
 - More competition
 - Contractor performance management (past and present)
 - Greater use of pre-qualifications on major projects (proven track record).
- 

Rationale for using Past Performance

- Lowest priced bidder isn't always best value or the lowest bid (cost overruns later).
- Mandate is to get “**Best Value**” on purchases. Best value is defined as the *optimal balance* of performance and cost.
- Evaluations reflect the vendor's *ability to perform* - deliver good quality/service, meet deadlines, control costs, etc.

Greater Focus on Risk Management

Canadian Public Sector Perspective

- Pre-qualifications more common on large projects
- Pre-qualified vendor lists more prevalent with multi year eligibility
- Less reliance on ability to be bonded
- Expanded insurance requirements
- Complex bid and contractual documents
- Use of contract performance rating systems (VPM)

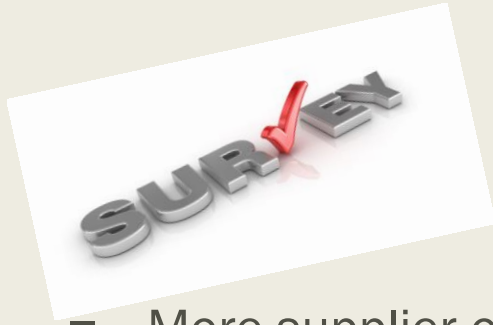


Supplier Relationships

Canadian Public Sector Perspective

- Greater industry consultation, before, during, and after procurements
- Procurements are more complex, must follow trade agreements (Agreement on Internal Trade (AIT), Ontario-Quebec Trade Agreement, NAFTA)
- Finalization of Canada-European Union Comprehensive Economic and Trade Agreement (CETA) will provide European firms access to government opportunities
- Buy local content no longer exists
- Restructuring traditional contractual relationships, (sharing risks and longer term relationships)
- Use of contract performance rating systems
- Litigious relationship

Stakeholder Engagement



[Deloitte Global CPO Survey 2016](#)

- More supplier outreach, consultation, and collaboration
- Greater transparency and openness (Supplier community and the Tax payer)

A golden scale of justice is centered in the background. The left pan is higher and contains the word 'SUPPLY' in large, green, 3D block letters. The right pan is lower and contains the word 'DEMAND' in large, red, 3D block letters. The scale is balanced, with the pans hanging from a horizontal beam.

Market

Canadian Public Sector Perspective

- Economic uncertainty
- Commodity pricing swings
- Currency shifts
- Strained budgets, smaller amounts being allocated to construction projects
- Less work to go around resulting in more competition
- Greater emergence of Public Private Partnerships (P3)
- Less work resulting in more contract award challenges

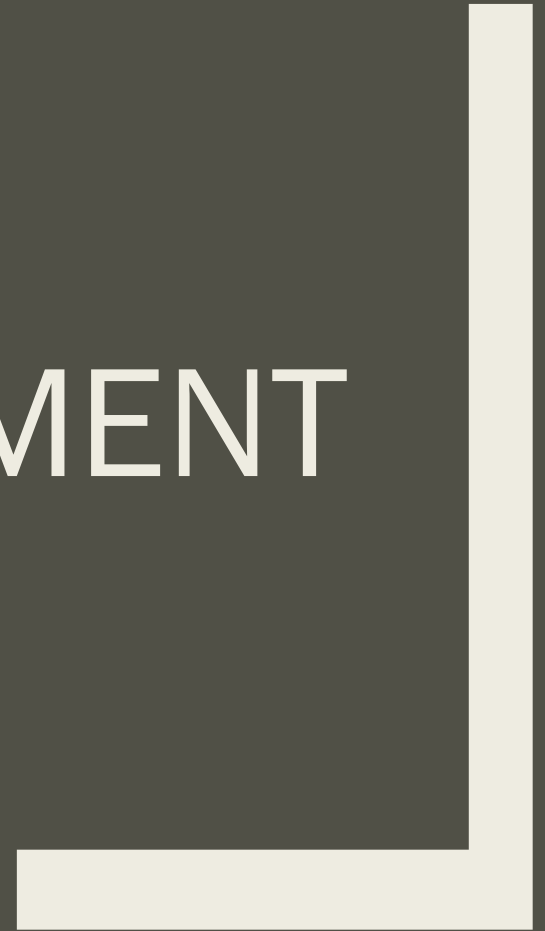
Sustainability

Canadian Public Sector Perspective

- Focus on environment
- Emphasis on natural resources
- Best value over life of product
- Supporting long-term ecological balance



