

Unpacking Collaborative Bidding

Harnessing the Potential of Supplier Collaboration
While Still Using a Competitive Bid Process

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EXECUTIVE SUMMARY

Everyday hundreds of organizations conduct competitive bids to pick the best supplier to meet their needs. In their quest to streamline the RFP process, many organizations develop rigidly standardized RFP processes. Unfortunately, while streamlining may be effective in terms of helping an organization get through the supplier selection process faster, the lack of flexibility can be frustrating.

We believe a key cause of frustration stems from organizations using the wrong tools for the wrong job – which can result in selecting the wrong supplier or developing a contract that is misaligned with the organization’s objectives. Simply put, using the wrong competitive bidding method is like putting a square peg in a round hole. Forcing it to fit is myopic and inefficient.

University of Tennessee researchers began exploring competitive bidding methods in 2012. The research led to two white papers. The first is a practitioner-oriented white paper that defines the what, when and why of the various competitive bidding methods.¹ This white paper builds on the first, and includes the following six sections:

- **Part 1** provides an overview of our **research methodology**.
- **Part 2** provides insights into the **changing landscape of strategic sourcing**. In this section we explore some of the most prevalent trends that impact strategic sourcing and show why procurement professionals need to challenge their thinking and embrace more collaborative techniques.
- **Part 3 “unpacks”** the various **RFX methods and** shares pros and cons to each method.
- **Part 4** offers an alternative collaborative bidding process (Request for Partner) – that can be used when an organization needs to have a highly collaborative competitive bidding process.
- **Part 5 shares a case study** of how Vancouver Coast Health applied collaborative bidding methods for outsourcing environmental services.
- **Part 6** provides our **conclusion** to our research methodology.

We conclude the paper by challenging procurement professionals to, when appropriate, embrace more collaborative methods for competitive bidding that are purposely built to enhance supplier interaction and drive innovation in outsourcing.



PART 1: OVERVIEW OF RESEARCH METHODOLOGY

The research methodology included four phases over a three-year period.

Phase 1 included interviews with sourcing practitioners, consultants and lawyers that specialize in outsourcing to identify weaknesses with existing competitive bidding methods. The goal was to identify if (and how) the landscape is changing in strategic sourcing of complex outsourcing initiatives.

Phase 2 combined a review of existing literature about conducting competitive bidding efforts with the interviews in Phase 1. This provided a more complete view of the changing landscape in strategic sourcing of complex outsourcing initiatives.

Phase 3 encompassed a series of brainstorming conference calls with a subset of individuals from Phase 1 to identify how to make the competitive bidding process more collaborative. It entailed drafting a collaborative bidding methodology (referred to as Request for Partner) to close gaps in existing competitive bidding processes that fall short when an organization is wanting to explore innovation and transformation through outsourcing.

Phase 4 involved a pilot use with an organization to test the concept in practice and refine the process as needed.

PART 2: CHANGING LANDSCAPE OF STRATEGIC SOURCING

For decades, organizations have thought of procurement as a “make vs. buy” decision. This is especially true as organizations began to explore outsourcing. Many falsely assume if they “buy,” they should use competitive “market” forces to ensure they are getting the best deal. This is especially true in organizations where procurement professionals are measured and earn their bonuses for achieving year over year cost savings. As organizations seek to get the best price within the market, the default approach is to use a transaction-based model where the buying organization can “test the market” to by easily comparing prices across transactions (e.g. price per hour, per widget, per mile, per kilogram, etc.). This works well for simple transactions with abundant supply options and low complexity where the “market” self-corrects with competition. After all, if a supplier does not perform there is minimal risk and cost to rebid the work and switch out suppliers.

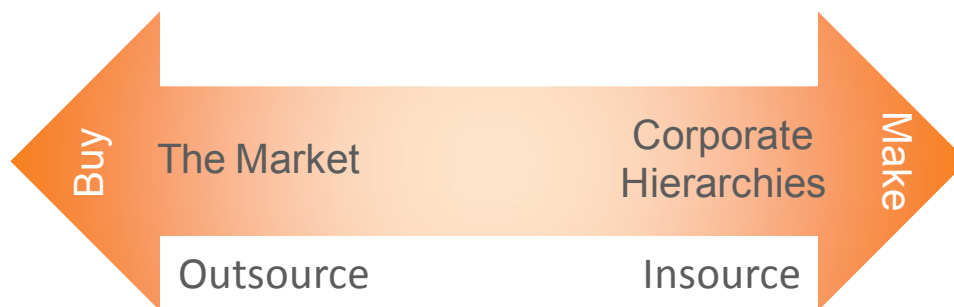
However, in larger, complex outsourcing situations, all too often buyers become co-dependent on suppliers. Switching costs are high and suppliers develop a “locked-in” position. This is most frequently true for organizations that follow the trend of creating a Global Business Services (GBS) operating model. In GBS, large portions of administrative operations are often centralized, bundled and outsourced. Unfortunately, far too many procurement organizations use conventional “buy-sell” transaction-based competitive bidding approaches for buying complex and strategic outsourcing deals.



Dr. Oliver E. Williamson – professor of economics at the University of California, Berkeley – challenged the traditional buy-sell view of sourcing practices with his work in Transaction Cost Economics. Williamson received the Nobel Prize for his work in 2009.² One of Williamson’s key lessons is that organizations should view sourcing as a continuum rather than a simple market-based make vs. buy decision.³

Perhaps the best way to think of Williamson’s work is to consider free-market forces on one side and what Williamson refers to as “corporate hierarchies” on the other. (See Figure 1) In the middle, Williamson advocated that organizations should use a “hybrid” approach for complex contracts.

Figure 1: A Continuum of Sourcing Solutions



The book *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models in Modern Procurement* links seven Sourcing Business Models that fall into the three categories along Oliver Williamson’s sourcing continuum.⁴

- Transactional (Williamson’s “Market” category)
 1. Basic Provider Model
 2. Approved Provider Model
- Relational (Williamson’s “Hybrid” category)
 3. Preferred Provider Model
 4. Performance-Based/Managed Services Model
 5. Vested Business Model
- Investment (Williamson’s “Hierarchy” category)
 6. Shared Services Model
 7. Equity Partnerships (e.g. joint ventures)

The models differ from a risk/reward perspective and should be evaluated in the context of what is being sourced. **Figure 2** (following page) shows how the seven Sourcing Business Models fall along the sourcing continuum.



Figure 2: Sourcing Business Models on the Sourcing Continuum



Leaders in outsourcing such as Microsoft, P&G and McDonald’s have shown that highly collaborative win-win outsourcing relationship, yield significant value for both the buying organization and the service provider.⁵ Both Microsoft and P&G won International Association of Outsourcing Professionals (IAOP) Global Excellence in Outsourcing (GEO) awards for innovation—both are publicly known for their use of a highly collaborative Vested Sourcing Business Model.^{6,7} The result is that more forward-thinking organizations are starting to shift their sourcing efforts to strategic, performance-based and “Vested” outcome-based supplier solutions.

As organizations shift to more complex Sourcing Business Models, they need to use more sophisticated and collaborative RFX approaches that seek to buy “solutions,” “strategic partnerships” or “alliances.” As a result, organizations need more collaborative types of approaches designed to help buyers and suppliers evaluate “solutions”—not just a supplier’s price bid for a standard commodity or service specification. These more collaborative techniques are essential when an organization strategically moves to more value-based Sourcing Business Models.

The good news is that around the world leading academics are beginning to openly promote more progressive and collaborative value-based procurement approaches. The most notable are:

- **Robert Handfield** (Bank of America University Distinguished Professor of Supply Chain Management, Director, Supply Chain Resource Cooperative, and editor emeritus, Journal of Operations Management, Graduate Faculty) “It is imperative that category team leaders establish their direction for building strategies directly based on business requirements. Supply management, in general, needs to build strategies that enable businesses to be more successful in developing new solutions that provide the best value to customers, and meet corporate objectives for cost savings, revenue and shareholder value. When in doubt, view every decision from the point of view of the customer (stakeholder).”⁸
- **Dr. Arjan van Weele** (NEVI-Chair of Purchasing and Supply Management, at Eindhoven University of Technology): van Weele warns that relentless competitive bidding leads to “ritual dances between purchaser and supplier [that] usually deliver limited results. Moreover, this process consumes valuable time. Second, when applied to a small group of suppliers, it promotes silent agreements among them and the forming of cartels.”⁹



