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Unpacking Request for Partner

Getting to a Vested Agreement Using a Competitive Bidding Process (2nd Edition)

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Unpacking Request for Partner

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EXECUTIVE SUMMARY

Ever since University of Tennessee (UT) researchers first published the book *Vested Outsourcing: Five Rules that Will Transform Outsourcing*, procurement professionals have asserted: "Great idea! But how can you get to a Vested business model with a potential partner using a competitive bidding method?"* While the vast majority of organizations making the shift to a Vested sourcing business model restructure an existing supplier relationship rather than go to market using a competitive bid process, it is a fair criticism.

The question was one the Canadian government – required by law – had to figure out. Working with UT researchers, a small team of sourcing professionals within Vancouver Coastal Health (VCH) piloted the first "Request for Partner" process. The learnings led to the *Unpacking Collaborative Bidding* white paper – first published in 2016. VCH's success inspired several organizations to rethink their approach to picking a "partner." Some of these organizations were hesitant to use the VCH approach; the most common critique was that the process took too long. Others wanted to address "cultural fit" and "trust" more formally into the supplier selection criteria.

This paper introduces a second edition to the *Unpacking Collaborative Bidding* white paper – expanding on UT's original research and revising the original Request for Partner methodology with field-based learnings from multiple pilots.

- **Part 1** summarizes the **research methodology**
- **Part 2** shares insights into the **changing landscape of strategic sourcing** that are causing organizations to move to more collaborative bidding practices
- **Part 3** analyzes the **strengths and weaknesses of four** of the most popular collaborative bidding **methods** and **proposes an alternative Request for Partner approach** designed to overcome shortcomings in each method
- **Part 4** provides a ***step-by-step overview*** of the recommended ***Request for Partner*** process and **provides tips and examples** of how progressive organizations are using a Request for Partner process.

The goal of this white paper is to challenge procurement professionals to embrace more collaborative bidding methods and – when appropriate – know when to use the Request for Partner method. For this reason, this paper is being published through the Creative Commons and is fully sharable.

Knowledge is power and shared knowledge is exponential power. We hope you will share this paper with your colleagues, clients and suppliers.

* *A Vested model is a type of sourcing business model that creates highly collaborative win-win relationships where the parties share risk/reward for achieving mutually agreed business outcomes.*

PART 1: OVERVIEW OF RESEARCH METHODOLOGY

The original research methodology included four phases over five years – 2013 to 2017. A fifth and sixth phase was added, resulting in the publication of this white paper – a second edition to the original Unpacking Collaborative Bidding white paper.

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 augmented the interviews with a review of existing literature on competitive bidding approaches. The learnings led to a chapter in the book *Strategic Sourcing in the New Economy* which compared the various bidding methods and introduced an alternative "Request for Partner" method as an option for picking a supplier for a Vested sourcing business model. The chapter was expanded into the more detailed *Unpacking Competitive Bidding* white paper.

Phase 3 encompassed conference calls with a subset of individuals from Phase 1. The goal was to flesh out a high-level Request for Partner methodology, closing gaps in existing competitive bidding processes that fall short when an organization is wanting to explore innovation and transformation through outsourcing using a Vested sourcing business model.

Phase 4 involved a pilot with Vancouver Coastal Health (VCH) to test and refine the concept process. The VCH pilot resulted in the Request for Partner process being more fully developed and ultimately being documented in a white paper titled *Unpacking Collaborative Bidding* in 2016. Shortly after the white paper was published, other companies expressed interest in using the Request for Partner process which led to Phase 5.

Phase 5 encompassed seven additional organizations (both private and public) further testing the process and making refinements. UT researchers worked with five Vested Center of Excellence field teams as they began to roll out the Request for Partner process and make modifications unique to each of the pilot situations. For example, two of the organizations needed to ensure the Request for Partner process would be allowed under Dutch public procurement laws.

Phase 6 concluded the research with UT researchers and the field-based support teams collaborating to come up with the Request for Partner V2 process and the publication of this second edition of the Unpacking Collaborative Bidding white paper in 2019.

PART 2: THE CHANGING LANDSCAPE OF STRATEGIC SOURCING

Today's business environment is more dynamic and filled with more uncertainty than ever, depicted by:

- Globalization that is accelerating market interconnectedness; which includes the increased mobility of human resources and creating a marketplace made up of a network of highly integrated organizations
- A business environment challenged with increasing volatility and risk, including international terrorism, sovereign debt defaults, natural disasters, and port slowdowns caused by labor disputes and inadequate transportation infrastructure
- An increasingly fast consumer-driven society that demands more agile and flexible supply chains
- The continued evolution of a service economy shifting to strategic, not just tactical, outsourcing
- A shift in purchasing skills and processes to create value, not merely procure goods and services
- The expansion and introduction of capabilities of cloud computing in procurement activities

The shifts noted above demand businesses view procurement through a different lens than traditionally used for procuring goods and services. But what is this lens and how it is different?

For decades, organizations have looked at sourcing through a simple "make-vs-buy" lens; if the decision is to "buy" then a request often goes to procurement, who triggers a competitive bidding process. The make-vs-buy lens is especially prevalent in organizations looking to explore outsourcing and contracting for highly complex projects. The logic is "test the market" by easily comparing prices across transactions (e.g., price per hour, per widget, per mile, per kilogram, etc.), which ensures the buying organization is getting the best price. A highly competitive bidding process is especially prevalent in organizations where the procurement organization is measured on price savings.

Unfortunately, many incorrectly assume if they "buy," they should use competitive "market" forces to ensure they are getting the best deal. A market-based solution using a highly competitive process works well for simple transactions with abundant supply options and low complexity where the "market" self-corrects with competition. If a service provider does not perform there is minimal risk and cost to rebid the work and switch out service providers. However, when sourcing for larger and more complex projects and outsourcing solutions, all too often a simple market-based approach falls short. One of the biggest reasons is that buyers become co-dependent on service providers is high switching costs. When co-dependency is high it creates a "locked-in" (also known as a holdup) position where tensions often arise.

These tensions create what Dr. Oliver E. Williamson – professor of economics at the University of California, Berkeley – calls Transaction Cost Economics. Williamson received the Nobel Prize for his work in 2009.[1] Later work by Harvard University economist Oliver Hart confirmed organizations sub-optimize efficiency through their fear of being held-up. For example, they might use multiple suppliers when one might be more efficient. Another common cause of added transaction costs is leaving in a layer of management who manage the supplier (known as a "shadow organization") which duplicates costs. Oliver Hart's work also led to a Nobel Prize in 2016.

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.[2]

A Different Lens: A "Hybrid" Approach

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

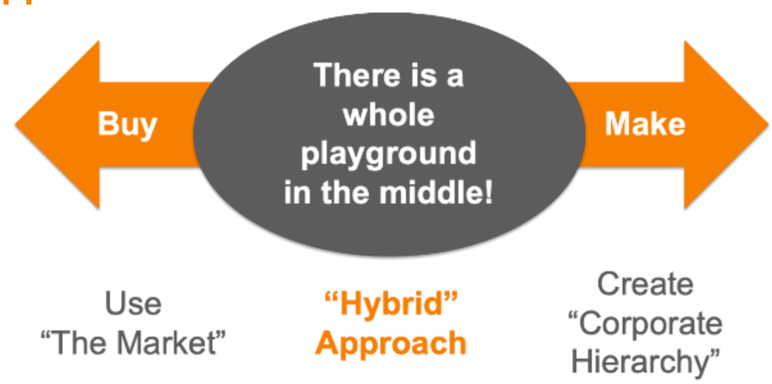


Figure 1: Continuum of Sourcing Solutions

The University of Tennessee began researching "hybrid" approaches in 2003 as part of a large research project funded by the University of Tennessee to study complex service contracts that shifted away from buying "technical specifications" to buying supplier expertise to deliver "solutions." UT's research on complex outsourcing deals showed the most successful relationships were highly collaborative, with buyers and suppliers working together to yield significant value for both the buying organization *and* the service provider. UT's work is featured in the books *Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships* and *Strategic Sourcing in the New Economy: Harnessing the Power of Sourcing Business Models for Modern Procurement.*[3]

Strategic Sourcing in the New Economy outlines seven sourcing business models (see ***Figure 2 – next page***).

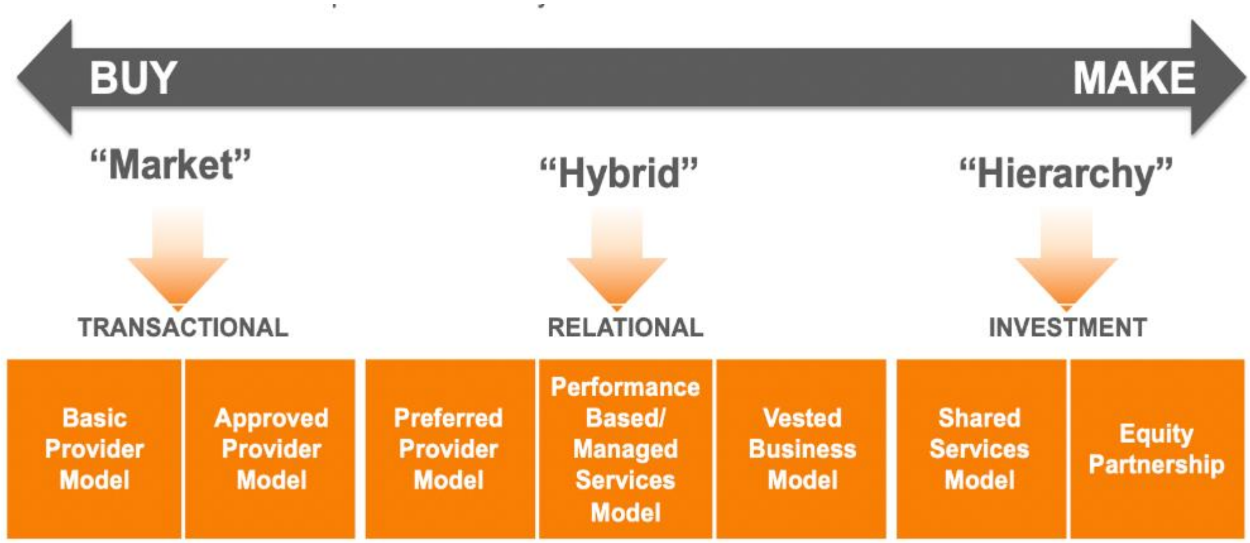


Figure 2: Seven Sourcing Business Models

As organizations make the shift from commodity-focused "buy" sourcing business models to more value-based "hybrid" sourcing business models (e.g., Performance-Based and Vested agreements), they factor in these attributes:

- Emphasizing buying "solutions" vs. "technical specifications"; the Award Criteria are more about the suppliers "bid" than the "bidder"
- Viewing suppliers as strategic "partnerships" and "alliances," versus a simple supplier of capabilities with the focus on longer-term, flexible, "win-win" deal structures
- Using more collaborative and transparent approaches during the bid process
- Considering suppliers' "cultural fit" in addition to capabilities
- Shifting away from transaction-based sourcing business models to output-based (Performance-Based) and outcome-based (Vested) sourcing business models

The scope of this paper focuses on collaborative bidding methods used to select a supplier for strategic Vested agreements with a special focus on the "Award" phase.

So what is Vested, and why limit the focus?

What Is Vested	Why Focus only on Vested?
Vested is a hybrid sourcing business model. A Vested agreement combines an outcome-based economic model with a relational contracting model where a buying organization and its supplier have an economic interest in each other's success. The Vested model incorporates Nobel Prize-winning concepts of relational/behavioral economics and the principle of shared value. Using these concepts, companies enter into a highly collaborative agreement designed to create and share value for buyers and suppliers above and beyond conventional buy-sell economics of a transaction-based or Performance-Based contract. In short, the parties are equally committed (vested) to each other's success through a "win-win" deal structure.	1. The University of Tennessee has published a white paper addressing the broad topic of competitive bidding *(download the Unpacking Competitive Bidding white paper at http://www.vestedway.com/vested-library/)* 2. The Vested sourcing business model offers the highest potential for organizations to create value through highly collaborative supplier relationships. 3. It is an area where many organizations struggle – often "saying" they want a highly collaborative and strategic win-win deal – but then falling back on traditional procurement policies and practices designed for "market"-based transaction type deals or Performance-Based contracts. 4. In the organizations that piloted the Request for Partner v1 method, most struggled with how to quantify supplier selection, especially as it related to picking a supplier based on "cultural fit."

Where Does Collaboration "Fit" in the Sourcing Process?