E-PROCUREMENT



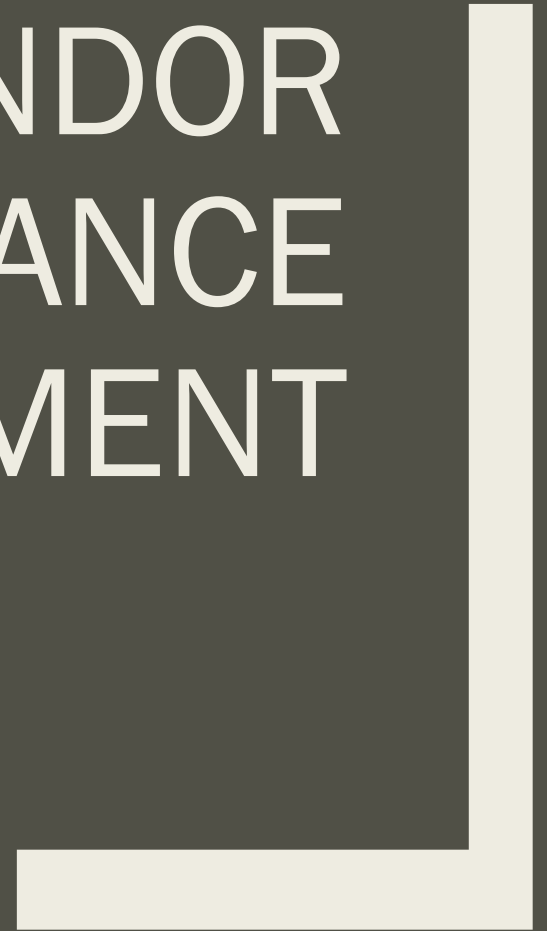
What is E-Procurement?

Automation of the procurement process

Benefits for both the Buyer and Industry

- Reduced transaction time (as much as 66%)
- Increased standardization
- Greater supplier outreach, better visibility, more competitive bidding environment
- Enhanced productivity
- More cost efficient, reduced costs
- Greatly reduced errors, consistent Buyer communication
- Greater transparency and openness (Supplier community and the Tax payer)

VENDOR PERFORMANCE MANAGEMENT



Objectives

The *objectives* of performance evaluation are to:

1

- Improve communication between contractor and owner

2

- Provide feedback with the goal of performance excellence

3

- Create and track standard Key Performance Indicators (KPI)

4

- Support the Contract Administration process used to address non-performance

Evaluation Categories

- Research identified 5 key important evaluation categories common to all:
 1. *Quality*
 2. *Customer Service*
 3. *Cost Control*
 4. *Timeliness / Schedule*
 5. *Health & Safety*

Industry Feedback

Detailed process included key industry feedback and was built with focus on consistency and fairness. Industry was 100% supportive and wanted;

- *Well defined scoring criteria*
- *Multiple controls to ensure no biases*
- *A means of providing written feedback as part of the evaluation*
- *The opportunity to review and discuss the evaluation prior to it being finalized*
- *Evaluation to reflect extra costs and delays outside of their control*
- *An appeals process*
- *General contractors, design consultants and contract administrators all contribute to the success of a construction project. Industry wanted them all to be subject to an evaluation to help ensure consistency and fairness*

Development Challenges

- Previously there were only paper-based evaluations on some projects. No formal processes or rules and the results were not analyzed
- Had to engage multiple user groups across the City and develop standard processes and templates
- Had to purchase and configure a centralized database to host the evaluations
- Had to develop a “phase in” strategy to speed up implementation