- **Leslie P. Wilcocks** (Professor of Technology Work and Globalization, London School of Economics) “To date outsourcing has been dominated by so-called ‘fee-for-service’ contracts which separate the price which the client is obligated to pay for the service from the costs which the supplier incurs in providing it. It has become increasingly clear that this apparently straightforward arrangement can lead in practice to serious ill-will and difficulty, at least during lengthy (up to 10 year) contracts. At the outset of the relationship, the client has typically used bargaining power to obtain a very attractive price. However, bargaining power shifts post contract, and as change occurs in the business and hence its requirements – or in the factors which determine supplier costs, such as the labour market or technology – the supplier is often perceived to be taking full advantage. Many clients will therefore wish to give weight to the Relationship Competency, which determines the extent to which the supplier is willing and able to deliver the ‘Win/Win’ relationships that more successfully align client and supplier goals and incentives over time”¹⁰
- **Oliver Williamson** (2009 Nobel Laureate in Economic Sciences, Edgar F. Kaiser Professor Emeritus of Business Professor Emeritus of Economics and Law, UC Berkeley Haas Business and Public Policy Group) “The muscular approach for buying goods and services is myopic and inefficient”¹¹



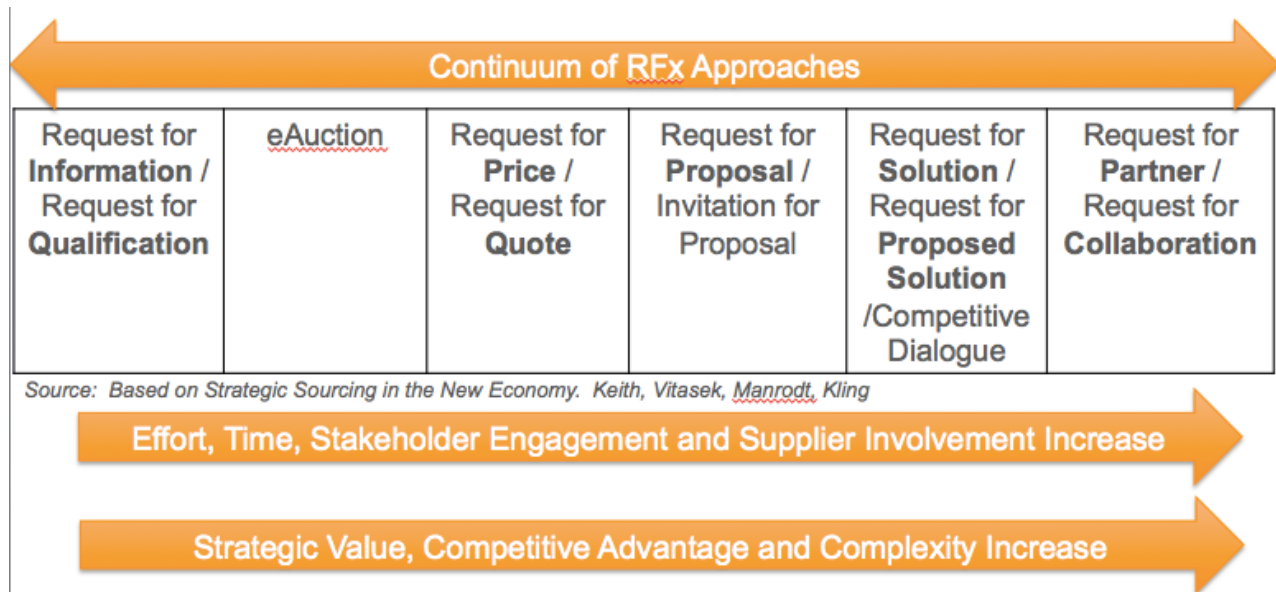
PART 3: OVERVIEW OF RFx METHODS

Practitioners often use the term “RFx” as a generic term to describe a competitive bidding event. There are several different types of competitive bidding methods. Every type of RFx is a solicitation for some sort of submittal or “quote” from a potential supplier. The quote may be for a “price,” a “proposal” or a “solution” or some other offering in response to the company’s business requirements and specifications.

One of the areas of confusion is there are no standardized definitions for the various types of RFx methods. For example, the term “request for quote” is commonly used for a variety of solicitation types. In 2015, University of Tennessee researchers published a comprehensive white paper with the goal to clearly define each method and provide clarity around when to use each method. The list below provides a high level overview of each method, and goes into detail about the Request for Partner method that was developed by researchers at the University of Tennessee.

While there are many different names/terms for various RFx methods, the vast majority of RFx methods fall into five “categories”. We have chosen to use the term that is most popular, but also list alternative names used to describe the same or roughly similar concept. Figure 3 provides a graphical illustration of the continuum of RFx approaches followed by a more detailed description of each.

Figure 3: Continuum of RFx Approaches





1. Request for Information (RFI; also referred to as a request for qualification) - used to obtain general information about products, services or suppliers. An RFI is sometimes used to gather benchmark information and general market data from the marketplace. Buyers rarely if ever pick a supplier based on RFI information and in many organizations are prohibited from doing so. Rather, they use the information to help them further refine the RFX approach. As such, an RFI typically precedes other RFX processes and often is used to help a buyers create bid lists. An RFI can be used with any of the RFX processes, but it is almost always used with a request for proposed solution and a request for partner process. Note that an RFI is not binding for either buyer or supplier. RFIs range from simple requests aimed at gathering market intelligence to more comprehensive requests asking suppliers to answer detailed questions about their qualifications. Organizations that seek to understand supplier qualifications from an RFI will often use it to down-select suppliers to a smaller list that will be asked to move to a more comprehensive stage of the competitive bidding process.

2. Electronic auction (e-auction) — an online, price-centric auction where purchasers specify what they are interested in buying and prospective suppliers respond by entering competing bids. Often suppliers are pre-qualified to participate in an e-auction so that Terms & Conditions, SOWs, and SLAs are comparable and buyers can focus almost exclusively on price. There are various types of e-auctions including a *reverse auction* where a single buyer uses a fixed-duration bidding event in which multiple prequalified and invited suppliers compete for business. Potential suppliers review the requirements, choose to bid and enter their selling price(s) and other qualifying criteria as requested. Suppliers' prices are visible to other competitive bidders, often resulting in successively lower prices for commodity products and services. A seller-driven e-auction is an electronic, online auction where suppliers post items for sale and buyers bid on the items.

3. Request for Price (also referred to as a *Request for Quote*) – used to obtain price offers for a specified product or service. A request for price is used for more standard sourcing initiatives where cost consideration is the key decision criteria. Buyers using a request for price must be sure to properly define the requirements, often through a pre-established contract, so there is no ambiguity for the supplier or buyer. The law may or may not treat a quotation as a binding offer.

4. Request for Proposal (also referred to as an *invitation for proposal*)— used to obtain pricing as well as detailed descriptions of services, methodologies, program management, cost basis, quality assurance, and other support provided by the supplier. Request for proposals are used for larger, more complex and technical sourcing initiatives when supplier selection needs to be based on factors beyond just price or cost, such as technical capability or capacity. Technical (e.g., SOW, SLAs, security, process maturity), Financial (e.g., price, budget, TCO impact), and Terms & Conditions (e.g., compliance/risk evaluations), Strategic Alignment (e.g., cultural compatibility, corporate social responsibility values), and other factors often play a role in award decisions. A request for proposal is often a follow-up to an earlier request for information (RFI). A request for proposal allows a buyer to specify requirements and allows suppliers to define some of the “how.” For example, a buyer may ask a supplier to outline how it proposes to manage quality. Interview respondents indicated a Request for Proposal is the primary way they conducted competitive bid



situations for outsourcing initiatives. Because requirements are mandated, bidders differentiate on how competitively they can achieve the specified need.

5. Request for Solution (RFS; also known as *request for proposed solution*) — an emerging competitive bidding methodology popularized by the outsourcing advisory firm ISG and later promoted by Gartner as well. The request for solution methodology uses a more open approach in which a buying organization has a dialogue with potential down-selected suppliers with the intent of collaborating to determine the best solution to meet the buyer’s needs. An RFS is different than an RFP because the buyer does not know the optimal solution. It is different than an RFI - if a satisfactory deal can be achieved, the buyer is ready to buy, not just down-select and launch an RFP. In an RFS the buyer asks bidders to propose the most appropriate solution to its business need bound by any critical constraints (e.g., scope, scale, interoperability with existing solutions, security requirements). The buyer gives limited direction that is primarily focused on the existing environment and what the success criteria may be. Then, the buyer requests the suppliers involved design a solution to best meet its business needs. Because requirements are not mandated, bidders differentiate on how much value and innovation they can bring to the table.

LIMITATIONS OF EXISTING RFX METHODS

While many organizations are shifting to more collaborative supplier relationships, we suggest much of the consulting and academic community is not keeping pace with the needs.

Industry organizations are lacking in support for collaborative processes for competitive bidding. Case in point is that the world’s largest sourcing organization – the Institute for Supply Management - does not even reference a request for solution in their glossary. In fact, the authors were only able to find a definition for a request for solution in the Sourcing Industry Group’s glossary, where it was added in 2014.