In 1994, Toshihiro Nishiguchi introduced a theory of adopting a formal step-by-step sourcing process methodology.[4] His eight-step process resonated worldwide, and countless organizations and consulting firms created their own variations. Regardless of which "steps" or "cycles" are used, all sourcing processes include supplier selection and contracting as part of their model. ***Figure 3*** outlines five common stages of a typical competitive bidding process.[†]

Figure 3: Five Phases of a Typical Competitive Bidding Process

[†] *We use the term bid/bidding/tender interchangeably throughout the document.*

- ***Qualification Phase:*** The goal of the Qualification Phase is to efficiently and effectively 'cull' a long list of suppliers to a shorter list of the most capable suppliers whom the buyer wants to invite to a formal bid.[‡]
- ***Award Phase***: The Award Phase is where the buyer goes from a few qualified suppliers to (typically) one selected supplier with whom they will go on and develop a contract. The Award Phase is where the need for collaboration comes into play during a competitive bidding process. The emphasis of this paper is on the Award Phase. Based on feedback from the organizations piloting the Request for Partner V1 method, the authors have strengthened the emphasis of the Award Phase as part of this Request for Partner V2 method. Part 3 of this white paper does a deep dive into four collaborative bidding methods and highlights the weaknesses in each with the Award Phase. We go on to suggest comprehensive recommendations for incorporating the concepts of solutioning and cultural fit (key aspects of selecting a Vested partner) into the Award Criteria.
- ***Due Diligence Phase:*** This phase is where the buyer verifies the bid of the winning supplier. For example, typical due diligence includes validating a supplier's quality or other business processes essential to perform the work, conducting reference checks, etc.
- ***Contracting Phase:*** In the Contracting Phase the buyer and the supplier establish a collaborative contract. In this paper we assume the buyer and supplier will work towards a contract based on the Vested methodology. For more details on how to structure a Vested agreement see the book *The Vested Outsourcing Manual* or register for the University of Tennessee's Creating a Vested Agreement online course.
- ***Execution Phase***: The Execution Phase is where the buyer and supplier begin to "live into" their agreement, collaborating to deliver on the mutually defined shared vision and desired outcomes. This is the implementation phase, where ongoing governance plays an important role.

Part 4 goes into detail about each step and shows how each step should be modified to corporate a collaborative approach that can best help an organization pick the most appropriate supplier for a Vested agreement.

[‡] *As a general rule of thumb, the more strategic and complex the buying organization's needs, the more a buyer will begin supplier collaboration prior to the Qualify Phase. For example, a buyer may use a Request for Information (RFI) or "market consultation" in order to prepare itself for the upcoming bid process. This would be called phase 0. For simplicity reasons we have not included this phase here, as it is not part of the formal tender process.*

PART 3: ANALYSIS OF EXISTING METHODS

Academics, consulting firms, and even some governments are promoting more collaborative approaches to selecting suppliers. While we see this as a very positive step as organizations seek to shift up the sourcing continuum, the inconsistencies in the approaches can be frustrating. We often get the question “which is best?” To answer this question the University of Tennessee and NEVI (the Dutch Association for Purchasing Management) evaluated popular competitive bidding methods – in particular the Award Phase – to see which methods could best support the shift to a Vested sourcing business model.

Part 3 analyzes the strengths and weaknesses of four collaborative bidding methods:

1. Competitive Dialogue
2. Best Value PIPs
3. What we call a “Competitive Dialogue Plus”
4. Fit-Only or No-Bid Flip

These four methods were chosen because they best represent a unique way each method has helped buying organizations select a supplier intending to create a Vested agreement. For example, the first edition of this white paper profiled how Vancouver Coastal Health used a slightly modified Competitive Dialogue process to get to a Vested agreement with Compass – Canada’s first Vested deal.

With the knowledge of several “pilots” under our belt, UT and NEVI took a step back to evaluate each method and how each method was used in getting to a Vested agreement. We examine the pros and cons of each method and conclude Part 3 with a summary of the learnings and recommendations.

A key strength of all four of the methods is how well each stresses the importance of having a capable supplier. This makes sense when you think about it because most competitive bidding methods do a good job of down-selecting suppliers based on raw capabilities during the Qualification phase.

Each method starts to differ significantly in the Award Phase, because it is here the buying organization evaluates each supplier on their “value” and “fit.” Each method takes very different approaches across two dimensions:

1) To what extent does the buyer evaluate the supplier’s “solution” when assessing the ability to solve the buyer’s problem
2) To what extent does the buyer explicitly evaluate the supplier’s “cultural fit?”

Both dimensions are discussed on the following page.

Assessing Based on Solution

When selecting a strategic partner for the future, the supplier must understand the problems and challenges of the buying organization. On strategic deals where a long-term supplier relationship is essential (such as in a complex outsourcing initiative or complex multi-year project), it is typically impossible for the buyer to specify the requirements in detail. There will be unknowns and uncertainties. As such, the buyer needs to assess whether the supplier understands the desired outcomes (the problem) and not just the tasks the supplier will perform. In short, the Award Phase should evaluate the supplier's potential for success in a dynamic and complex environment.

Evaluating a supplier’s potential for success can be done in a variety of ways. One way of doing this is to assess the supplier’s solution during the Award Phase of the tender. The solution could be a technical solution or a process solution. The other extreme – often used when doing a competitive bid for Performance-Based contract – is to not evaluate the solution, but to evaluate the supplier’s capability of achieving success. This can be done by looking at how a supplier’s proposed metrics support the claim that the supplier can solve the buyer’s problem. Between these two extremes (evaluating the solution in technical detail vs. not evaluating a solution) there is a middle ground.

Assessing Based on Cultural Fit/Compatibility

In a highly strategic, complex and longer-term relationship the buyer and supplier will likely have high dependency – sometimes called “lock-in.” While picking the supplier able to solve the buyer’s problem is essential, many argue it is equally important to choose a supplier with a high degree of compatibility/cultural fit which enables the parties to increase trust levels and to avoid opportunism.

One notable academic that has promoted cultural fit and compatibility in strategic relationships is Dr. Doug Lambert from The Ohio State University. Dr. Lambert cited the “compatibility of corporate cultures and compatibility of management philosophies” as key success factors for strategic supplier relationships in his 2004 Harvard Business Review article.[5] Cultural fit and compatibility do not mean “sameness,” but rather avoiding incompatibilities that can create conflict such as a top-down versus a bottoms-up approach for decision making.

If cultural fit and compatibility are important, the question becomes how to pick a supplier based on “fit.” Not surprisingly, there is not a standard “best practice.” Rather, field-based research reveals organizations use different approaches. For example, one buying organization provided potential service providers with “scenarios” as part of the initial selection process to determine how the supplier would behave. The service providers were invited to describe how they would respond to sample situations. Another approach was to review a service provider’s past behaviors and style attributes (with them and buying organization references) to see whether collaboration and innovation are part of the service provider’s culture. A third approach has an observer sitting in the solutioning workshops to score how well the buying organization and the potential service provider "teamed." A fourth option included the buyer giving potential service providers a test, much like how some companies HR departments test employees during their selection process.

While many organizations argue cultural fit is important, in practice most organizations do *NOT* explicitly assess the cultural fit during the Award phase of a bid process. The reason? Organizations report they do not know how to evaluate for cultural fit as an Award Criteria because it seems "fluffy" and hard to quantify.

Analysis of the Four Approaches

This section examines four competitive bidding methods, with an emphasis on how each method differs in the Award phase compared to the two dimensions above. The methods are mapped across a non-dichotomous scale; this means the scale ranges from 0% to 100%. For example, when evaluating a supplier's understanding of the problem of the buyer, the buyer can heavily emphasize "solutioning" in a bid document from the full 100% (e.g., the buyer wanting to work in detailed 'solutioning' sessions with prospective bidders and assessing the solution) to 0% (where the buying organization is not interested in the technical solution of the supplier at all). There is a wide middle ground between.

Likewise, the same goes for evaluating a supplier on compatibility and cultural fit; the buying organization can ignore the cultural fit between the two parties during the Award phase, or they can explicitly and heavily weigh cultural fit in during the bid process (and everything in-between).

Each of the four methods is plotted on the scale and falls into four "buckets". See ***Figure 5***.

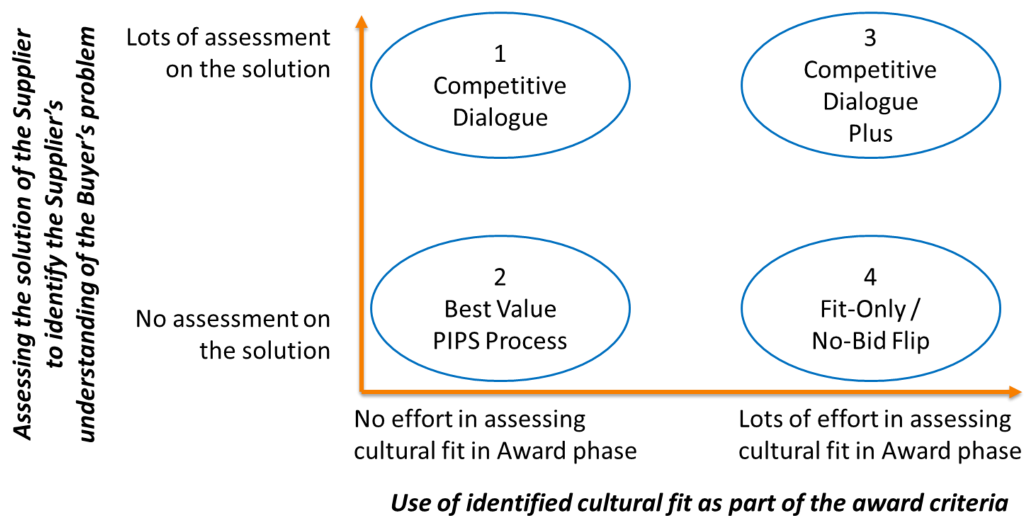


Figure 5: Possible Ways of Selecting a Partner

The lion's share of this part of the white paper seeks to evaluate each method, including scoring each method across seven common competitive bidding attributes (see ***Table 1*** following page).

Competitive Bidding Attributes
Understanding of solution
Explicit assessment of cultural fit
Transparent process
Transaction costs
Lead time
Proportionate
Working on Vested Elements

Table 1: Competitive Bidding Attributes

1. Competitive Dialogue

The first approach we analyze is the classic Competitive Dialogue process. For this, we have used the European Commission's "Competitive Dialogue" process.[6] While we analyze the European Commission's (EC) process, other processes are similar such as the Canadian government's Joint Solution Request for Proposal (JSRFP) approach.

The European Commission's "Competitive Dialogue process" is the most formalized and referenced collaborative bidding methodology.[7] The EC's *Explanatory Note of the Competitive Dialogue – Classic Directive* summarizes the Competitive Dialogue (CD) process as "a particular procedure which has features in common with both the restricted procedure (conventional arm's length bidding process) and the negotiated procedure with the publication of a contract notice." A classic Competitive Dialogue process such as the EC's Competitive Dialogue process has a heavy focus on assessing the technical solution of the service provider. However, there is no evaluation of the cultural fit. For this reason, we place the Competitive Dialogue process in the upper left-hand corner of the ***Figure 5*** matrix.

A core objective of using a Competitive Dialogue approach is to identify and define the optimal solution for meeting the buying organization's needs. Suppliers are deemed "experts" and are invited to participate in "solutioning" exercises to help the buying organization develop the best solution to meet their unique needs. Solutioning exercises often include workshops to develop economic models and deal structures for the sourcing initiative. A key feature of a Competitive Dialogue approach is that solutioning is performed ***jointly*** between the buying and service provider organizations, but also ***independently*** with each down-selected service provider. For example, one bidder will work with the buying organization and come up with a solution to the buying organization's problem (call it an apple) while another supplier looks at the same problem comes up with a different solution (call it a banana).

Hoezen and Hilig (2008)[8] identify several advantages of using a Competitive Dialogue approach. A key benefit is enabling contracting authorities to procure projects whose technical specifications and price levels cannot be defined upfront because these matters can be defined during the dialogue. Using a Competitive Dialogue approach also stimulates service providers to come up with more innovative solutions.

Hoezen and Hilig also point out two clear disadvantages to using a Competitive Dialogue process. The first disadvantage is the high transaction costs. A Competitive Dialogue process starts by explaining the environment, any constraints service providers must work within, and desired future state or success criteria to everyone involved. It often also includes numerous “solutioning” workshops and in-depth site visits. For this reason, a Competitive Dialogue process requires significant investment in terms of time and labor from *both* buyers and prospective service providers. For example, for the buying organization must spend time ensuring suppliers have all the information they need to develop their solution while on the supplier side they need time to sort through the information provided. In addition, solutioning workshops can involve many stakeholders from both the buyer and supplier, often involving travel costs to get the right people in the workshops.

Once the process is underway there can be significant administrative burden to keep each bidder’s data firewalled. For example, a standard Request for Proposal, a supplier’s Q&A is shared among all bidders to assure clarity and level the playing field. In a Competitive Dialogue approach, communication goes back and forth between the buyer and each prospective service provider independently to protect their unique intellectual property and innovations. This helps assure an ethical procurement while avoiding any appearance of impropriety or favoritism.

The second disadvantage cited by Hoezen and Hilig is a hindrance of competition. Why? Service providers have to invest just to participate in a Competitive Dialogue. Thus, often only large service providers participate. The consequence is that competition is stifled in the broad sense with fewer suppliers (even though it is stimulating because of the solutioning).