Construction Template

KPI's for General Contractors weighted as follows;

Project Management – 15%

Supervision – 10%

*Quality – 15%**

*Health & Safety – 15%**

*Cooperation and Client Relations – 10%**

*Cost Control – 10%**

Site Management -10%

*Schedule Management – 15%**

** 5 key evaluation categories common to all VPM systems*

Construction Template

Quality

3. QUALITY (Finished product meets the defined standards for quality assurance in Contract Specifications; product delivered within project scope and in expected condition.)	Above average to extraordinary workmanship.		15.00
	Some areas exceed normal standard and expectations; remainder of items delivered satisfactorily.		12.75
	Acceptable workmanship; Average number of deficiencies for project type.		10.50
	Below average workmanship. Above average number of deficiencies.		7.50
	Poor workmanship. Numerous deficiencies.		3.75

Construction Template

Schedule Management

8. SCHEDULE MANAGEMENT (Amount of effort required in order to deliver the project on time.)	Delivered ahead of schedule.		15.00
	Delivered on schedule.		12.75
	Delivered on schedule with significant effort required by Contractor to achieve timelines.		10.50
	Schedule slippage but some effort made by Contractor to achieve timelines.		7.50
	Schedule slippage; little to no effort made by Contractor to achieve project timelines.		3.75

VPM - Scoring

- Individual evaluation scores and **overall Vendor Scores (OVS)** are tracked.
- OVS is a weighted-average over the last 3 years and can be template-specific:

$$\text{Overall Vendor Score (OVS)} = \frac{3(\text{Avg. Year 3 Scores}) + 2(\text{Avg. Year 2 Scores}) + 1(\text{Avg. Year 1 Scores})}{6}$$

- Low scores will have supporting comments and documentation.

Use of Vendor Score - Construction

- Vendors scores to be a ***criteria*** in bid solicitation evaluations.
 - *Buyer may bypass the lowest bidder for a better performing contractor.*
 - *Reduces pressure on Contractor to make trade-offs from competing on just price alone.*

Tender Evaluation Example

- Tender Amount /70%
- Vendor Score (OVS)/30%
- Total Evaluation Score /100%

	Bid	Vendor Performance Score
Contractor 1	1.0 million	60%
Contractor 2	1.1 million	90%

Tender Evaluation Example

- Price Component (/70 Points):
 - *Points awarded based on Standard Deviation.*
 - *Lowest responsive bid gets full points. Other bids lose points relative to how much they exceed the lowest bid.*

Use of Vendor Score - Construction



- Price Component Calculation (/70 Points):

Contractor 1: \$1.0M – lowest bid. Gets **70 points**.

Contractor 2: \$1.1M – 10% over lowest. Gets **63 points** (10% less points).

- Vendor Performance Score Component (/30 Points):

- *Vendor Score (OVS) x total possible points.*

Contractor 1: 60% x 30 = **18 points**.

Contractor 2: 90% x 30 = **27 points**.



Use of Vendor Score - Construction

Results:

Evaluation	Bid Price	Vendor Performance Score	Total Score
Contractor 1	1.0 million <i>70 points</i>	60% <i>18 points</i>	88 points
Contractor 2	1.1 million <i>63 points</i>	90% <i>27 points</i>	90 points Best Value

Contractor 2 bid higher but still wins given their much better overall vendor performance score.

Possible impacts of changes on your plans room operation

- *Technology*
- *Cost Control and Savings*
- *Greater Focus on Risk Management*
- *Supplier Relationships*
- *Market*
- *Sustainability*

How best to position your Exchange to work with a major Buyer on bid opportunity communication

- Stay **involved**, stay relevant
- Provide **value** added services at a competitive cost
- Must invest in **technology** and keep current
- Strive to be **representative** of the industry
- Provide “**one voice**” for the industry
- Facilitate business working **relationships** with major buyers

Bidding in the 21st Century – Buyers Perspective

QUESTIONS?

BX Net Conference

January 17 -19th 2017

Byrne Consulting

Jeff.byrne22@gmail.com