The good news is that a limited number of advisory firms are actively promoting the concept of collaborative bidding methods. The most referenced is Information Services Group (ISG) – which shares insights into why the conventional request for proposal process is “dead” and promotes an alternative “Request for Solution” methodology in a white paper titled “The RFP Will Never Be the Same”.¹² ISG argues eloquently for the need to shift to a more collaborative approach, but sadly its white paper provides less than 250 words on the “how”.

The European Commission’s “competitive dialogue process” is the most formalized and referenced collaborative bidding methodology.¹³ The European Commissions’ *Explanatory Note of the Competitive Dialogue – Classic Directive* summarizes the Competitive Dialogue process as follows: “a particular procedure which has features in common with both the restricted procedure (conventional arms length bidding process) and the negotiated procedure with the publication of a contract notice.” The good news is the directive is very clear on when and how to apply a competitive dialogue process. The downside is that the process is government centric and lengthy (the European Commission suggests 12-18 months). In addition, suppliers often view the process as uncertain and frustrating because the guidelines allow buyers to randomly declare a cutoff of the negotiating cycle. The guidelines state, “At the appropriate time, the awarding authority declares the dialogue concluded and informs the participants of this” and asks suppliers to submit



their “final tenders on the basis of the solution or solutions presented and specified during the dialogue.”

While existing methodologies do offer benefits, many fall short for a variety of reasons shared below.

Proprietary Solutions

While some consulting firms are beginning to promote more collaborative approaches, their methodologies are proprietary. Proprietary solutions prevent buying organizations that choose to not use a consulting firm from learning and using sound methodologies. In addition, many buying organizations have smaller projects that do not warrant the budget for advisory services. In both cases, organizations do not have good options for learning how to successfully build collaborative procurements today. The good news is that positive progress is made as government focused approaches such as the European Commission’s Competitive Dialogue process are emerging that are not proprietary.

Limited Focus on “Cultural Fit”

Existing methodologies focus heavily on how suppliers develop the “expert solution.” While the solution is essential, interviewees in the study emphasized the need for the collaborative process to not just “suck out free consulting from the supplier.” Instead, there is a desire to foster a spirit of collaboration that is designed to build trust and create a high performing team. Ideally, the collaboration process itself should be used as input for determining cultural compatibility and fit with the various suppliers. In addition, several of the sourcing initiative team members should become part of a “stay behind” team that forms the foundation for ongoing governance.

Ethics

Suppliers are reluctant to participate in collaborative procurement methodologies if they believe that the buyer is looking for “free consulting” or is likely to take a proprietary solution identified in an RFS and subsequently re-compete it to multiple bidders. The buyer’s goal is to achieve best price via an RFP rather than signing a deal with the company that proposes the optimal solution. In order to be successful the buying organization must have strong processes, a reputation for integrity, and credibility with their supply base.

Throw It Over the Wall Mentality

Even a collaborative RFP process can go sour if the execution of the RFP when the interpretation is not clearly understood during negotiations. Too often, a collaborative RFP proposal will suddenly “disappear” because once the negotiation phase commences, the buyers turn to non-collaboration means, tactics, and discussions. The end result? A traditional purchasing contract, focused on the wrong measures, desired end results, etc. This is especially true if the negotiation team is not the same as the procurement team. For this reason, collaborative agreements should have a “stay behind team” that includes individuals from both the buying and selling organization who will ultimately be accountable for delivering the service and governing the relationship after the contract is signed.

Unpacking Collaborative Bidding



A summary of Pro's and Cons of each RFX methodology is outlined Figure 4.

Figure 4: Pros and Cons of RFX Methods

METHOD	PROS	CONS
Request for Information	<ul style="list-style-type: none"> • Widely known and used process • Great way to get basic market intelligence about supply base capabilities • Allows for easy access to basic information to identify a capable bid list 	<ul style="list-style-type: none"> • Adds a step / time in the procurement cycle • A traditional request for information is arms length with suppliers simply responding with a formal written response to pre-defined questions which does not allow for more open dialogue • May be seen by suppliers as a buyer “fishing exercise” as a benchmark and, thus reduces the number of potential respondents or breadth of information received • Responses are usually standard solutions with rough order of magnitude pricing and may not fit the actual business need or reflect innovation that could be brought to bear
Auctions	<ul style="list-style-type: none"> • Good for a pure “commodity” with clear specifications and no anticipated variation or changes in needs • Involves buying software or having a consultant run the auction • Leverages a competitive marketplace to quickly achieve the low price bid 	<ul style="list-style-type: none"> • Losing popularity • Not a good fit for more complex outsourcing services • Does not factor criteria like service levels, quality, or delivery • Assumes all items quoted are equal when, in fact, there may be differences • Over time there can be price creep-as suppliers learn bidding patterns, enabling them to “game” the process to incrementally raise submitted bids across the bidding community of suppliers • Technology requirements or restrictions on response cycles can eliminate or discourage participation by valid, competitive suppliers based on the level of effort to respond • Often the low bid in the near term is not the optimal solution over the long run
Request for Price	<ul style="list-style-type: none"> • Good for standardized goods or services with clear specifications and no anticipated variation or changes in needs 	<ul style="list-style-type: none"> • Does not allow for selection criteria other than price • Does not allow for visibility to price/cost drivers that may inflate the total cost impact to the buyer • Often the low bid in the near term is not the optimal solution over the long run

Table continued on following page



METHOD	PROS	CONS
Request for Proposal	<ul style="list-style-type: none"> • Allows for additional criteria beyond price • Enables a supplier to expand their offering to include additional value add differentiators • Positions the buyer and supplier to have an expanded dialogue • A mature process that is well known to buyers and suppliers alike which results in apples-to-apples comparison that facilitates buyer's ability to easily pick a winner 	<ul style="list-style-type: none"> • Does not encourage innovation beyond the buyer's requirements • Does not gain full advantage of expertise for fear of margin erosion by the supplier
Request for Solution	<ul style="list-style-type: none"> • Allows buyers to work collaboratively with suppliers on more complex sourcing initiatives that may not have a single "right" answer • Challenges suppliers to come up with innovative solutions that can best meet a buyer's needs • With a mature buyer and seller the RFS can set a foundation that will assure success not only at contract signing but also enable flexibility to achieve innovation throughout the life of the resultant deal 	<ul style="list-style-type: none"> • Relatively new methodology; not formally recognized by procurement associations such as Institute of Supply Management • No "clear" best practice on what or how; consulting literature tends to "sell" the concept • Limited exposure in existing textbooks which openly shares advice on how the methodology works • Collaboration is typically used when selecting the supplier and not during negotiations, often causing frustration post supplier selection • Requires far more transparency than an RFP which necessitates a great deal of trust on both sides of the table • Bids are not apples-to-apples, so buyer must have the maturity and process integrity to differentiate



PART 4: ALTERNATIVE COLLABORATIVE “REQUEST FOR PARTNER” BIDDING METHOD

Phase 3 of the research methodology entailed creating a collaborative bidding process (researcher refer to it as Request for Partner) that organizations can use when conducting a competitive bid process that involves a significant amount of collaboration with suppliers.¹⁴ The process was designed to close gaps in existing collaborative bidding processes that fall short when an organization is wanting to explore innovation and transformation through outsourcing.

Request for partner is a term coined by University of Tennessee researchers to describe a highly collaborative competitive bidding process used for strategic and complex sourcing initiatives. A request for partner process uses some of the key concepts found in the various request for solution methodologies, but formalizes them into an open source methodology. A key goal is to identify a supplier that is innovative and able to provide transformation through outsourcing, and also is a good “fit” for their organization. For this reason the competitive bid process is very transparent and encourages collaboration – all the way from developing requirements through contract development and established governance mechanisms the parties will use post contract signing. The highly collaborative methodology allows the buyer and supplier to not only develop the “solution” during the bidding process, but also to establish a working knowledge of how well the organizations work together.

Another important aspect of the request for partner process is the ability to select the supplier with a good “cultural fit.” Organizations that are using a request for partner process are doing so because they want to create a highly strategic relationship – often purposefully created to drive transformation or innovation. In order to make the partner selection more clear from a cultural fit and relationship perspective, we recommend potential partners participate in a “Compatibility & Trust” (CaT) assessment developed by Dr. Karl Manrodt and Dr. Jerry Ludlow.¹⁵

The CaT assessment helps the parties understand perceptions of themselves and their partner across each of five dimensions; trust, innovation, communication, team orientation, and focus.¹⁶ One of the most powerful benefits of the CaT is the dialogue that comes from addressing identified gaps that often arise from breaches of trust and how this affects the relationship. Purposely picking a supplier with a strong cultural compatibility is an essential difference to a more “classic” way of sourcing.