Summary: We consider the Competitive Dialogue a solid – yet expensive – approach for finding a service provider when the technical solution plays an important role. Because of the time/expense, a Competitive Dialogue process should be used only when seeking a Performance-Based contract; it is simply too expensive for simple transactional agreements. Likewise, it falls short when seeking a Vested agreement because it does not consider cultural fit.

Core aspects of the Competitive Dialogue approach could be modified to include cultural fit and compatibility as noted under option 3 (Competitive Dialogue Plus).

Table 2 summarizes the classic Competitive Dialogue process across the seven attributes.

Analysis of the Competitive Dialogue Method (1)	
Understanding of solution	During Award phase (phase 2)
Explicit assessment of cultural fit	No
Transparent process	Yes
Transaction costs	High
Lead time	Long process
Proportionate	Not always
Working on Vested Elements	In Contracting Phase (phase 4)

Table 2: Characteristics of Competitive Dialogue Method

2. Best Value PIPS

The second approach we analyze is what is often called a "best value" approach. For this paper, we have analyzed the popular Best Value "Performance Information Procurement System" (BV PIPS) method as developed by Dean Kashiwagi at the Performance-Based Studies Research Group (PBSRG) of Arizona State University[9] and later customized to the European legislation. While there are multiple "best value" methods, the BV PIPS approach provides a robust – yet simple – process for supplier selection for procuring complex projects, especially large construction or IT projects. It is also well documented and can be used for a variety of applications.

The BV PIPS approach shares an important trait with a classic Competitive Dialogue approach; both advocate that the supplier is the expert and as such the buying organization does not specify "the how." Both give prospective bidders a problem and seek to use the supplier's expertise to come up with the solution. In both approaches, the buyer almost always ends up with different solutions to the problem (an apple vs. a banana).

The BV PIPS method is significantly different is in how the buying organization derives the best solution. The BV PIPS process advocates that because the buying organization is not the expert, they should avoid evaluation (and participating) in the "technical" solution. Rather than do joint solutioning as in the Competitive Dialogue method, the BV PIPS process uses a formulaic approach using the buyer's expectations and metrics to select the right supplier's solutions. In the BV PIPS process[§], the buying organization's "project objectives" play a major role in the evaluation of the bids. Each service provider needs to clarify why they can contribute to the buying organization's objectives. In addition, suppliers must prove with metrics they can support their solution. The BV PIPS method forces the communication between stakeholders to be in the language of metrics rather than in a "dialogue," because BV PIPS assumes the buying organization has little or no expertise. The logic is that metrics transform communication into a simple, non-technical and very efficient language, bringing consensus between the buying organization and the service provider. Proponents of the BV PIPS method argue metrics allow everyone to see into the future and increase accountability, and motivate the supplier to minimize risk and to act in the best interest of the project [and not the person].

The BV PIPS process uses five criteria to select the best service provider. These are:

1. Price
2. Level of Expertise (2 pages)
3. Risk Assessment Plan (2 pages)
4. Value Added (2 pages)
5. Interview

[§] There is a difference between the classic Best Value PIPS approach as developed by Kashiwagi and the adapted European version. In this paper we address the European version, where project objectives play a major role

While these Award Criteria may seem abstract, the advantage is the method gives the service provider total freedom to show its expertise. The simplicity yields an efficient process taking approximately eight weeks, yielding far lower transaction costs and a much faster process when compared to the Competitive Dialogue method.

The BV PIPs process shares the same disadvantage with the Competitive Dialogue in that neither considers cultural fit. In fact, cultural fit and “trust” are deemed as taboo topics because they do not force the buyer and supplier to deal with 100% objective and measurable thinking

Summary: We consider the Best Value PIPS method (and other similar best value methods) a solid approach for Performance-Based contracts where the supplier is solely responsible for delivering on their proposed solution. However, a pure BV PIPS method falls short when the need is to pick a partner for a Vested sourcing business model where compatibility and cultural fit are essential and business is dynamic. The BV PIPS method also does not work well when the buying organization wants to have an opinion and be involved in the actual solutioning – such as for a complex outsourcing agreement where there is high integration and the nature of the solution does matter to the buying organization.

We summarize the Best Value PIPS approach across the seven attributes in ***Table 3***.

Analysis of Best Value PIPS Method (2)	
Understanding of solution	In Due Diligence phase (phase 3)
Explicit assessment of cultural fit	No
Transparent process	Yes
Transaction costs	Very low
Lead time	Quick process
Proportionate	Yes
Working on Vested Elements	In Contracting Phase (phase 4)

Table 3: Characteristics of a Best Value PIPS Method

3. Competitive Dialogue Plus

The third method we evaluated is what we call Competitive Dialogue Plus. Competitive Dialogue Plus is a generic name we give to a classic Competitive Dialogue method that deliberately includes cultural fit and compatibility as an Award Criteria for choosing the best-fit supplier. The advantage of this process is that it is very thorough. The downside is that the costs of such a process are high, even higher than a traditional Competitive Dialogue.

A good example of a Competitive Dialogue Plus approach is the Canadian Ministry of Health and the British Columbia Health Organizations (BCHOs) who adapted a conventional ‘Joint Solution Request for Proposal’ (JSRFP) process for the ‘Workplace Evolving Services and Technologies (WEST)’ tender.[10] As part of the bid process, the buying organization and the shortlisted suppliers participated in joint solutioning workshops where they focused on how the supplier’s solution would follow the Vested outsourcing Five Rules and 10 contractual elements. For example, solutioning workshop topics included:

- Vested Elements 2-5, including the Service Delivery Model and development of a Requirements Roadmap, Taxonomy and Workload Allocation.
- Vested Element 6, including the Economic Model. In this workshop, the BCHOs asked the shortlisted service providers to demonstrate their commitment to an outcome-based economic model.
- Vested Element 7, including Governance and Stakeholder Relationship Management.
- Vested Element 8, including Transformation Management. The tender documents suggested the solutioning workshop "should outline how the service provider intends to manage these changes throughout the Term of the Final Contract – from identification of opportunities, to transition of work, to change management protocols for continuous alignment and service continuity."
- Vested Element 8, including Transition Management. The BCHOs expected the Service Provider to be an active participant in developing the transition strategy and implementation plan to ensure the successful transition of existing services to the Service Provider. The role of the BCHOs in the Service Provider's transition strategy and implementation plan was jointly developed and agreed with the service providers during joint solutioning.
- Vested Element 8, including Innovation Management. This included strategies for driving overall transformation initiatives throughout the term; and process for managing day-to-day continuous improvement efforts or business problems that arise.

As seen in ***Table 4***, the Canadian government's "WEST" initiative modified the bidding process to bring forward front and center Vested Elements.

JSD Phase Draft High-Level Evaluation Criteria
• Service Delivery Model
• Economic Model
• Governance and Stakeholder Relationship Management
• Contract Change Management
• Transformation Management
• Innovation Management
• Transition Management
• Risk Management, Business Continuity and Exit Management Plan
• Guardrails
• Key Business Requirements

Table 4: Evaluation Criteria as outlined in the WEST tender document. The complete bid document is publicly available at https://www.bcbid.gov.bc.ca

Besides seeking a supplier's solution that aligned with the Vested Elements, the BCHOs included five evaluation criteria to gauge the cultural fit of potential suppliers (called organizational alignment) in the tender documents (***Table 5***).

Stage Two Evaluation Criteria – Organization Alignment	
a)	Creativity – originality, takes appropriate risks to achieve innovative solutions
b)	Flexibility – openness, adaptability, responds effectively to a changing environment
c)	Transparency – forthcoming, relationship openness
d)	Attitude – enthusiastic, supportive, inclusive
e)	Participation – balanced amongst team, contributions at all organizational levels

Table 5: Evaluation Criteria as Outlined in the Canadian Government's WEST tender documents

Summary: We consider the Competitive Dialogue Plus approach to be the most thorough approach for picking the best-fit supplier in terms of robust solutioning and compatibility and cultural fit. However, it can be expensive for both the buying organization and the suppliers. For example, the BCHOs WEST initiative took over 18 months and costs were well over one million dollars.

We summarize a Competitive Dialogue Plus approach across the seven attributes in ***Table 6***.

Analysis of Competitive Dialogue Plus (3)	
Understanding of solution	In Award phase (phase 2)
Explicit assessment of cultural fit	Yes
Transparent process	Yes
Transaction costs	Very high
Lead time	Long process
Proportionate	Not always
Working on Vested Elements	In Award phase (phase 2)

Table 5: Characteristics of a Competitive Dialogue Plus

4. Fit-Only or No-Bid Flip

The fourth option is assessing a supplier solely on compatibility and cultural fit without an explicit evaluation process on the solution of the supplier. We use two scenarios (and terms) to describe how an organization can pick a supplier based solely on cultural fit with solutioning done as part of the contracting process. These are *Fit-Only* and *No-Bid Flip*. In both cases the solutioning is done ***after*** the supplier is selected, which still enables the buying organization to feel comfortable they are working with a highly capable supplier.

Fit-Only

Fit-Only is a term named as such because the buying organization explicitly selects a supplier based solely on compatibility and cultural fit. While none of the pilots reviewed as part of this paper used a Fit-Only approach, we do see it as a possible option and this is why we include it. While many might be skeptics of picking a supplier based solely on cultural fit, Hurtado et al., 2018 states the significance of the "personality traits" in building teams and ensuring the members have a high probability of working and communicate effectively with each other.[11]

Organizations selecting a supplier based on Fit-Only should tailor their competitive bid document where the Award Criteria is centered on the desired personality traits (e.g., Hurtado). Fortunately, there are formal tools to assist with evaluating buyer-supplier compatibility and trust such as Dr. Karl Manrodt and Dr. Jerry Ledlow's Compatibility and Trust® Assessment (CaT).[12] The CaT enables buyers and suppliers to measures the strength of an existing (or potential) business relationship across five dimensions:

- *Trust:* trust is the consistency of actions and words while focused on the mutual benefits of the partners. Trust is the foundation of the relationship.
- *Innovation:* Innovation is an organization's ability to dynamically deal with change and its tolerance for risk and trying out new ideas and solutions. Strong and trusting relationships allow the parties to share risks and rewards, investing in each other's capabilities and collaborating to achieve goals.
- *Communication:* Communication is the efficient and effective transfer of meaning through words and actions to achieve and grow mutually beneficial outcomes. The open and timely sharing of all information relevant to a partner's decision-making ability.
- *Team orientation*: Team orientation is the ability to focus and direct individual goals and objectives into a cohesive group strategy. Team orientation is the enabler and drives computability.
- *Focus:* Focus is the ability to combine individual roles into a corporate direction to benefit all stakeholders. There is a common purpose and direction. A common focus on innovation drives value in the relationship.

No-Bid Flip

The second term – *No-Bid Flip* – applies when a buying organization is already doing business with a supplier they know and trust and skip a formal competitive bidding process. We call it a "flip" because rather than bid, the buying organization restructures an existing supplier agreement to a Vested agreement.

It is important to point out that none of the pilots in the scope of this paper are No-Bid Flips. (Technically, No-Bid Flip does not fall within the boundaries of this paper as this paper is about how to do a bid process). However, it is also important to note the University of Tennessee sees the majority of organizations using a No-Bid Flip approach when making the shift to a Vested agreement. In fact – at the time of publication of this white paper, over 85% of the companies pursuing Vested deals did No-Bid Flips. It is also important to point out that in all cases of No-Bid Flips the buying organization had initially picked their existing supplier through a competitive bid process and had been working with them already which allowed the buying organization to validate the supplier's capabilities in practice.

A good example of a No-Bid Flip is Dell.[13] Dell had worked with Genco (now FedEx Supply Chain Services) for eight years. Dell had done competitive bids three times during eight years and each time awarded the work to Genco. Dell ultimately decided not to do a competitive bid and instead chose a renewal pending Dell and Genco could successfully restructure a new contract. A key point was Dell (and Genco) wanted to shift the way they worked to a win-win Vested sourcing business model to drive innovation and mutual value for both Dell and Genco. The parties used the Vested methodology jointly to solution all aspects of the relationship – after the initial decision to renew with Genco.

With Dell-Genco, cultural fit was a 'gut feel'; however, the decision was not taken lightly. It was the first time in the history of Dell it had not used a formal competitive bidding process. While internal discussions were essential, a key decision point came out of a strategic offsite location where the parties openly discussed how to improve trust and compatibility and whether or not the parties felt ready to shift to a more strategic and transparent shared risk/shared reward win-win Vested sourcing business model. The decision was made after significant discussion and involvement at multiple levels.

The offsite meeting is not dissimilar to what Dr. Lambert outlines in his Harvard Business Review article, which talks about assessing compatibility and cultural fit in a 1½ day workshop with a buyer and supplier having candid conversions about the relationship. While discussions involving cultural fit can be informal, we recommend using a formal tool such as Manrodt and Ledlow's Compatibility and Trust assessment as a key part of any offsite workshop where the parties determine if a No-Bid Flip is a good approach for their relationship.

While using the No-Bid Flip option is a viable low cost (or no cost) option for privately run companies, most (if not all) public procurement initiatives would have a hard (if not impossible) time justifying a scenario where the supplier is picked without using a formal competitive bidding process. The one exception we have seen to this is Vancouver Island Health – which did a No-Bid Flip for their labor services agreement with their doctors providing Hospitalist service.[14]

Summary: The most significant benefit of using the Fit-Only/No-Bid Flip approach is low transaction costs. Costs are held to a minimum because most of the solutioning takes place *after* the identification of the best service provider (either formally as with Dell-Genco or on an ongoing basis the way McDonald's and Toyota work with long-term strategic suppliers).[15] The argument does make sense. If you already know you have the best supplier (as in Dell's case), why waste time, effort and costs?

We consider the No-Bid Flip approach a viable method when a buyer and supplier have been working together and the buyer has high certainty they are working with a highly capable and trusted supplier. The No-Bid Flip approach is the most used approach when buying organizations are seeking to "flip" an existing trusted supplier relationship to a Vested agreement.

We do not recommend the Fit-Only/No-Bid Flip approach for more commodity and transaction-based sourcing business models where there are low-cost options for competitive bidding (e.g., basic, approved, or preferred sourcing business models). We also do not recommend this approach when a buying organization is not certain they are working with a capable and trusted existing supplier. Also, this method is likely not acceptable (or legal) under many public procurement laws.

We summarize a Fit-Only/No-Bid Flip approach across the seven attributes (***Table 7***).

Analysis of Fit-Only/No-Bid Flip (4)	
Understanding of solution	In Contracting Phase (phase 4)
Explicit assessment of cultural fit	Yes
Transparent process	No
Transaction costs	Lowest
Lead time	Short process
Proportionate	Not always / not always applicable
Working on Vested Elements	In Contracting Phase (phase 4)

Table 7: Characteristics of a Fit-Only/No-Bid Flip Method

See Appendix 1 for more information about the Compatibility and Trust Assessment in practice.

An Alternative "Request for Partner" Approach

Phase 3 of the University of Tennessee research included brainstorming conference calls with competitive bidding experts to close gaps in existing competitive bidding processes that fall short when an organization desires to explore innovation and transformation through collaborative bidding approaches. The result was the concept of the Request for Partner process (see ***Figure 6*** next page), which is designed to be a cost-effective hybrid approach.

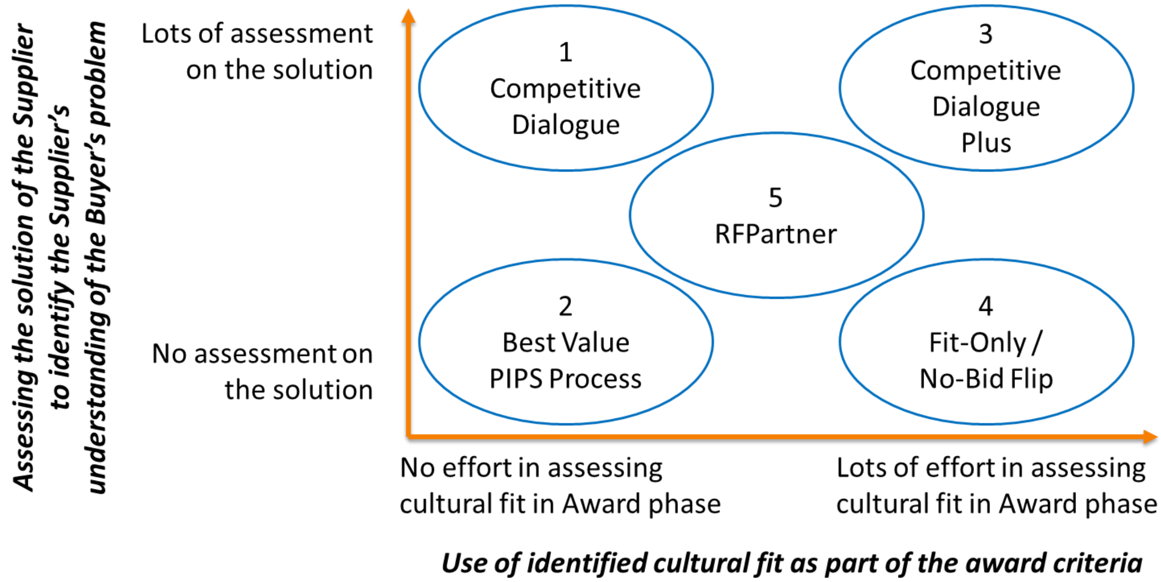


Figure 6: Introducing Request for Partner as a 5th Way of Selecting a Partner

The original Request for Partner method (V1) was piloted by Vancouver Coastal Health and later piloted by other organizations that sought to make suggested improvements to reduce the transaction costs and time involved. Part 4 of this white paper provides a detailed overview of the Request for Partner process based on the learnings of each pilot. This white paper (Part 4) also features a revised "second edition" Request for Partner process that most closely resembles the approach Telia Company AB (a Swedish listed telecommunications company and mobile network operator) used. In Telia's situation, they wanted to shift from having over 20 suppliers to one strategic partner working under a highly collaborative win-win Vested sourcing business model with the goal to streamline the maintenance of Telia's 16,000 technical sites across Sweden.[16]

The Request for Partner V2 process includes 12 steps across five phases (Part 4 of this white paper explains each phase/step). ***Figure 7*** on the following page provides a high-level overview of each phase/step and typical time frames for public and private sector competitive bids.

Phase 1	Phase 2		Phase 3	Phase 4	Phase 5
Supplier Qualification	**Award** *(pick winning supplier)* The Award Phase can use a single or two-step down-selection. Here we use a two-step process.		**Due Diligence phase**	**Contract Development / Making the Vested contract**	**Living Into the Agreement**
	Concept	**High-Level Alignment**			
1. Release first tender documents (including Qualification Criteria) 2. Qualify Potential Suppliers for Phase 2	3. Release tender Document(s) on Award Phase (including Award Criteria) 4. First dialogue phase (optional)	5. Second dialogue phase 6. Suppliers Prepare Bids (Partnership Proposal) 7. Final Supplier Selection	8. Verify statements made in bid documents (proposal)	9. Complete Vested workshops & finalize the contract based on the 5 Rules / 10 Elements 10. Contract Sign off	11. Onboarding and Transition 12. Ongoing Governance
From Many to 3-5	***Typically, from 3-to-1 in a single-step down-select***				
	From up to 5 to a Short List of 2-3	From 2-3 Short List to 1	1		
Typical Public Sector Timeframe					
2-4 weeks	2-6 weeks	6-10 weeks	1-4 weeks	10-20 weeks	ongoing
Typical Private Sector Timeframe					
0-2 weeks	2-4 weeks	2-6 weeks	0-1 weeks	10-20 weeks	ongoing

Figure 7: High-Level Overview of Request for Partner V2 Process

On the surface, the high-level phases are not very different from any typical Request for Proposal process. For example, most methods have a phase to qualify suppliers (e.g., go from many to a few capable suppliers). What is different is the mindset and details of each phase – especially in the Award (Phase 2), Contracting (Phase 4) and Ongoing Governance (Phase 5).

For starters, the Request for Partner process is grounded in ethical procurement law which espouses equal treatment, non-discrimination, mutual recognition, proportionality and transparency. This is similar to many public procurement policies such as European Union Directive 2014/24/EU.[17]

> *Public procurement policies and principles are not necessarily used in the private sector. We cannot dictate that the private sector include some of the more formal practices commonly seen in the public sector such as a fair reimbursement for transaction or design costs, proportional Qualification Criteria, an objective and transparent assessment framework, and an objective and transparent argumentation to justify the scores. However, we highly encourage these practices – especially proportional Qualification Criteria, an objective and transparent assessment framework.*

What is different is the Request for Partner process *also* formally incorporates relational contracting principles as recommended by the International Association for Commercial and Contract

Management, the University of Tennessee, and CIRIO law firm in the white paper *Unpacking Relational Contracting*.[**]

Second, the Request for Partner process is specifically designed to *limit* detailed joint solutioning during the Award phase and shift the detailed solutioning to the Contracting Phase (Phase 4) where the more detailed, time-intensive, and costly solutioning is done with only the winning service provider(s). This differs from the Classic Competitive Dialogue and Competitive Dialogue Plus methods (and also the main benefit). The idea is to minimize the transaction costs for all service providers that will not get the contract. Simply put, it is far more efficient to work out the detail of the solution with the preferred service provider than to do this with all of the qualified service providers.

Third - and a key feature of the Request for Partner process - is incorporating formal "cultural fit" Award Criteria in the supplier selection process, much the way a Competitive Dialogue Plus does. For this reason, the 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.

Lastly – and likely one of the most important features – is that the Request for Partner process purposefully creates a joint Deal Architect team, with a large percentage (often over 50% of the team members) who "stay-behind" as part of Phase 5. This avoids a "throw it over the fence" mentality all too common where the focus is on the deal – not on creating a sustainable solution and relationship.

The highly collaborative Request for Partner methodology is ideal for allowing a buyer and service provider to not only jointly develop the "solution" during the bidding process, but also to establish a working knowledge of how well the organizations "fit" together.

Table 8 analyzes the Request for Partner process.

Request for Partner (5)	
Understanding of solution	Partially in Award phase; the remainder in Contracting Phase
Explicit assessment of cultural fit	Yes
Transparent process	Yes
Transaction costs	Medium
Lead time	Medium
Proportionate	Yes
Working on Vested Elements	Vested Elements 1 & 2 with all service providers in Award Phase; rest in Contracting (phase 4) with 1 service provider

Table 8: Characteristics of Request for Partner Process

[**] *If you are unfamiliar with relational contracting, download the white paper "Unpacking Relational Contracts: The Practitioner's Go-To Guide for Understanding Relational Contracts," at www.vestedway.com*

Summary Comparison of Models

The Award phase for finding the right partner can be done in five possible ways:

1. Lots of assessment on the solution, with no explicit use of cultural fit: *the Competitive Dialogue*
2. No assessment on the solution, no explicit use of cultural fit: *the Best Value PIPS process*
3. Lots of assessment on the solution, with explicit use of cultural fit: *the Competitive Dialogue Plus*
4. No assessment on the solution, with explicit use and justification for cultural fit: *the Fit-Only or No-Bid Flip scenarios*
5. Limited solutioning, with explicit use of cultural fit. Detailed solutioning is done with only the supplier finalist and is done during the contract phase: *the Request for Partner process*

We emphasize that no one approach is better than the other. Rather the key is to know when to use which approach. We recommend:

- The Best Value PIPS process (and similar methods) is a wonderful low cost and fast approach for picking a supplier for a Performance-Based contract or preferred supplier relationship when the technical aspects of the solution and cultural fit are not important for the buying organization.
- Use a Competitive Dialogue when the technical solution is important and joint solutioning and tailoring is essential – but cultural fit is not an issue.
- A Competitive Dialogue Plus approach is best suited when the buyer has lots of time and when the service providers do not mind a lengthy and costly bid process. For example, a high risk/high stakes bid where a long-term integration solution is needed such as a Public-Private Partnership or a public Vested deal. We recommend that if this approach is used the buyer be open to compensating the service providers for at least some – if not all – of their costs.
- The Request for Partner is the most effective approach for most Performance-Based, Vested, and Investment-based models and is ideal for highly complex and integrated supplier relationships (e.g., strategic outsourcing relationship that will yield significant dependency and "lock-in"). A key benefit of the Request for Partner over the Competitive Dialogue Plus approach is that it reserves the costliest solutioning for when there is only one service provider. Where the results are unsatisfactory, the buyer can fall back to the second-ranked service provider.
- The No-Bid Flip options are an effective low or no-cost alternative when a buyer is already working with a highly capable supplier they trust – yet they want to explore solutioning for alternative delivery approaches. For example, the No-Bid Flip approach is effective when both a buyer and supplier want to shift from an already successful Performance-Based contract to a Vested business model. The table provides a summary comparison of each approach.

Table (following page) provides a quick one-page summary "cheat sheet" comparison of each method.