WHEN TO USE A REQUEST FOR PARTNER

The request for partner methodology is well suited when a buying organization needs to develop a contract with a strategic supplier for a highly complex and strategic outsourcing initiative. It is also ideal when the buying organization is seeking a supplier who will play a major role transformation or innovation. A key intent of the request for partner methodology is to create a highly collaborative longer-term relationship where innovation, cultural fit, and a win-win mindset are essential to engage a dynamic environment. The process is purposefully designed to be used by buyers and suppliers that seek to contract using a more advanced Performance-Based / Managed Services or a Vested Sourcing Business Model.



SUGGESTED STAKEHOLDER INVOLVEMENT

Due to the time and resources involved, a request for partner should only be used for strategic outsourcing initiatives. A request for partner process requires a significant amount of stakeholder involvement from both the buyer and supplier's organization. As such, organizations that simply seek a service provider to provide a commodity type service with low risk and a limited need for innovation should use a more conventional approach.

A request for partner approach utilizes a cross-functional team representing key business stakeholders and users that have responsibility for creating supplier down-select criteria. Subject matter expert stakeholders participate in proposal review, solution development, negotiations, and transition planning. The request for partner methodology involves site visits to assess supplier capabilities and meetings with one or more of the potential supplier's clients as references. Due diligence meetings also include discussions on performance, and often involve validation of information from the RFP about capabilities and observation of the supplier "in action."

A request for partner requires the highest amount of supplier involvement. Like most complex sourcing initiatives, the request for partner methodology uses a multi-stage down-select process. Suppliers making each "cut" have increased responsibility and involvement in the process, so that buyers can get comfortable with how potential suppliers will "fit" into their organizations. Suppliers that are short-listed should expect to spend time in site visits and stakeholder workshops that will help them develop their proposed solutions. These collaborative sessions are designed for a high degree of supplier interaction where the buyer and supplier develop operational knowledge of the each other's team and how well the parties work together.

Both buyers and suppliers are encouraged to participate in cultural compatibility assessments as one of the last components of the competitive bidding process. Formally reviewing cultural compatibility shows how closely aligned the buyer and suppliers' organizational cultures are – as well as identify potential gaps in cultural fit. We recommend an assessment tool – the Compatibility and Trust Assessment (CaT).

HIGH LEVEL OVERVIEW OF THE PROCESS

The request for partner process strives to create a highly collaborative environment where a buyer and supplier work together to build a common shared vision and statement of intent that is designed specifically to achieve the buying organization's strategic objectives.

The request for partner involves five key phases. Based on the needs of the individual organization, steps may be combined for less complex sourcing initiatives or when there is a limited need for multiple down-selection steps. Figure 5 provides an overview of each of the phases.



Figure 5: Phases of Request for Partner Methodology

Phase 1	Phase 2		Phase 3	Phase 4	Phase 5
Qualify Potential Suppliers	Discovery / Concept Solution	Solution Definition	Due Diligence and Validation	Contract Development	Implementation and Ongoing Governance
Many suppliers	2-6 suppliers	2-3 suppliers	1 supplier (2 nd supplier in waiting)	1 supplier	1 supplier
1. Link sourcing initiative to Business Objectives	5. Refine supplier selection criteria and prepare data to share with suppliers	10. Refine supplier selection criteria and prepare data to share with suppliers	15. Due diligence and validation of solution (by both buyer and supplier)	17. Contract drafting (negotiations conducted <i>during</i> drafting)	19. Onboarding of resources
2. Define selection criteria	6. Release Request for Partner to qualified suppliers	11. Supplier Stakeholder Workshops	16. Final solution confirmed	18. Final contract signoff	20. Implementation of solution and governance structure
3. Develop Request for Information and / or Request for Qualification	7. Supplier Discovery - site tours - supplier accesses data - stakeholder workshops	12. Supplier Solution Synthesis Workshops			
4. Qualify potential suppliers for Phase 2	8. Supplier Concept Presentations (1 – 3 iterations)	13. Supplier Solution Proposal and Presentation			
	9. Concept evaluation and supplier down selection	14. Solution evaluation and supplier down selection			
Timeframe	4 weeks to 4 months	6 weeks to 4 months	1 week – 1 month	2 weeks – 6 months	
	13 weeks – 15 months				
	11 weeks – 9 months				

We suggest the timeframe to complete the process from the time qualified suppliers are identified through solution definition ranges from roughly 11 weeks to 9 months based on the number of suppliers and complexity of the work scope. We have found the process does not take any more time that it takes to go through a conventional high quality competitive bidding process; the difference is the time is emphasized in different areas. For example, in a conventional request for proposal process, much time is spent on prescribing a detailed Statement of Work and multiple rounds of traditional negotiations. The lionshare of the time in a request for partner is spent in the supplier solutioning.

Each phase (and its sub steps) is outlined in more detail starting below

DETAIL OF EACH OF THE FIVE PHASES

Phase 1. Qualify Potential Suppliers

Step 1. Link Sourcing Initiative to Business Objectives. The first step in *any* sourcing involves the buying organization linking the sourcing initiative to business objectives. Robert Handfield – a well-known professor specializing in strategic sourcing – states “When in doubt, view every decision from the point of view of the customer (stakeholder).”¹⁷ For this reason, the



request for partner process starts with a clear assessment of business needs. Unlike conventional RFP methods, the buying organization needs to refrain from defining the prescriptive steps and activities the supplier will perform and instead define the supplier outputs (for a Performance-Based Agreement) or draft of the Desired Outcomes (for a Vested agreement). The request for partner methodology involves consciously engaging with existing and potential suppliers very early in the process to understand market conditions and identify potential suppliers. It may seem counterintuitive to involve suppliers at such an early stage, but it is essential to understand potential capabilities and market trends which may have not been made public or appeared in industry analyst research yet.

We suggest creating a cross-functional request for partner teams that represents key business stakeholders and users that have responsibility for creating supplier down-select criteria and who play a key role throughout the lifecycle of the competitive bidding cycle. Even when the strategic sourcing/procurement organization is very mature and capable, ensuring business representation on the team assures that stakeholders' needs are fully understood and incorporated into the solution.

Step 2. Define Supplier Selection Criteria. In many cases organizations have a large field of potential suppliers and they need to narrow the potential number of suppliers. Buying organizations can use a formal request for information *and/or* a request for qualification process. The purpose of the request for information/request for qualification is to down-select potential suppliers that have sound capabilities to deliver an organization's "bigger picture" desired outcomes.

Suppliers should be down-selected based on a pre-determined and transparent set of criteria – with a limited number of supplier finalists being asked to develop a more comprehensive solution and proposal tailored to meet the buyer's output or outcome-based requirements. Typically the number of suppliers that moves on to Phase 2 is 3 to 4. However, it should never be less than 2 or more than 6. Having too few bidders limits innovation and competitiveness whereas too many drives excessive cost and time to all parties to complete the process.

Organizations that know they have a limited number of qualified suppliers may skip to Phase 2 – Discovery / Concept Development.

Usually, potential suppliers are asked to respond to a set of standardized questions developed by the request for partner team. Normally an RFI is designed with a format that allows for easy comparison of key data. For example, a logistics supplier may fill in a table that indicates the countries where it offers services.

The following example shows the selection criteria the Minnesota Department of Transportation (MnDOT) used to down-select to five supplier finalists that were invited to bid on the I-35 Bridge rebuild.¹⁸ By law, MnDOT was required to publicly disclose the selection criteria, which included:

- Proposer's experience as a constructor, designer or design-builder
- Key personnel
- Technical competence
- Past performance on similar projects



- Safety record
- Availability to and familiarity with the project locale

While commercial businesses are not legally required to disclose selection criteria, it is prudent to do so. This information adds needed transparency and helps assure all parties that decisions will be made in an ethical, aboveboard manner.

Step 3. Develop Request for Information and / or Request for Qualification. In many cases the down-select protocol is a one step process. For example, when a critically important metropolitan bridge collapsed into the Mississippi River, the Minnesota Department of Transportation (MnDOT) designed its request for qualification to offer a quick turnaround from suppliers – allowing suppliers only three days to respond. The intent was to identify **qualified** suppliers that would be good candidates for the complex bridge clean up and rebuild project. Only qualified suppliers moved to Phase 2 where they would formally spend time, energy and money developing a solution for MnDOT’s problem – replacing the fallen I-35 bridge in less than 18 months with a budget of less than \$250 million – something most analysts and pundits thought was impossible to achieve.