	Competitive Dialogue (1)	Best Value PIPS (2)	Competitive Dialogue Plus (3)	Fit-Only/ No-Bid Flip (4)	Request for Partner (5)
Understanding of solution	During Award Phase (2)	After supplier selection in Due Diligence Phase (3)	During Award Phase (2)	After supplier selection in Contracting Phase (4)	Hybrid; Some during to supplier selection in Award Phase (2), most after supplier selection in Contracting (4)
Explicit assessment of cultural fit	No	No	Yes	Yes (may not be quantified)	Yes
Transparent process	Yes	Yes	Yes	No	Yes
Transaction costs	High	Very low	Very high	Lowest	Medium
Time to select supplier	Long (> 1 year)	Quick (Approx. 8 weeks)	Longest (> 1 year)	Quickest (As little as 1.5 days)	Medium (2.5- months)
Proportionate	Not always	Yes	Not always	In certain situations	Yes
Working on Vested Elements	In Contracting Phase	In Contracting Phase	In Award Phase	In Contracting Phase	Element 1 & 2 with all service providers in Award phase; rest in Contracting Phase (with 1 service provider)
Example	VCH	Stedin	British Columbia WEST initiative	Dell	Telia
Recommended use	Performance-Based Contract where the buyer has an opinion and desire to have input and influence into the technical solution	Performance-Based Contract where technical solution/ cultural fit is not important. (e.g., construction projects not needing a high level of integration and where the supplier can demonstrate success metrics with past performance)	Vested model or Investment model (JV/PPP) where integration and shared risk/shared reward is essential	Relational Contracts where cultural fit is important (some Performance-Based and Vested models where the buyer is working with existing capable supplier)	Performance-Based Contract, Investment model (JV/PPP), Vested model where integration and shared risk/shared reward is essential

Table 9: Summary of the 5 Models

Note: for less complicated sourcing solutions use a traditional Request for Proposal process for picking Approved and Preferred supplier relationships.

Part 4 of this paper is devoted to helping you understand the Request for Partner process.

PART 4: DETAILED REQUEST FOR PARTNER METHOD

The Request for Partner process starts well before it is time to release tender documents. We suggest following the "Four Cornerstone" process outlined in the *Strategic Sourcing in the New Economy*: *Harnessing the Power of Sourcing Business Models for Modern Procurement* book (or using a similar approach).[18]

The Strategic Sourcing book provides a generic process that can include selecting a supplier for any sourcing business model (***Figure 8***). The goal of this white paper is to provide additional insight into the sourcing selection and contracting aspects found in the Four Cornerstone framework when selecting a highly strategic Vested partner.

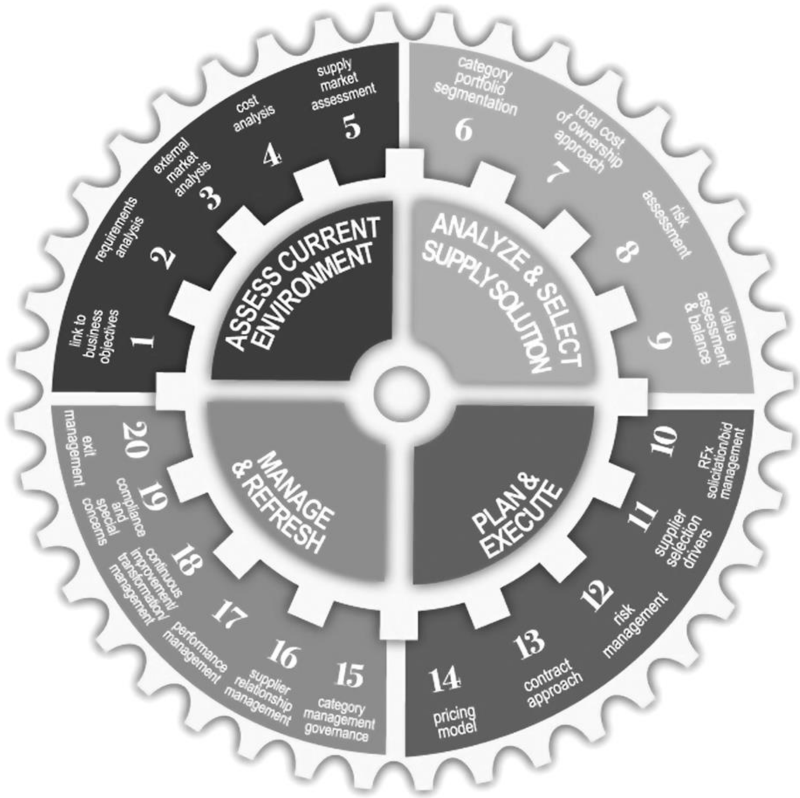


Figure 8: Generic "Four Cornerstones" Process

Pre-tender preparation work includes Steps 1-9 in the Four Cornerstones framework and should be done as part as you prepare for your Request for Partner. We briefly provide tips for preparing for a Request for Partner – but the majority of this part of the white paper builds on (in much more detail) steps 10-20 in the Four Cornerstone's framework and shows how to ensure a large complex contract includes a clear playbook (your Vested agreement) that formally incorporates the "manage and refresh" Cornerstone into the agreement – a critical aspect of creating a Vested agreement.[††]

[††] *For more information about the Four Cornerstones framework – refer to Strategic Sourcing in the New Economy.*

High-Level Pre-Tender Preparation Steps and Tips

Assess Current Environment

The Request for Partner process – like any sourcing effort – starts with a clear assessment of business needs. Unlike conventional RFP methods, the buying organization needs to not define the prescriptive steps and activities the service provider will perform and instead define the service provider 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 service providers early in the process to understand market conditions and identify potential service providers. This may include a formal Request for Information and likely includes one-on-one discussions with suppliers as part of market research. It may seem counterintuitive to involve service providers at such an early stage, but it is essential to understand potential capabilities and market trends that may not have been made public or appeared in industry analyst research yet. Engaging in early supplier discussions is both legal and encouraged – as long as it is prior to the buying organization issuing the formal bid process.

> *In the U.S. many public procurement professionals believe it is not legally acceptable to speak with potential suppliers before a bid process. It is not only legal, but it is encouraged. The Office of the President has issued a series of "myth-busting" memos and several myths in the first memo were around communicating with suppliers.*[19]

Analyze and Select Supply Solution

The Assessing Current Environment Cornerstone includes essential pre-work that must be done before issuing the formal bid. A critical step that cannot be overlooked is determining the segmentation strategy (Step 6 of the Four Cornerstone method). It is here when you make the formal determination that Vested is the most appropriate sourcing business model for your situation. The University of Tennessee and the authors of *Strategic Sourcing in the New Economy* offer a free open source "Business Model Mapping Toolkit" that should be used to ensure Vested is the right Sourcing Business Model for your situation.[20]

For example, Telia – the Swedish Telco – went through a six-week "formal pre-study" looking at their existing contracts and current processes for how they sourced facilities management and maintenance across 16,000 locations spanning four countries.[‡‡] The pre-study included EY conducting a review over 20 functions within Telia to identify considerations Telia would need to factor in if it made the shift from many small commodity contracts to a large, complex strategic contract.[21]

[‡‡] *The complete case study can be downloaded at the University of Tennessee's dedicated website at www.vestedway.com*

The pre-study revealed several key things. First, Telia had "stiff contracts" that were not flexible in allowing suppliers to optimize maintenance operations. Also, the pre-study uncovered the existing maintenance and budgeting process was not optimal. A vital part of the pre-study was to validate that a Vested model was a good fit which meant completing a Business Model Mapping exercise (***Figure 9***).

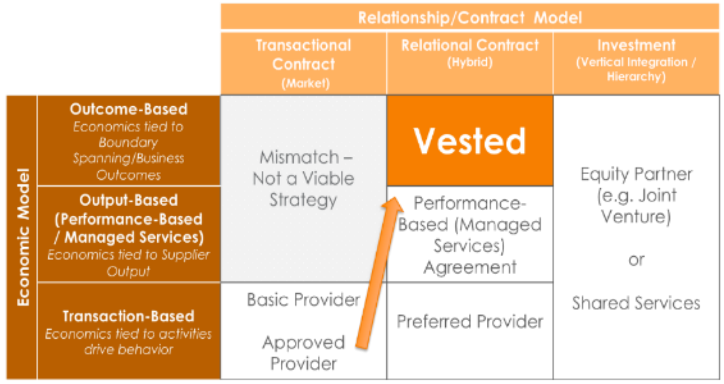


Figure 9: Telia Business Model Map Output

Moving to a Vested agreement was a significant shift for Telia because it had been operating under an Approved Provider model with over 20 suppliers that serviced various aspects of their operations across four countries and the Baltic States. With the pre-study and Business Model Mapping complete, Telia's leadership team made the shift to a highly strategic long-term contract, if they could find an appropriate partner.

Select the Deal Architect Team

A key difference between the Request for Partner process and a more conventional competitive bid method is the use of a cross-functional team representing key business stakeholders. We call this the "Deal Architect team" because these individuals will not only link the business needs to the tender process, they will play a key role during and after the tender process as a large percentage (preferable over half of the team but often much more) become key personnel and staffed into key governance roles of the partnership. Even when the strategic sourcing/procurement organization is very mature and capable, ensuring business representation on the team assures that the stakeholders' needs are understood and incorporated into the solution – something key for a strategic supplier likely to be highly integrated into the buying organization's operations, such as with the Telia example above.

Telia's Deal Architect Team (***Figure 10*** shown to the right) consisted of six team members with two team leads (one from the business and one from procurement). The team leads were augmented with four individuals representing: 1) a key business unit; 2) contracting/legal; 3) operations; and, 4) innovation. During the Award Phase, the supplier's team members were "paired" with buying organizations, with the winning supplier team going all the way through the Contracting Phase and key team members "staying behind" team as part of ongoing governance.

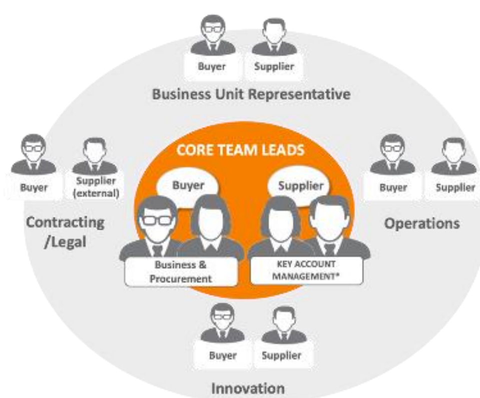


Figure 10: Telia Deal Architect Team

Prepare the Bid Documents

One of the first roles of the Deal Architect team is to document the team's strategy and prepare the bid documents. In a public procurement tender, the buying organization must document the steps taken during the process (and which we will describe below in the next sections). This includes writing the tender documents used later in the Request for Partner process. We will address the content of this later on in the sections below.

High-Level RFPartner Process

For this white paper – we focus on the third and fourth Cornerstone – with the emphasis on how to select and contract with a potential partner for a Vested agreement. Here we depart from the steps outlined in the Four Cornerstone framework so we can do a deeper dive into the Request for Partner process – which includes five high-level phases and 12 discrete steps.

The Request for Partner process uses some of the key concepts found in the various methodologies already explored in Part 3. For example, the Classic Competitive Dialogue and Competitive Dialogue Plus methods use joint workshops – so does the Request for Partner process.

A key purpose of this paper (and a key benefit of using the Request for Partner method) is the process has been formalized into an open source methodology.[§§] The methodology can also be tailored for any complex sourcing situation and can be used for selecting suppliers for both a Performance-Based or a Vested agreement.

While it is impractical to propose one process that will "fit" the individual laws of all countries, for this paper we have chosen to share a Request for Partner process likely to meet the most stringent requirements based on:

1. A process which complies with the European Commission's public procurement laws (to the best of our knowledge at the time of publication) versus a more streamlined option for a private procurement
2. Using a two-step down-selection process (versus a more streamlined one-step process)
3. Ensuring all 10 of the Vested contractual Elements are included in the agreement

Because the Request for Partner process outlined in this white paper is tailored for an EU public procurement, we use terminology typical to an EU public procurement (versus a private sector procurement). When possible, we use a footnote or call out box to translate steps/terms into private sector or U.S. centric terminology or highlight where steps may be combined or streamlined.

Figure 11 illustrates the five phases and each step at a high-level, expanding on how the selection criteria fit into the process (noted in italics). It also suggests typical timing for each phase, recommends the number of suppliers for each phase, and shows how each of the Vested Elements is incorporated. When doing a tender process to find a partner for a Vested Agreement it is important to incorporate some (but not all!) of the Vested design Elements into the Award Phase. In the Award Phase, the focus is on Element 2, 3 and 6.

Phase 1	Phase 2		Phase 3	Phase 4	Phase 5
Supplier Qualification	**Award** *(pick winning supplier)* The Award Phase can use a single or two-step down-selection. Here we use a two-step process.		**Due Diligence Phase**	**Contract Development / Making the Vested contract**	**Living into the Agreement**
	Concept	**High-Level Alignment**			
1. Release first tender documents (including Qualification Criteria) 2. Qualify Potential Suppliers for Phase 2	3. Release tender Document(s) on Award Phase (including Award Criteria) 4. First dialogue phase (Element 2) • *Alignment on Sourcing Business Model (optional)* • *Statement of Intent (alignment on the high-level vision for Desired Outcome/ Objectives/ Guiding Principles)* • *High-level vision of Ponies*	5. Second dialogue phase (Element 3) 6. Suppliers Prepare Bids (Partnership Proposal) 7. Final Supplier Selection • *Vision on Statement of Intent /Desired Outcomes (Element 2)* • *Vision on Scope and possible "ponies" (Element 3)* • *Risk Mitigation Plan (Element 6);* • *Compatibility and cultural fit between buyer and supplier Independent Assessor*	8. Verify statements made in tender documents (proposal)	9. Complete Vested workshops & finalize the contract based on the 5 Rules / 10 Elements 10. Contract Sign off	11. Onboarding and Transition 12. Ongoing Governance
From Many to 3-5	***Typically, from 3-to-1 in a single step down-select***				
	From up to 5 to a Short List of 2-3	From 2-3 Short List to 1	1		
Typical Public Sector Timeframe					
2-4 weeks	2-6 weeks	6-10 weeks	1-4 weeks	10-20 weeks	ongoing
Typical Private Sector Timeframe					
0-2 weeks	2-4 weeks	2-6 weeks	0-1 weeks	10-20 weeks	ongoing

Figure 11: 5 Phases of the Request for Partner process (Expanded View)

The rest of Part 4 provides a step-by-step overview of each phase/step.