In some cases, the down-select process spans two steps. Step one involves a long list of potential candidates that simply reply to basic questions about capabilities (e.g. request for information). Step two down-selects the number of potential suppliers based on the supplier’s capabilities and/or strategic fit. A good example is a company that was looking for a partner to provide global supply chain management services for both warehousing and distribution services. The company issued a request for information to check for required capabilities, such as the capacity for both warehousing and transportation on a global basis. The initial request for information involved over 30 potential suppliers. The proponents narrowed to a short list of 6 suppliers based on a combination of meeting minimum required capabilities (such as being ISO certified) and scoring the highest on desired capabilities (such as the ability to provide services in the companies desired countries).

The second down select step reduced the number of potential suppliers even further. Each of the short listed suppliers was invited to go through an “interview” process with key subject matter stakeholders from the buying organization. The stakeholders spent a full day asking suppliers questions that were relevant for the supplier relationship.

For example, a buying company owned and operated warehouses with over 550 employees. Human Resource subject matter experts interviewed the suppliers on their philosophies and best practices about how they typically managed sensitive employee transitions or reductions. Operations subject matter experts asked each of the potential suppliers to describe how they typically managed ramping up operations once a contract was signed, including getting insight into the key resources and processes that each supplier used. And finance subject matter experts asked suppliers about their preferences for how they would handle assets, learning which suppliers would be agreeable to purchase existing assets as part of the potential deal. A key part of the interview process was to give the buying organization the opportunity to identify which suppliers would be the best cultural fit. Based on the responses, the buying organization narrowed the list of suppliers to 3 based on the supplier selection criteria.



This process not only assures that the suppliers who go through the rest of the process are likely to be a good fit, but also keeps the bid list manageable.

Step 4. Qualify Potential Suppliers for Phase 2. Fairness is essential in any competitive bidding process. For this reason, some organizations have a team of reviewers that have not participated with suppliers do the formal down-selection analysis. Let's return to the MnDOT example. To ensure fairness, the down-select process involved multiple committees and advisory groups that used a clearly defined best value formula using the criteria outlined in Step 2. Based on the criteria, the MnDOT selection committee suggested MnDOT move on to the second phase of their procurement process with all five qualified suppliers.

Phase 2. Solutioning And Supplier Selection

Like the request for solution method, this step includes working with the short-listed group of suppliers to develop a proposal for the potential partnership.

The solutioning phase is essential for any supplier relationship where transformation or innovation is essential for the buying organization. It is important to understand that suppliers may also have the ability to impact both top line growth and bottom line cost reductions at the same time. The solutioning phase allows the supplier to understand potential opportunities and constraints. It also allows the buying organization to get comfortable with how a supplier views itself in adding value to the buying organization.

An effective request for partner process demands a high degree of communication and collaboration during the proposal process. The process is very interactive and requires significant dialogue between a buyer and supplier as they work to clarify business needs. Similar to a request for solution, a key part of the request for partner process is to ask the supplier to propose a solution that is unique to solving the buyer's problems and gets it to the desired future state.

The buying organization defines the what, but not the how. Focusing on "the what" and not "the how" is an important point because asking suppliers for a solution encourages fresh thinking and supplier innovation. A fundamental of any strategic sourcing approach, it also forces the buying organization to realize that it is not the expert - the suppliers are. That's why they are at the table. This is especially important when buying services such complex outsourcing initiatives where the organizations have deemed the service to not be a core competency.

A key benefit of asking suppliers to develop a solution is that it allows buyers to work collaboratively with suppliers on more complex sourcing initiatives that may have more than one "right" answer. It also challenges suppliers to come up with innovative solutions that can best meet a buyer's needs.

Some organizations split the solutioning phase into more than one iteration. This is typically done when the buying organizations want to decrease the number of suppliers to the critical two or three supplier finalists. The more iterations – the longer the sourcing cycle time. For this reason we suggest trying to keep the solutioning phase to no more than two iterations with the first focused on supplier's developing solution concept followed by a much more detailed solution definition.



The “concept proposal” portion of the request for partner methodology is not meant to be time consuming or expensive for suppliers. Rather, it is meant to allow suppliers to showcase high-level creative ideas for how they would address the buying organization’s objectives. It is important team members from the buying organization open up the supplier’s viewpoint for a variety of creative solutions.

The “solution definition” phase, on the other hand, requires significant investment for both buyers and prospective suppliers. The core objective of this phase is to identify and define the optimal solution for meeting the buying organization’s needs. This phase includes developing economic models and deal structures for the sourcing initiative. These activities are performed *jointly* between the buying and supplier organization - but *independently* with each down-selected supplier.

In order to develop the best solutions, it is critical for suppliers to have easy access to relevant information. Kick things off by providing relevant details of the current environment, any constraints suppliers must work within and desired future state or success criteria to everyone involved. Once the process is underway it is vital to keep each bidder’s data firewalled from the others. For example, in a standard request for proposal process Q&A is shared amongst all bidders to assure clarity and level the playing field, whereas in the request for partner process, communication goes back and forth between the buyer and each prospective supplier independently to protect their unique intellectual property and innovations. This helps assure an ethical procurement while avoiding any appearance of impropriety or favoritism.

Step 5. Refine Supplier Selection Criteria and Prepare Data to Share with Suppliers.

Organizations using a two-step process have qualified suppliers develop a high level “concept proposal.” As in the supplier qualification phase, suppliers are down-selected based on pre-determined criteria that must be transparently shared with the suppliers in advance. It is essential to share the down-select criteria with suppliers to help them develop a solution concept that best meets the organization’s needs. Many organizations begin to address a supplier’s costs/price at this stage as one of the down select components. For example, the company selecting a global facilities management service provider asked suppliers to submit their actual costs for several types of services such as their range of commissions for real estate transactions and hourly rates for custodial services. Once again this proprietary information must be protected and ethically handled.

Once down-select criteria is determined, assigning appropriate weights of importance based on business objectives is required. This will help steer suppliers toward defining an optimal response that best meets the business needs. For example, if cost is a key factor with a 40% rating, suppliers will know to address cost reduction ideas as a key component of their concept.

As part of the solutioning process, the buying organization shares relevant data with prospective suppliers. This includes high-level existing operating data to provide a general landscape of the current situation. Other important considerations are relevant operational information (including volumes), existing service levels, high-level cost structures or estimated budget, all safeguarded under non-disclosure agreements. Prior to issuing the request for partner to qualified suppliers, the buying organization needs to develop a process for sharing information with suppliers. A good



example of this in action is Vancouver Coastal Health (VCH) that created an Information Control Office and established a Data Room (the repository for suppliers to access information such as floor plans of facilities that were be under scope in the sourcing initiative.) As suppliers progressed through the steps, they were provided with more information. This allowed VCH to release information in a timely and specific manner.

Step 6. Issue Request for Partner to Qualified Suppliers. Step 6 addresses the buying organizations physically issuing the request for partner document to qualified suppliers. It is important for the document to clearly outline the steps, timing, and down-select criteria that will be used during each step. The document should set the tone with clear expectations in the official request to suppliers. Appendix 1 provides an outline of what a good request for partnership should include.

Step 7. Supplier Discovery. The supplier discovery step allows qualified suppliers the opportunity to gain in-depth knowledge of the opportunity with respect to the buying organization's needs. Suppliers are **encouraged** to ask for additional information as part of the process if it will help them develop their proposals. However, unlike conventional competitive bidding methods, when a supplier asks for information, the response and information are kept confidential and **not** shared with all of the potential bidders. The supplier's solution is considered proprietary and as such their questions and methods for developing their solution should be considered proprietary.

The only questions (and answers) that should be shared across suppliers are questions deemed appropriate for clarity for all suppliers – such as a question on how to access the Information System if the directions were not clear in the request for partner document. VCH designated officials to handle the exchange of confidential information.

Step 8. Supplier Concept Presentation (1-3 iterations). The “concept proposal” portion of the request for partner methodology allows suppliers the opportunity to showcase high-level creative ideas for how they propose to address the buyer's objectives. As such, suppliers should be encouraged to not get buried in minutiae, as concept presentations are meant to be *indicative* solutions with *indicative* economics. Think of it as overturning the big rocks rather than turning over every rock. What is key in this step is that suppliers are competing on the creativity of their solutions and ability to drive innovation for the buying organizations.

Suppliers are often allowed to develop more than one concept proposal. For example, a supplier might suggest one solution where they provide integrated facilities and real estate based on a regional basis, and in a second concept proposal they might suggest a global approach. During the concept proposal suppliers share their opinions and expertise on the pros and cons the buying organization should consider for each solution concept.

VCH put this concept into practice by providing qualified suppliers with data about various workscope “clusters”. Suppliers were encouraged to suggest concept solutions that would optimize for VCH's desired outcomes.

Step 9. Concept Evaluation and Supplier Down Select. Organizations that use a two-step solutioning process need to down select the number of suppliers to work with for final solutioning. It is essential that only a small number of suppliers move to Solution Definition because the cost



to suppliers to develop a complete solution (as well as the cost to the buyer to fully vet and evaluate it) can be significant. The buying organization must use the stated evaluation criteria developed as part of Step 5 as they evaluate the supplier's concept presentations. The highest ranked suppliers advance to the Solution Definition phase that begins with Step 10.

Step 10. Refine supplier selection criteria and prepare data to share with suppliers. In some cases the buying organization has enough information and confidence to finalize the supplier selection criteria in Step 5. However, in many cases the buying organization may want to use information learned in the concept presentations to finalize the supplier selection criteria. For example, they may have the “buckets” – but not the actual weightings of each criterion. It is essential the criteria should ensure the buying organization ends up with a supplier that will not only offer the best value, but the best overall fit for establishing a strategic relationship. For this reason we recommend placing at least a portion of the selection criteria around cultural fit and compatibility.

In addition, the buying organization must determine any additional data to share with suppliers to help them with their solutioning. It is essential that the buying organization set the tone for as much transparency as possible at this stage as the supplier will be customizing its solution based on the needs of the buying organization. Data might include volumetrics, existing cost, and performance benchmarks. Perhaps, even budget data.

Step 11. Supplier Stakeholder Workshops. Early exposure to stakeholders provides suppliers with valuable insight from which they can develop unique solutions. As such, this step consists of a series of iterative, topic-specific stakeholder workshops designed for the supplier to collaborate interactively with key stakeholders from the buying organization. A key objective of the stakeholder workshops is for the bidders to build their knowledge and develop the highest quality proposal. Suppliers set the agenda for the workshops and stakeholders are present to ask and answer questions. As such, the workshops should **not** be designed to evaluate the supplier at this time. Rules of engagement for these meetings should be explicitly spelled out and communicated with all stakeholders ahead of time.

Stakeholder workshops should allow suppliers to bounce ideas for their potential solutions off stakeholders and get feedback they can use to refine their solutions. Ultimately, the stakeholder involvement helps the supplier define the optimal solution for the buying organization. The buying organization should consider the workshops confidential since the supplier's solution is proprietary to the supplier. As such, the meetings should not be recorded and minutes should not be taken. There should be no negotiating or award decisions made during this time.

The number and topics of the supplier solutioning workshops vary based on the buying organization's needs, but typically involve defined objectives and performance metrics for the supplier's solution, deal structure, pricing model, governance structure and recommended innovations.

Patrick Prevost, President of Crothall Health Care, a Division of Compass Canada (the company that won the VCH contract) provides a supplier's perspective to the value of the stakeholder workshops, “We looked through an entirely different lens. We quickly realized most important



insights were coming from the direct stakeholder communication. Instead of measuring spaces and noting the age of tile, we watched for points of pain – where we could focus on the customer.”

Step 12. Supplier Solution Synthesis Workshops. This step involves each supplier sharing its solution overview based on a synthesis of all topics from the stakeholder workshops. In each workshop, the buying organization and supplier mutually agree on a “signed-off solution” which forms the foundation for the supplier’s formal solution proposal.

Following the Solution Synthesis Workshops, the buying organization issues a final pricing template to the suppliers. The suppliers complete the final pricing template as part of their formal solution proposals as discussed in step 13. The final pricing template may include some or all of the assumptions to be made by the Preferred Proponents as part of the economic model for its solution.

Step 13. Supplier Solution Proposal and Presentation. The limited number of down-selected suppliers is asked to invest in and develop a formal partnership proposal with a comprehensive solution and pricing model that meets the buying organization’s needs.

The buying organization should provide a detailed guide to supplier finalists that identifies information about the solution proposal requirements, the solution presentation, and the evaluation criteria used as a basis for determining the successful proponent(s).

This is where the rubber meets the road. Finalists are required to submit their solutions and should not be allowed to make changes to their solution proposals after the closing date. This also means the buyer should not include a “best and final” offer process that re-opens the bid to all suppliers after the fact.

Suppliers augment their formal proposal with an oral presentation to a small group of stakeholders that is tasked with the responsibility for making the supplier selection. Additional people may be invited to the presentation, but they do not actively participate in the evaluation process. The presentation should continue the practice of open communication with evaluation committee members being free to ask questions and seek clarification.

Step 14. Solution Evaluation and Supplier Down Selection. The selection committee evaluates and ranks each of the supplier’s solutions and presentation using the pre-established criteria. As part of the evaluation process, the evaluation team reviews each supplier’s final pricing template. The top ranked supplier(s) move on to Phase 3: Due Diligence and Validation.

It is essential the selection committee be fair. Oftentimes independent technical and financial evaluations are conducted and then pulled together with predetermined weighting criteria to make a final recommendation. The Minnesota Department of Transportation took the supplier selection very seriously, having a separate “technical” review committee as well as a pricing review committee. This helps assure that favoritism is eliminated from the process.

Phase 3. Due Diligence And Validation

Step 15. Due Diligence and Validation of Solution. This step includes detailed verification against the solution model of information used to design the solution, such as financial



assumptions, the business processes, human resources data, baseline service and financial levels, and inventory of equipment. The selling organization may perform further due diligence to verify its current financial and operating capacity to deliver and commit to statements made in the solution. The buyer may also decide to conduct further reference checks or competitive intelligence reviews, including site visits, 10-K filing review analyses, and the like.

Step 16. Final Solution Confirmed. Once the due diligence is complete, the parties reaffirm the final solution is agreed to and move directly into contract negotiation.

Phase 4. Contract Development

Contract development should be performed by team members who were involved in the previous steps. It is essential the buying organization and supplier continue the collaborative mindset through contract negotiations. As such, the contract not be “thrown over the wall” to negotiators, operations teams, or other stakeholders who were not part of the process.

Step 17. Contract drafting. Once due diligence is complete, the buying organization and supplier collaboratively develop a contract that will guide the future of the partnership. Contract drafting starts by using the supplier’s partnership proposal as a foundational building block for the final contract. Contract development includes finalizing all aspects of the deal structure. During this step, the details of the contract are finalized. Any contractual guardrails should be incorporated into the formal contract.

The book *Strategic Sourcing in the New Economy*¹⁹ provides good guidelines for ten essential elements that should be included in any outsourcing agreement. These include:

1. Selection of the most appropriate Sourcing Business Model
2. Shared Vision Statement and Statement of intent that drive contract terms and workplace behaviors
3. Statement of objectives and workload allocation
4. Performance metrics for desired outcomes
5. Performance management
6. Pricing model (margin matching/incentives framework)
7. Relationship management framework
8. Transformation management
9. Exit management
10. Special concerns and external requirements

Step 18. Final contract signoff. Once the contract is ready for execution, the buying organization and supplier need to obtain the necessary approvals to arrange for the signing of the contract. Execution of the contract by the buyer is, in all cases, subject to approval by the appropriate contracting authority. The solution should not be implemented until the applicable contract has been executed and signed.



Phase 5. Implementation And Ongoing Governance

Step 19. Onboarding of resources. The collaboration that has been apparent throughout the process continues during the initial transition. This is especially important in a Vested partnership in which each party accepts responsibility for the success of the relationship and achievement of mutually defined desired outcomes.

VCH showcased how this works as they transitioned to Compass – their new supplier for environmental services. Both VCH and Compass wanted to ensure they got off to a good start and emphasized Compass’s role would be to transform conventional role of “housekeeping” to that of clinical partner for environmental services. As such, establishing the right mindset with new and existing employees was essential.

The parties jointly developed a transition and onboarding plan to inform front line workers of the new agreement, how it worked, and responsibilities involved. They targeted the message to highlight the principles of their new Vested relationship, emphasizing teamwork, transparency, flexibility, and collaboration. The rollout plan concentrated on four questions important to individuals:

- What does this mean for you?
- What does this mean for your patients and visitors?
- What does this mean for staff?
- What does it mean going forward?”