Phase 1: Supplier Qualification

The Supplier Qualification phase in the Request for Partner process is similar to traditional bidding procedures; the goal is to efficiently sort through many suppliers and pick the top ones to move forward in the bid process. This includes the first bidding "round" and consisting of two steps:

1. Release first tender documents (including Qualification Criteria)
2. Qualify Potential Suppliers for Award Phase (Phase 2)

Step 1 – Release First Tender Documents (Including Qualification Criteria)

In the preparation phase, the team of the buying organization has come up with a strategy to select the supplier, consisting of both Qualification Criteria and the Award Criteria. In this first step, the supplier Qualification Criteria are released via a formal tender document. Sometimes, the Award Criteria are also announced to inform the suppliers on what will happen (we will address the Award Criteria in the Award Phase (Phase 2).

Often organizations have a large field of potential service providers that they need to narrow down to a smaller number of the most qualified service providers. Suppliers should be down-selected based on a pre-determined and transparent set of Qualification Criteria – with a few service provider finalist(s) asked to develop a more comprehensive solution to meet the buying organization's requirements. Typically, the number of service providers that move into the Award Phase (Phase 2) is three to five. However, it should never be less than two or over six. Having too few bidders limits innovation and competitiveness, whereas too many drives excessive cost and time to all parties to complete the process.

In European Union public procurement law there is an explicit difference between "Qualification" Criteria and "Award" Criteria. Qualification Criteria have to be related to "the bidder" (the suitability of the bidder in general) while Award Criteria are related to "the actual bid." This difference is important. In the Qualification Phase (Phase 1) only criteria related to "the bidder" can be used. Criteria related to "the bid" can be used only in the Award Phase (Phase 2). We recommend this approach for all bids unless specific public procurement law states otherwise.

Usually, potential service providers are asked to respond to a set of standardized questions developed by the Request for Partner team. Normally a Request for Qualification is designed with a format that allows for easy comparison of key data. For example, a logistics service provider may fill in a table that indicates the countries where it offers services.

Table 10 on the following page shows the selection criteria the State of Tennessee used to down-select to three service provider finalists invited to bid on for a statewide facilities management contract that spanned over 7,500 state facilities, including office buildings, prisons, parks and universities. By law, the State of Tennessee had to publicly disclose the selection criteria.

Evaluation Category	Maximum Points Possible
Mandatory Requirements (Minimum business standards, completeness of response, etc.)	Pass/Fail
General Qualifications & Experience (General business information)	10
Technical Qualifications, Experience & Approach I (answering four questions specific to the 10 different Facility Types required)	27
Technical Qualifications, Experience & Approach II (Remainder of questions not specific to Facility Types)	48
Oral Presentation (Presentation of proposed team members, review of a specific case study, and reasons team should be selected)	15

Table 10: State of Tennessee Qualification Criteria For Facilities Management Bid

While private businesses are not legally required to disclose the selection criteria, it is prudent to do so. Doing so adds transparency and helps assure potential suppliers' decisions will be made in an ethical and fair manner.

While the Qualification Phase is solely focused on down-selecting to only capable suppliers, we highly recommend the tender documents also share the overall intent of the buying organization. We suggest tender documents share background on the current situation and stress the intent is to create a highly collaborative relational contract (versus a transactional) contract. Ideally, the tender documents also share the intent to create a flexible contracting framework using the Vested methodology (e.g., follows the Five Rules/10 Elements of a Vested agreement).

In some industries, the Vested sourcing business model may be new to some suppliers. To level the playing field, the buying organization should encourage the suppliers to familiarize themselves with a Vested model. The University of Tennessee offers a free "Vested Awareness" online course and multiple resources in the research library on its website (www.vestedway.com). Telia augmented the free educational resources with a short educational workshop offered to the suppliers conducted by EY – a Vested Center of Excellence in the Nordics.

Figure 12 on the following page shows the structure of a Vested agreement for reference.

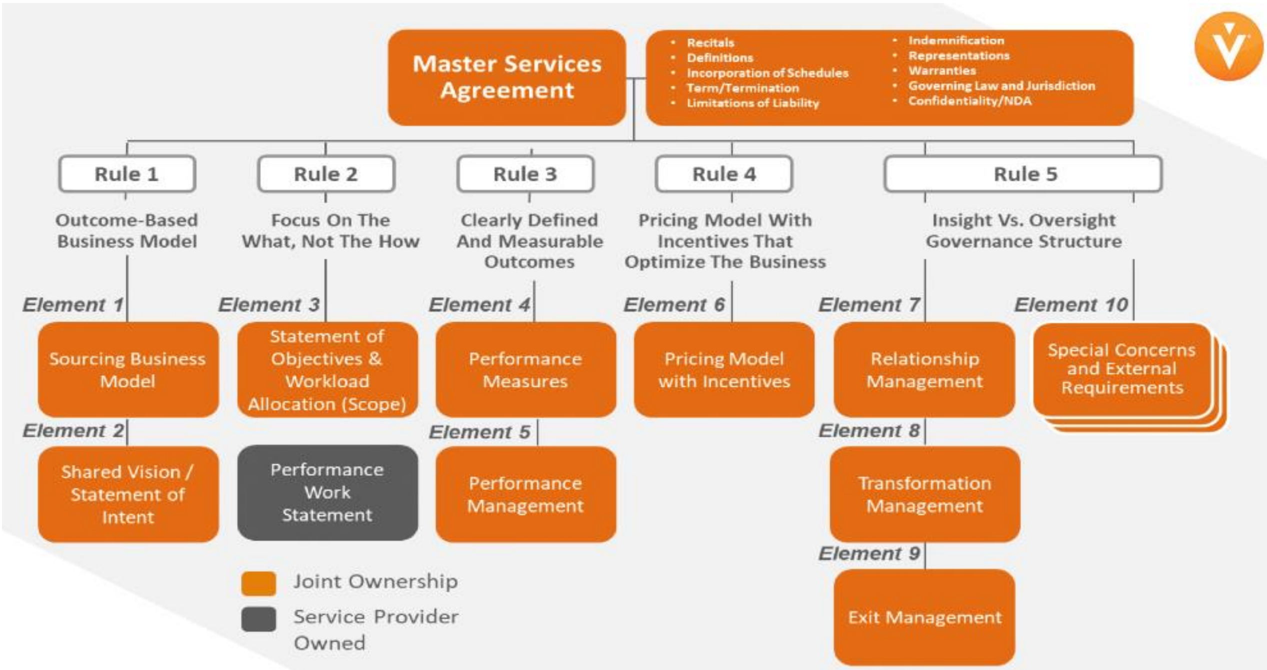


Figure 12: Structure of a Vested Agreement

Organizations registering for the Creating a Vested Agreement are provided with online class instruction and a contract template tool.

At a minimum, the tender documents in the Qualification Phase should announce Qualification Criteria. However, we also recommend the tender documents outline some (if not all) of the entire bid process. This is especially important to set the expectations that suppliers who progress to the Award Phase will be expected to select team members as part of a joint Deal Architect team.

The joint Deal Architect team is where the buying organization's team is "peered" with supplier team members who engage in a series of solutioning "dialogues." The tender document should describe the joint Deal Architect team will "solution" for Vested Element 2 and 3 in the Award Phase and that all other Elements (4-10) will be solutioned with the selected supplier finalist during the Contracting Phase. Announcing this requirement in the Qualification Phase ensures potential suppliers know what will be coming their way during the upcoming weeks and can assemble the appropriate resources.

Step 2 - Qualify Potential Suppliers for Award Phase

In this step, each service provider is evaluated against the Qualification Criteria with the goal to down-select capable suppliers. It is very important to evaluate suppliers in a transparent, objective, non-discriminatory way. The evaluation team should consist of individuals from different stakeholder groups – not just from procurement. We recommend the evaluation team comprises some (if not all) of the Deal Architect team members.

This Qualification Phase ends with a formal letter to the suppliers on their qualification (yes/no) for Phase 2 and should include substantiation of that decision. The decision needs to be traced back to the communicated Qualification Criteria and should be objective, transparent and non-discriminatory.

Phase 2: Award Phase

The Award Phase is similar to traditional bidding methods in that the goal is to down-select the qualified suppliers against pre-defined Award Criteria. Like a conventional competitive bidding method, the Award Phase starts with the issuing tender documents and ends with the selection of the supplier – in this case, a supplier finalist that will refine their solution as part of the Contracting Phase and ultimately end with a Vested Agreement with the buyer.

The Award Phase is where the Request for Partner process differs significantly from conventional competitive bidding methods and looks and feels more like a Classic Competitive Dialogue and Competitive Dialogue Plus approach that embeds tailoring suppliers' offers to the buying organization's vision and goals. However, unlike the "heavier" Classic Competitive Dialogue and Competitive Dialogue Plus approach, the goal is to limit the amount of solutioning with multiple suppliers to reduce transaction costs. In this is regard it is more similar to the EU-approved Best Value methods such as the Best Value PIPS process.

It is tempting to try to develop a complete "solution" with as many suppliers as possible. We view this as unnecessary and inefficient because it significantly increases transaction costs for both the buyer and suppliers. Losing suppliers almost always suggest they prefer to "fail fast" in a bid process. The Request for Partner process outlined in this paper works well for reducing transaction costs because the more detailed solutioning and contract creation is not finalized until Phase 4 with only the supplier finalist. However, if the buyer and supplier fail to create an agreement, the buyer can go back to the "supplier(s) in waiting" who placed second or third during the Award Phase.

Some organizations incorporate a multi-step down-selection process for determining the final Award using multiple iterations (for example, first from many to five suppliers, and then from 5 to 3 suppliers). A multi-step down-selection process is typically done when the buying organization wants to decrease a larger number of qualified suppliers to the critical two or three service provider finalists. The more iterations, the longer the sourcing cycle time. We suggest trying to keep the dialogue phase to no more than two iterations with the first iteration focused on service provider's developing a "concept" vision followed by a more detailed proposal of their solution. The process outlined in this white paper uses a two-step process.

Using a two-step down-select process leads to these steps:

- Release tender Document on the Award Phase (including Award Criteria)
- First Dialogue (will result in a down-select at this stage if doing a two-step down-select)
- Second Dialogue
- Suppliers Prepare Partnership Proposal
- Final Supplier Selection

Each step is profiled below.

Step 3 - Release Tender Document on the Award Phase (Including Award Criteria)

An essential aspect of the Request for Partner document is the inclusion of the clearly defined Award Criteria. Award Criteria differ from Qualification Criteria because the Award Criteria shift from evaluating the bidders to evaluating with the supplier's bid/partnership proposal (often called the supplier's "offer" in public procurement initiatives). The buying organization should have decided on the Award Criteria in the tender preparation phase, and now it is the time to communicate the criteria to the suppliers if the criteria were not issued as part of Step 1 (in the Qualification Phase).

> In most cases, the Award Criteria are communicated (in a brief form) in the Qualification Phase.

The Award Criteria in a Request for Partner look and feel more like those found in a Classic Competitive Dialogue and Competitive Dialogue Plus approach. These approaches embed tailoring supplier offers to the buying organization's vision and goals. In the Award Phase, the goal is to use Award Criteria to help you pick the ***best fit*** service provider for your sourcing situation – one based on both the high-level vision on the desired outcomes and compatibility and cultural fit. Regardless of the criteria you use, it is very important to evaluate in a transparent, objective, non-discriminatory way.

We suggest using these criteria:

- Vision on Statement of Intent/Desired Outcomes (concerns Element 2)
- Vision on Scope and possible “ponies” (concerns Element 3)
- Risk Mitigation Plan (concerns Element 6)
- Compatibility and cultural fit between buyer and supplier (concerns Element 2)

The goal of the first Award Criterion – Vision on Statement of Intent/Desired Outcomes – is to identify the possible performance of the supplier on their alignment on Desired Outcomes. This is an important award criterion as the intent of the Vested contract is to create flexibility and to find a partner with a clear alignment vision on joint outcomes (and not on transactions or outputs).

In the tender document, the buying organization shares the background of their project or services and their draft Desired Outcomes. As part of the bid process, the joint buyer-supplier Deal Architect team will solution around the top-level outcomes and develop the Requirements Roadmap (see Appendix 2). During the dialogue, the supplier can show their ambition in reaching the Desired Outcomes. This ambition should be substantiated by proof, typically with the supplier sharing relevant other relevant solutions/projects the supplier has successfully done. The more the solution contributes to the Desired Outcomes and the more specific, measurable, realistic and time-bound their solution is the higher the supplier scores. Also, the better and more convincing the proof is, the higher the supplier scores.

The second Award Criterion tries to identify possible “ponies.” A pony is the difference between the value of the current solution and the potential optimized solution. This is an important criterion because a Request for Partner process tries to find a supplier able to transform the current situation into the desired situation. It is during this part of the process the supplier illustrates what possibilities they envisage for changing the business to achieve the optimized goal. This ambition could be substantiated by proof of relevant other solutions/projects the supplier has successfully done or potential innovations and process improvements the supplier has skills to achieve transformation. The more the pony contributes to the Desired Outcomes and the more specific, measurable, realistic and time-bound their Pony is, the higher the supplier scores. Also, the better and more convincing the proof is, the higher the supplier scores.

The third award criterion is based on the supplier’s Risk Mitigation Plan. Research has shown that expert-suppliers can not only mitigate risks their own risk, but also the risks of the buying organization. The goal is to identify a partner with excellent risk management and mitigation skills. As part of the bid process, the supplier identifies the most significant risks for the project or the service and its applicable risk mitigation both internally and outside the scope of the supplier. The Risk Management Plan should also be underpinned with performance information, indicating how the supplier may have used similar risk mitigation methods successfully. The better and more convincing the proof is, the higher the supplier scores.

The fourth award criterion measures "cultural fit." Cultural fit can be defined as trust, transparency and compatibility between and buyer and supplier.[22] In a public procurement, this can be done by observing the behavior of the supplier's teams during the dialogue with the buying organization by two independent assessors that look for the level of transparency and cultural compatibility of the key personnel of the supplier and the buying organization. The assessment framework should consist of the intended behaviors as described by the buying organization in the tender documents. Remember a prerequisite is that the supplier's Deal Architect team consists of the "key personnel" that will run the contract. As a rule of thumb, a supplier's bid team should consist of at least 50% of the team members being "key personnel" and staying on the account after the deal is won (this should be communicated as part of the tender documents). The practice prevents a "throwing it over the wall" mentality of the A-Team salespeople "selling" a deal and then the C-Team being left behind to implement.

In the private sector (and where the buying organization is familiar with the suppliers), we recommend using a Compatibility and Trust Assessment (CaT Scan) for selecting a supplier on cultural fit. The CaT scores the buyer on its perception of itself and its perception of the service provider and vice versa. The more alignment the buyer and the service provider have, the better the likelihood of building a successful relationship. The advantage of the CaT compared to an individual or team assessment is that it gives a 360-degree overview of the whole organization.

See Appendix 1 for more information on the Compatibility and Trust Assessment

Some buying organizations include additional Award Criteria such as price. This will be hard (likely impossible) for selecting a partner for a Vested relationship because the dynamic nature of the complex and strategic relationship demands a pricing model (and in a Vested agreement Rule 4 / Element 6 is a pricing model with incentives that optimize the business). If your organization believes they need to factor in pricing, we suggest using a Bill of Quantity as a *proxy* for price or have the supplier suggest their vision for the pricing model and explain why their suggested model will best optimize how the parties achieve the Desired Outcomes. The buyer and supplier finalist will then co-create a pricing model during the Contracting Phase. (See the following page for more detail.)

A key feature of the Request for Partner process is the emphasis on sharing data with qualified suppliers. Sharing data is important because the data allows potential service providers to develop the best solution. The data can vary based on the sourcing initiative, but almost always includes existing high-level operating data (if there is any) for the current situation. For example, data often include relevant operational information (such as volumes), existing service levels, high-level cost structures or estimated budget collected as part of the pre-tender preparation. If specific data are not available, the buying organization should share available relevant information and give suppliers a high-level overview of the situation. As part of the bid process, potential suppliers sign a non-disclosure agreement before any bidding documents and data are issued.

If a buyer's organization has guardrails, these should be included in the tender documents. Guardrails are boundaries or structured parameters that can block the parties to get to a signed deal. In short, they are non-negotiable items that the parties must factor into the relationship that often must be included in the contract itself. For example, Vancouver Coastal Health had a guardrail stating they could not enter into a contract longer than 14 years. It is essential to be transparent about guardrails upfront, enabling potential suppliers to clearly understand what is feasible and what's not. Suppliers will communicate their guardrails in step 6.

Using a Bill of Quantity as a Proxy for Price

Finding a service provider aimed at reaching a contract with Vested principles requires a heavy focus on the quality of the solution and cultural fit. However, "price" often is still an Award Criteria. There are different ways to include price in the award phase. One of them would be to ask for a fixed price or price per transaction unit (per call, per mile, per hour, per unit). However, using a price is not logical when seeking a Vested deal because circumstances will change and any "price" becomes obsolete.

To get a proxy for a price without raising the bid costs too much, buying organizations can use a bill of quantities. The bill of quantities is a document prepared by the buying organization which can act as an estimate of the work that needs to be carried out. The Bill of Quantity provides project-specific measured quantities of the items of work (e.g., measured in hours, number, length, area, volume, weight or time). The service providers are asked for their costs (not their price) for the bill of quantities, stating their costs for each item. The buying organization can use this information to compare the overall cost structures of different bidders. Also, the buying organization gets a good insight into the costs of different items of work. Note that the bill of quantities will be an estimation of the "real" quantities to be bought later during the contract. The quantities need not be perfectly correct: this would lead to high transaction costs on the side of the buying organization to have it "perfect." For now, this is just an indication of the price.

We have seen some buying organizations use the preferred EBITDA margin of the service providers as a price criterion. We are not big fans of this, as we would like to see the service providers make good margins. Selecting on low EBITDA margins sends the wrong signal to the supplier (as lower margins would score better in the tender process). We strongly prefer either to not use price at all, use price as a qualitative award criterion, or use a bill of quantities.

Step 4 – First Dialogue Phase (concept)

The Request for Partner process – like the Competitive Dialogue process – uses a series of workshops (both in step 4 and step 5) between both the buying organization and the service providers. These workshops involve not just procurement – but key stakeholders from within the business who become part of the Deal Architect team. Because the objective of Step 4 is to efficiently reduce the number of suppliers based on the suppliers' high-level concept, we suggest keeping the first dialogue to one workshop with a maximum of one day per supplier.

This paper assumes a two-step down-select process where some suppliers are down-selected after the first dialogue. The down-select is based on the supplier's high-level "concept proposal." The first dialogue and Concept Proposal is not meant to be time-consuming or expensive for service providers. Rather, it allows service providers to showcase high-level creative ideas for how they would address the buying organization's objectives, most often based on and substantiated by relevant other solutions/projects they have successfully done. Team members from the buying organization need to be open to the service provider's viewpoint for a variety of creative solutions. The suppliers can also bring forward their vision on the draft MSA the buying organization has published with the tender documents.

The first workshop (dialogue) with the suppliers helps the suppliers develop a high-level concept solution. Suppliers prepare for the workshop by reviewing Request for Partner documents, including familiarizing themselves with the background on the situation and draft Desired Outcomes. The dialogue can be led by the supplier, the buyer, or a third-party facilitator (preferred). A key objective of the first dialogue is for the buying organization to "team" with potential suppliers, learning which suppliers have the best approach for meeting the buying organization's objectives. Suppliers ask questions and openly dialogue with the buying organization on a high-level vision and potential "ponies".

> It some cases, the buying organization opts to discuss Element 1 (sourcing business model) during this first dialogue phase to ensure alignment on the business model.

At the end of the dialogue, each supplier creates a Concept Proposal consisting of two documents (sometimes also called products or deliverables) based on their learnings from the dialogue. The documents include the supplier's

1) Concept on how they will deliver on the high-level vision (Statement of Intent/Desired Outcomes for the relationship)
2) High-level vision on possible "ponies"

In a two-step down-select process, suppliers submit the two documents. Each member of the selection committee scores the suppliers individually, then a consensus score is created. A 5-point Likert scale should be used. (e.g., 1=very negative, 2=insufficient, 3=neutral, 4=good, 5=excellent)

Sometimes organizations further validated the supplier concept with interviews of the key personnel from the supplier.

The suppliers with the most points are selected to move to step 5.

If the buying organization qualifies three or fewer suppliers in the Qualification Phase (Phase 1) the buying organization can skip the down-selection and make the final selection based on the dialogues and documents.

Step 5 - The Second Dialogue Phase *(High-Level Alignment on Scope)*

In Step 5, the buying organization should share any data short-listed suppliers may need to improve their understanding of the solution. For example, in a facilities management outsourcing deal the buying organization may share a site map that shows which sites receive which services and potential volumes. They also familiarize and analyze any data they are given that may help them form their vision. They may also participate in site tours where they can see the current situation in practice. This way they can be prepared by asking/getting answers to pertinent information.

A key part of Step 5 is the joint buyer-supplier Deal Architect team participates in workshops intended to help the supplier tailor their high-level concept solution. The goal of the second dialogue phase (consisting of two to three workshops that are typically a half or full day) is to have enough interaction that the buyer feels comfortable they are selecting a supplier that is both aligned on the buyer's needs and that the supplier can meet their needs. This differs from the Competitive Dialogue and Competitive Dialogue Plus methods, which have far more solutioning; it is also a key reason the process is quicker and has far less transaction costs.

Remember - the detailed solutioning will be done in the Contracting Phase (Phase 4) where the parties will refine the solutioning from Step 5 and add to it by solutioning for Vested Elements 4-10.

The focus in the second dialogue phase is to gain high-level alignment on Element 3, which includes drilling down the Desired Outcomes into more tangible objectives. During this dialogue the joint buyer-supplier Deal Architect team drills down on the possible ponies identified in Step 4 (concept) and creates the left half of the Requirements Roadmap (refer to Appendix 2). They will also complete a high-level taxonomy and workload allocation on the roles and accountabilities of the buyers versus the service provider – ensuring both parties understand at a high-level how the parties will work together to achieve the Desired Outcomes. This second dialogue round also gives a possibility to discuss the guardrails.

Because far fewer suppliers (2-3) are involved during the second dialogue, the buying organization may include more stakeholders in the workshops to help the remaining supplier's understanding of the situation better. For example, when Vancouver Coastal Health outsourced their environmental services, they included the nurses from the key departments such as the operating room, the emergency room, and long-term care units in the dialogue. The reasoning is while the departments would be the end customer in the service offering, each was very different in their wants and needs. For example, in an operating room setting, infection control is parament, but the cleaning of the operating rooms was predictable and could be scheduled to align with the schedule for the day. Likewise, in an emergency room setting the nurses emphasize fast turnaround as patient flow is essential to getting patients in to see doctors promptly.

During this time the buying organization is also assessing for cultural fit which will be used in Step 7 (Final Supplier Selection). As mentioned previously, there are different ways to assess for cultural fit with public procurement requiring the most formal and objective approach.

Step 6 - Suppliers Preparing Bids *(Partnership Proposal)*

Step 6 involves a period where there is no contact between the buyer and the supplier. In this step, the suppliers develop their Partnership Proposal (often called their 'offer' in a public procurement or a bid document). We suggest this period lasts two to four weeks to give the suppliers enough time to write a solid proposal.

In Step 6 the suppliers use the results from the dialogue (solutioning workshop, data, site visits) as input for their Partnership Proposal. We suggest creating three formal documents as part of the Partnership Proposal:

- Vision on Statement of Intent/Desired Outcomes (concerns Element 2)
- Vision on Scope and possible "ponies" (concerns Element 3)
- Risk Mitigation Plan (concerns Element 6)

> The documents in a "Partnership Proposal" are synonymous with the supplier "bid" or "offer". The Partnership Proposal is evaluated in Step 7 by the buying organization's evaluation committee.

Step 7 - Final Supplier Selection

Step 7 is the Evaluation Phase. Suppliers are evaluated on both their solution (Partnership Proposal) and their cultural fit.

> Important! The evaluation criteria should have been pre-determined during the pre-tender work and transparently communicated to the suppliers in Step 1. While sharing evaluation criteria is smart for any tender process – it is ***required*** in a public tender.

Partnership Proposal Evaluation: The scoring committee scores the Partnership Proposal of all suppliers individually. They then develop a consensus score. The most typical approach is to use a 5-point Likert scale. For example, 2=very negative, 4=insufficient, 6=neutral, 8=good, 10=excellent.

Cultural Fit Evaluation: As described previously, there are different methods for evaluating a supplier's cultural fit and compatibility. In a public tender, the evaluation is done in Steps 3 and 4 during the dialogue workshops with at least two independent assessors. The evaluation criteria – like those for the other criteria – should be shared with suppliers in advance. However, in the private sector companies may use a Compatibility and Trust Assessment for assessing cultural fit instead of (or even in addition to) independent evaluators.