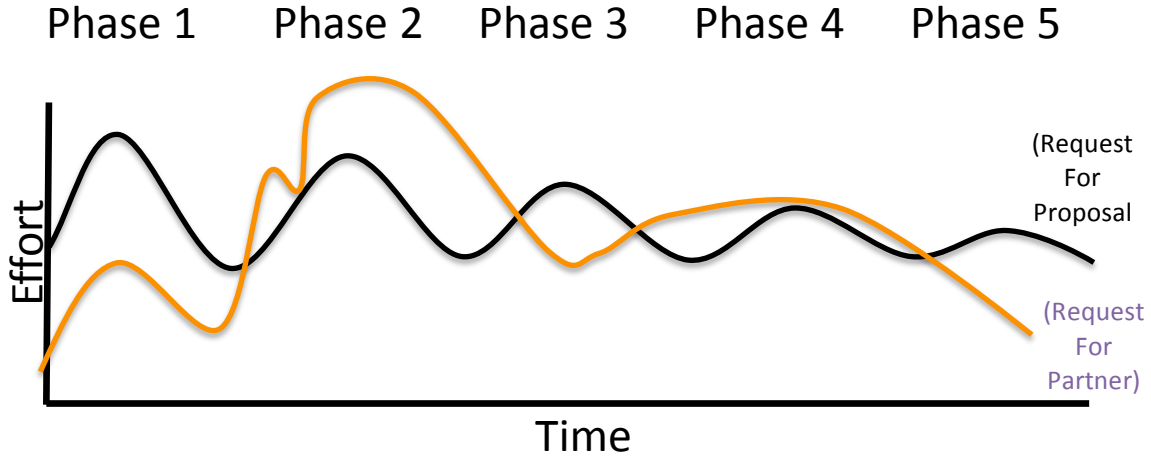
Step 20. Implementation of solution and governance structure. The final step involves implementation of the solution – including institutionalizing the agreed upon governance structure. Much has been written about governance structures for strategic and complex outsourcing initiatives. IAOP offers excellent instruction for how to develop sound transition and governance structures.

SUGGESTED TIMEFRAME

The authors do not “set” a formal timescale for a request for partner process because each sourcing initiative is unique. More complex initiatives with many potential suppliers will take longer while less complex initiatives with fewer qualified suppliers will take a shorter period of time. It is easy to think that the added collaboration will add time to a sourcing initiative, but that is not typically the case. The emphasis on where time is spent, however, shifts. For example, rather than spend time developing a prescriptive statement of work to which suppliers will respond, time is spent in stakeholder workshops where suppliers better understand the current situation. Figure 6 (following page) outlines a conceptual timeline.



Figure 6: Conceptual Timeline



The number of down-select phases and the availability of stakeholder resources also impact the timing. We offer a generic 9-month timeframe (without considering phase 5 – implementation) as a guideline that can be expanded or contracted based on specific needs (refer to Figure 5 shown earlier in Section 3). The Phases are meant to be flexible and followed according to the buying organization unique situation. Figure 7 provides an overview of the VCH timeframe.

Figure 7: Vancouver Coast Health Actual Timeframe

Phase 1	Phase 2 - Solutioning and Supplier Selection		Phase 3	Phase 4	Phase 5
Qualify Potential Suppliers	Discovery / Concept Solution	Solution Definition	Due Diligence and Validation	Contract Development	Implementation and Ongoing Governance
NUMBER OF Suppliers	3 suppliers	2 suppliers	1 supplier (2nd supplier in waiting)	1 supplier	1 supplier
Planned Timeframe: Nov 15, 2013 – Nov 21, 2014 (2 weeks were planned between the phases for planning and document development purposes, included in the numbers reported in this row)	13 weeks	19 weeks	4 weeks	17weeks	
Actual Timeframe: Nov 15, 2013 – Feb 25, 2015	14 weeks	17 weeks	These phases were combined: 8 months (35 weeks – 4 weeks of this were planning the phases and changing our decision to combine the 2 phases, 4 weeks in summer or Christmas vacations, which reduced access to decision makers and 2-3 weeks for signing the agreement) total		



PART 5: REQUEST FOR PARTNER IN PRACTICE

Vancouver Coastal Health (VCH) demonstrates an excellent example of using a highly collaborative request for partner process. VCH and Providence Health Care (PHC) – which serve one of the largest regions in Canada’s health care system - wanted to combine efforts and shift their outsourced housekeeping services to a more strategic relationship spanning environmental services (EVS) across a portfolio of 34 different locations.

In the past, VCH and PHC worked with suppliers on a transactional basis; a key goal for this sourcing initiative was to move to an outcome based contract. Although a clean building is important to everyone, it is life and death vital for health organizations such as VCH and PHC. VCH leaders felt that an outcome-based contract would be more appropriately suited to achieving business objectives, including reducing hospital-acquired infections that cost lives and millions of dollars.

VCH representatives were uncertain that suppliers could even drive innovation in what were traditionally considered mundane housekeeping activities. VCH’s Business Initiatives and Support Services (BISS) department, representing both VCH and Providence Health Care (PHC), began working with the University of Tennessee in 2013 to learn about Performance-Based and Vested Sourcing Business Models. They liked the idea of using a Vested Sourcing Business Model for EVS services to drive innovation based on jointly defined and measurable Mutual Desired Outcomes. Because the approach requires suppliers to invest in innovation, BISS was unsure the supplier community would embrace the Vested model.

After much research, VCH decided to customize the University of Tennessee’s highly collaborative Request for Partner methodology for its EVS solicitation. The process worked with multiple suppliers to determine the best solution to help VCH achieve its Desired Outcomes, not just create a bid where suppliers would compete on price such as cost per housekeeper per hour. More than just ask suppliers to develop a solution, the BISS team wanted the process to secure a true partner.

To do this, they knew they needed to demonstrate their intent to work collaboratively and transparently throughout the process. They designed their “Mutual Value Solution Request for Proposal” (their term for the Request for Partner methodology) to purposefully engage highly collaborative give and take dialogue with potential suppliers. Down-selected suppliers participated in a transparent process purpose built to allow the suppliers to put together the best possible solution. Unprecedented access to stakeholders was available and communication was open and candid. And – most importantly – the process enabled them to ensure they picked a supplier that was a good overall “fit” – not just a supplier that had the right capabilities on paper.

The BISS solution used a multi-phase process (using a two-step solutioning phase) that allowed BISS to carefully evaluate and down-select each supplier as it learned more about potential supplier solutions.

Phase 1 – Qualify Potential Suppliers. The BISS team started by assessing the market with potential suppliers as part of what they called “pre-bid letting conferences”. These one-on-one



meetings with potential suppliers were a key part of their market research and feasibility assessment to identify potential new capabilities and approaches for working with supplier. In addition, the team began to work closely with internal stakeholders, drafting high level Desired Outcomes and a high level workscope based on business objectives. The team selected three qualified suppliers that moved to Phase 2 where they would be asked to develop a solution tailored to VCH's needs.

Phase 2 – Solutioning. Phase 2 launched on November 15, 2013, with BISS issuing a “Mutual Value Solution Request for Proposal” (MVS) for the supply of the Environmental Services. They used a two-step solutioning process. The first step was a “Discovery / Solutioning Concept” step where they gave the three qualified suppliers 10 weeks to develop a “concept proposal”. The goal of the concept proposal was to allow suppliers to propose high-level solutions that would optimize six Desired Outcomes outlined in the solicitation request. During this step of the solutioning phase, the suppliers were given unprecedented access to business stakeholders to flesh out and validate the six Desired Outcomes and to design a high level solution concept that best met the two healthcare organization's needs.

Suppliers were asked to challenge VCH's assumptions and collaborate directly with key stakeholders to customize a solution that would transform outsourced housekeeping from a transactional activity to one of a strategic partner. As part of the process, BISS and the potential suppliers engaged hospital and residential care stakeholders in “stakeholder workshops”, to determine how cleaning impacted VCH's and PHC's goals such as decreasing infection rates and sending patients home to family sooner. Suppliers were also given access to hospital data – as well as the budget – to help them refine their solutions. This enabled the suppliers to tailor a comprehensive solution designed to optimally meet the stakeholder's need.

Two of the potential suppliers were selected to move forward to the next stage in the competitive bid process between the end of February to July 2014.

During the process, there were multiple review meetings where BISS performed “check point” audits with key stakeholders from both VCH and PCH to make sure the path was on track for reaching the business goals. Doing so achieved not only “buy-in” early in the process, but team consensus and support for the final decision. This was crucial for the Vested sourcing process and the success of this program.

The supplier selection criteria were extremely important – especially since VCH is a government organization that demands fairness and transparency throughout the procurement process. The criteria ensured VCH would end up with a supplier that would not only offer the best value, but the best overall fit for establishing a long term outsourcing agreement designed to span seven years. VCH carefully reviewed the proposals and selected as the finalist – Compass Group Canada.

Phase 3 and 4 – Due Diligence and Validation / Contract Development. The original plan called for a two-week window for due diligence and validation followed by 15 weeks for contract development. These two phases were combined, partly because of the quality and thoroughness of the solution from the winning supplier. The contract development phase was designed to allow VCH and the finalist to continue collaborating as they jointly developed a contract that directly



aligned the contract to VCH's and PHC's business objectives. BISS and Compass used the University of Tennessee's highly collaborative "Vested Outsourcing" process specifically designed to allow buyers and suppliers to inject collaborative contracting methodologies during the contracting phase in their pursuit to achieve a true "win-win" contract.

Phase 5 – Implementation and Ongoing Governance. VCH and Compass created a transition plan led by Sydney Scharf - a key stakeholder in crafting the EVS solution – and Rod Smith - Director of Change Leadership - from Compass. The duo went to the drawing board to plan for the transition. Changing service providers is difficult in any circumstance. Transforming dozens of sites and thousands of employees required an extensive schedule for implementation and lots of concentrated energy. Although 87% of the previous workforce was re-employed, there remained angst for the 13% who were not. New uniforms, signage, forms, and other details needed to be considered. But because the VCH – Compass contract is a Vested agreement, the most important change was establishing a radically different work environment with a "What's in it for We" mindset. Smith explains, "It's more than being a good team, it's about role modeling the new behaviors the Vested agreement demands."

Ultimately, the hard work of Scharf and Smith paid off. As Don Wills, Director of Support Services for Providence Health Care, reports, "For the roll-out, everyone did an amazing job. We went live with one major acute center and four others without a single issue. Just think...to pull out hundreds of employees and rooms and equipment and be fully operational minutes after."

RESULTS OF THE PILOT

VCH's highly collaborative approaches won the hearts and minds of key stakeholders such as Cindy Elliot, a registered nurse who works in the Providence Health Care as a Practice Consultant. Elliot ensures Providence is in compliance with legislation and safety standards. Cindy considered the process as refreshing. "In the past, VCH's BISS (Business Initiatives and Support Services (BISS) department had acted as go-between. If a clinic had a problem, it would bring it to BISS, which would forward the concern to the supplier. Through the guided tours and workshops, stakeholders had direct communication."

Cindy continues, "We were not accustomed to face-to-face interaction; being able to ask our own questions and express our own points of view and worries was almost cathartic. The lawyers and C-Suite folks have their own concerns. What we care about is simple – how clean is our place? If there's a spill, how long will it take to get it cleaned up? This was a chance for us to be truly heard."

Mary Morrison, Vice President Strategic Market Development Compass Group Canada shares a supplier's perspective on the power of the request for partner approach. "Our core group asked a lot of questions. Our biggest benefit was absolutely hearing the stakeholders...having unbridled conversation...getting out of RFP language and providing the canvass for our company to create a solution that was customized, sustainable and responsive to all. We could ask why something was important to them and what were the deal breakers. We needed to hear from the people who really felt the impact of service."



PART 6: CONCLUSION

As organizations mature and their approaches to sourcing become increasingly sophisticated and vital to the enterprise, new competitive bidding methods are required to address the need to incorporate innovation into complex sourcing initiatives. A key trend that is proving successful is the shift to more collaborative approaches with suppliers. This means not only turning to more collaborative Sourcing Business Models such as Performance Based or Vested – but also includes incorporating more collaborative approaches into the competitive bidding process itself. Bringing collaboration onto the bidding process enables buyers to work with suppliers to find “solutions” and potential “partners” – not just on providing a price for a specification.

More modern and collaborative “request for solution” methodologies have emerged; but existing methodologies have limitations that prevent widespread adoption. University of Tennessee researchers have developed an open source “request for partner” methodology. The methodology offers a promising approach that enables buyers to tap into the creativity and innovation of potential suppliers while still allowing for a competitive environment. The process allows suppliers to authentically create better solutions that are purpose-built for adding value and driving innovation for buyers.

The beauty of the University of Tennessee request for partner process lies in its clear purpose to find a supplier with the best solution and cultural fit while retaining flexibility within the process to expand or collapse down-selection processes. For example, VCH customized the process to include four phases, but provided only the detail necessary for each phase as it occurred. The process gave VCH the flexibility to “learn as you go” from earlier phases and make revisions as desired. This left BISS options open to discovering the best possible solution with suppliers along the way.

David Handley, Vice-President, Business Partnerships, summarizes, “The first order of business was picking the right partner. The process allowed us to pick someone we trusted - trust that was culturally compatible for our organization.” Handley continues, “The Request for Partner methodology gave us the guidance and flexibility we needed. The methodology provides a path to discover the best fit solution and supplier that can lead to unleashing the full potential of outsourcing.”



Appendix 1:

SUGGESTED CONTENTS FOR A REQUEST FOR PARTNER

- Background information (1-2 pages)
 - Purpose of the request for partner
 - Receipt confirmation instructions
- Definitions (as needed)
- An overview of the request for partner process (2 pages)
- Overview of the opportunity, including (2-4 pages)
 - Vision
 - Current situation
 - Strategic objectives/draft desired outcomes you are trying to solve for
 - Challenges and operational risks
 - Guardrails (buying organization constraints – such as maximum contract length guidelines, ownership of assets)
- Overview of scope, including (2-10 pages – focus on the what, not the how)
 - *High level* overview of services
 - List of key solution data provided (e.g. such as facilities the supplier will need support in a facilities management solution, existing volumetrics, etc.)
- Detailed overview of the request for partner process including description of the steps, timing and expectations for the supplier (10-20 pages)
- Supplier selection criteria that will be used to down select the criteria and weightings for each phase (varies; typically 1 – 5 pages).
 - Mandatory criteria
 - Desirable criteria
- Terms - such as guidelines for supplier expenses, ownership of proposals, use of personal information, etc. (varies; typically 1-3 pages)
- Appendix, such as
 - Receipt / Confirmation Form
 - Confidentiality Agreement (and waiver if needed)
 - Information protocols for accessing buying organization data and protocols for how buying organization will handle confidential information from suppliers
 - Conflict of Interest Form
 - Indicative Pricing Template



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Bonnie Keith is the author of *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement*. She is President of The Forefront Group, LLC, an international leader in Strategic Sourcing Transformation concepts. Bonnie’s business experience includes Corporate Executive and Officer positions for three Fortune 100 companies and two Fortune 500 companies. Keith served as a member of the White House Advisory Counsel for the Pharmaceutical Industry.

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Anthony Johnson has over 20 years of experience with sales, sales operations and channel sales in the IT outsourcing sector. He brings strong project management skills to outsourcing initiatives using formal SDLC processes and PMI methodologies.



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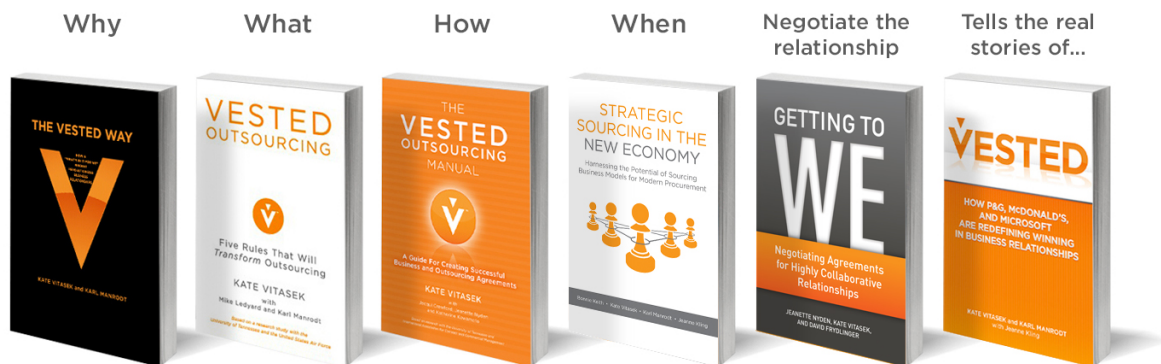
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FOR MORE INFORMATION ABOUT....

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, UT researchers have led collaborations that have led to six books on the Vested business model and it's application in strategic sourcing.



For additional information visit the University of Tennessee's website dedicated to the Vested business model at <http://www.vestedway.com/> where you learn more about our Executive Education courses in the Certified Deal Architect program. You can also download white papers, watch videos, read articles and subscribe to the Vested blog as well as download the many resources and [tools](#) to help you understand and begin the Vested journey.

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ENDNOTES

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- ² http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2009/
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- ¹⁴ Much of the step process is gleaned from the pilot project VCH MVS documentation
- ¹⁵ The CaT was developed by Dr Karl Manrodt and Dr Jerry Ledlow to help buyers and suppliers gain sufficient maturity to enter into Vested relationships. There are five dimensions that are measured – Trust, Innovation, Communication, Team orientation, and Focus; <http://www.vestedway.com/compatibility-and-trust-assessment/>
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- ¹⁷ Gerard Chick and Robert Handfield, *The Procurement Value Proposition* (London: Kogan Page, 2012), p.201.
- ¹⁸ The I-35 Bridge was a vital connector between the metropolitan cities of Minneapolis and St. Paul, Minnesota. On August 1, 2007 the bridge collapsed into the river below it, killing 13 people and injuring 145 others. Rebuilding the bridge was high priority because of daily losses to revenue and disrupted traffic flows.
- ¹⁹ Bonnie Keith, Karl Manrodt, Kate Vitasek, Jeanne Kling; *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models in Modern Procurement*; 2016; Palgrave MacMillan, New York, New York