Phase 7 ends with a formal letter to the suppliers informing them of how they ranked compared to the other suppliers, with the supplier with the most points advancing to the Due Diligence Phase (phase 3). This decision needs to be traced back to the communicated Award Criteria and be objective, transparent and non-discriminatory. The buying organization should also conduct a formal debrief with the losing suppliers – ideally with the losing suppliers at each phase.

> *In the U.S. many public procurement professionals believe formal debriefs are not a valuable use of a supplier's time. Some even avoid debriefs because they fear it will increase the likelihood of a supplier doing a legal protest. The Office of the President has issued a series of "myth-busting" memos, with the second memo focusing on why formal debriefs are encouraged and should be done.*[23]

Phase 3: Due Diligence Phase

Only the #1 ranked service provider will advance to the Due Diligence Phase. If the outcome of the due diligence is negative, the buying organization will revert to the service provider second-in-ranking in the Award Phase. This is sometimes called "supplier in waiting".

The Due Diligence Phase consists of only one step - Step 8 in the overall process.

Step 8 - Due Diligence *(e.g., verify statements in the bid)*

Due diligence activities vary by company requirements and spend category. However, general due diligence typically includes checking the service provider's claims on capabilities made in the Award Phase. Due diligence typically includes validating quality or other business processes essential to perform the work, conducting reference checks, and reviewing the potential service provider's publicly available financial statement analyses (e.g., 10K reports in the U.S.).

> Organizations can perform some due diligence activities at the end of the Qualification Phase 1 versus after the Award Phase. For example, reference checks and validation of financial statements. This is an option but will lead to more transaction costs for everyone involved. When only the #1 ranked service provider is verified, the transaction costs are considerably lower.

Once the Due Diligence Phase is complete, the parties move directly into Contracting Phase.

Phase 4. Contract Development

Once due diligence is complete, the buying organization and service provider enter into Phase 4 where they will collaboratively develop a contract that will guide the future of the partnership.

> A key feature of the Request for Partner process is the Deal Architect team stays intact versus using separate "negotiators" to develop the contract. This ensures the "deal" will not be "thrown over the wall" to negotiators, operations teams, or other stakeholders who have not been part of the process. Rather the contract is further built on the sound foundation established in Phase 2 when the teams collaborated and aligned on the high-level solution.

Contract development should be considered an extension of the work started during the Award Phase, where the Deal Architect team will build on that work and perform solutioning for the remaining Vested Elements. A key deliverable for both parties is the fact the solution will be memorialized in the contract as the "playbook" for the relationship. Step 9 is broken into three areas:

9a: Validating both parties are "Ready"

9b: Tailoring the supplier's Partnership Proposal into the foundation of the contract (Elements 2-3)

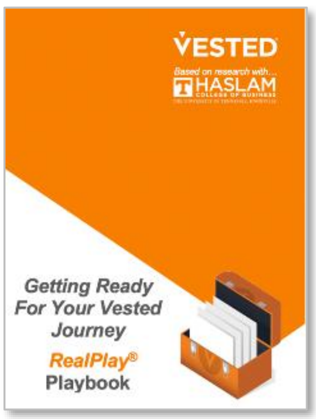
9c: Continuing to craft the contract (Elements 4-10)

The University of Tennessee offers a comprehensive online course to help organizations continue to create their Vested agreement.

Step 9a: Validating Both Parties are "Ready"

Step 9a is needed to allow the parties to pause and ensure both parties are formally "ready" to continue – ensuring they have the right team in place to help them through the Contracting Phase and set the stage for Phase 5 implementation and ongoing governance. The parties should assign formal core team leaders who will ensure the parties continue with the remaining solutioning workshops. Also, they should select who will become contract drafters (if not the core team leads) and ensure that at least half of the team at this point will "stay-behind" as part of Phase 5.

The University of Tennessee offers a free *Getting Ready for Your Vested Journey* online course and Playbook to ensure you are ready.



Organizational Readiness	Score
Stakeholder Analysis	3.4
Vested Knowledge Base	1.8
Champions	3.6
Organizational Alignment	2.9
Dynamic Mandate or Guardrails	3.4
Total Score	15.1

Score Key	Ailment Score	Total Score
Not Ready	≤2	≤10
Needs Work	>2 <3.5	>10 <17.5
Ready for Vested	≥3.5	≥17.5

Step 9b: Tailoring the supplier's Partnership Proposal (Elements 2-3)

During the Award Phase, the joint buyer and the supplier worked on Elements 2 and 3 (see ***Figure*** on the following page).

Note: Element 1 is typically determined before the Request for Partner process.

In Step 9b the parties will build on the foundation already laid and refine the deliverables already created. For example, often, new stakeholders might be involved as part of an extended Deal Architect team where the parties refine the technical solution. For example, due to the limited time spent in the second dialogue, it is highly likely the Deal Architect team only created a high-level Taxonomy and Workload Allocation (Element 3). Subject Matter Technical experts almost always join the team for an additional workshop(s) where the parties further refine the Taxonomy and Workload Allocation.

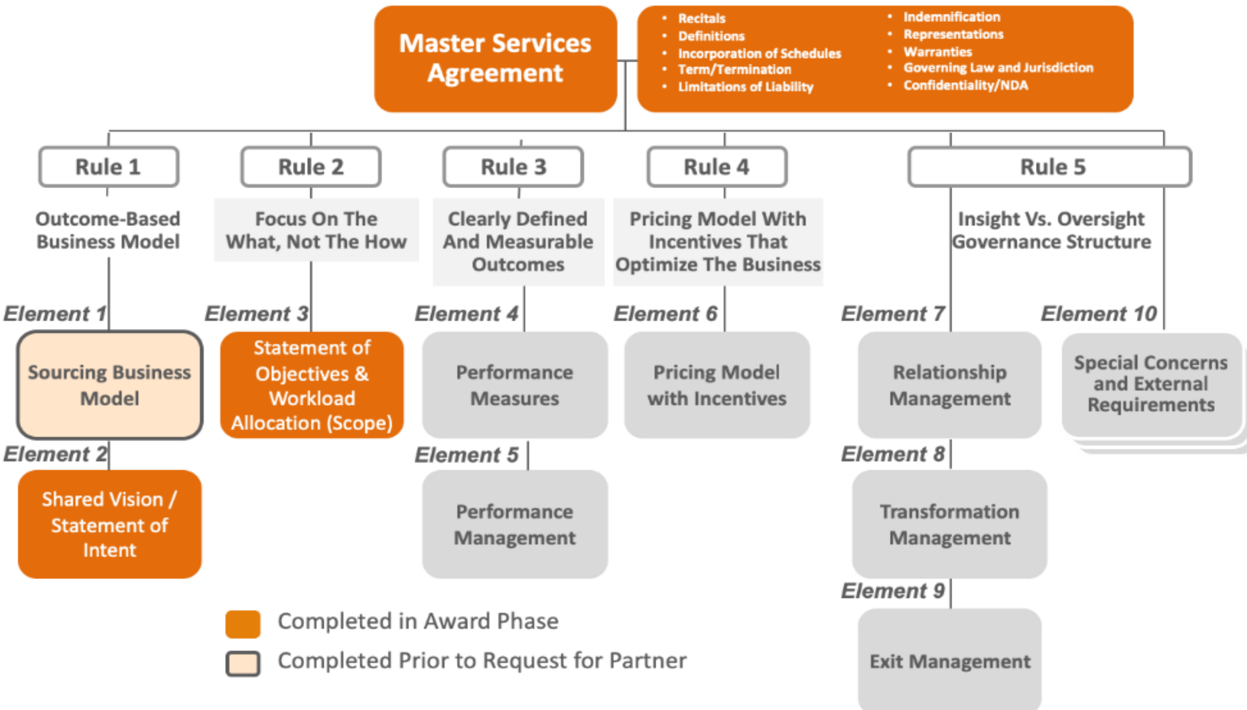


Figure 13: Structure of a Vested Agreement (Elements in Orange Worked on During Award Phase)

Step 9c: Work on the Remaining Vested Elements

The third part of creating your Vested agreement is to work on the remaining Vested Elements (Rules 3-5 noted in grey in ***Figure***) through a series of solutioning workshops. The parties continue dialogue workshops as they work through each of the remaining Vested Rules/Elements.

Rule 1 Outcome Based vs. Transaction Based Business Model	Rule 2 Focus on the What, Not the How	Rule 3 Clearly Defined and Measurable Outcomes	Rule 4 Pricing Model with Incentives That Optimize The Business	Rule 5 Insight vs. Oversight Governance Structure	Living Into The Agreement
Workshop(s) • Finalize work done in Award Phase solutioning workshops as needed (number of workshops will vary based on what was accomplished as part of tender process and size/complexity)		**Workshop** • Measurement of outcomes (completing the Requirements Roadmap)	**Workshop** • Risk assessment • Assumptions • TCO / Best Value	**Workshop** • High level governance framework • Relationship management • Transformation management	**Workshop** • Sign the contract • Onboarding Plan • Living as We
		Workshop • Finalize measurement and develop Performance Management Plan	**Workshop** • Selection of compensation model • Draft incentive model	**Workshop** • Transformation management (continued) • Exit management • Finalize governance model	
			Workshop • Pricing Model Framework • Pricing Model		
			Workshop • Governance of Pricing Model • Implementation of Pricing Model • Finalize Pricing Model		

Figure 14: Working on the Agreement in Workshops

A big advantage of the Request for Partner process compared to the Competitive Dialogue Plus process is this detailed solutioning work is only done with one supplier. This makes the process much more efficient yielding significantly less transaction costs.

Step 10 – Contract Sign Off

A common mistake organizations make is to wait until the contract is complete and then send it for approval. The Vested methodology encourages the contract is "written as you go" and uses formal gate reviews at the end of each Rule where the draft contract language is approved after each Vested Rule. Doing reviews/approval in-process makes the final contract signing a much easier step.

Phase 5. Living into the Agreement

One of the key flaws in existing bidding methods is a "throw it over the wall" mentality. For more commodity-focused deals that are not complex, it is fine to not think too far past the tender process. However, in complex and highly integrated sourcing initiatives (e.g., such as a complex outsourcing effort where the supplier is providing integrated services within the buying organization) this is myopic. Preventing the "throw it over the wall" mistake is why the Request for Partner process includes Phase 5, which focuses on transition and how to how to "live into the agreement" through ongoing governance

Step 11: Onboarding and Transition

Another common mistake organizations make is they focus on the transition of the physical work to the service provider, but fail to transition the hearts and minds and past practices of the often hundreds of team members not involved in the new solution. To help prevent this, the parties jointly developed a transition and onboarding plan (Element 8) during the Contracting Phase. Step 11 is where the parties begin the onboarding process – helping front line workers, management and executives learn how to "live into the agreement." Team members will not only learn their new role and the work – but they should also be part of a conscious change management plan where they learn the principles of the new Vested relationship emphasizing teamwork, transparency, flexibility, and collaboration.

Step 12: Ongoing Governance

Much has been written about governance structures for strategic and complex outsourcing initiatives. The International Association for Outsource Professionals (IAOP) and the Sourcing Industry Group (SIG) offer instruction for how to develop sound transition and governance structures. Institutionalizing the governance structure (Element 7) the Deal Architect team designed in Step 10 is crucial for success because the governance team – at all levels – will be key leaders in helping both parties achieve the Desired Outcomes.

CONCLUSION

As organizations mature and their approaches to sourcing become increasingly sophisticated and vital to the enterprise, new competitive bidding methods must address the need to incorporate innovation into complex sourcing initiatives. There is a growing trend to use more collaborative bidding methods to enable buyers to work with service providers to find “solutions” and potential “partners” – not just to find a vendor with a price for a specification.

More modern and collaborative “request for solution” methodologies have emerged such as the EU’s Competitive Dialogue method and the Best Value methods. This paper reviewed four of the most common methods – all of which can add tremendous value to the organizations using them. Our deep-dive review of four of the most common methods shows they each have limitations.

With a sound understanding of the limitations, a team of University of Tennessee and NEVI researchers have developed an open source “Request for Partner” V2 methodology designed to overcome the weaknesses of existing collaborative approaches. The Request for Partner methodology offers a promising approach that enables buyers to tap into the creativity and innovation of potential service providers while still allowing for a competitive environment. The process enables service providers to authentically create better solutions purpose-built to add value and drive innovation.

The benefits of the Request for Partner process are clear and compelling:

- A simple yet effective methodology to select a service provider with the best solution ***and*** cultural fit
- Leverages the best thinking from a Competitive Dialogue method to drive collaboration around the best solution, but streamlines the process from learnings from Best Value methods
- Retains flexibility within the process to expand or collapse down-selection processes
- Has been field-tested as part of UT’s research
- Is offered as an open source solution through the Creative Commons; the method is open source and can be adopted by both public and private sector organizations (buy-side and sell-side), using it for non-commercial purposes to help them with their bid process

We hope sourcing professionals will use the learnings from this white paper and embrace more collaborative bidding methods and – when appropriate – know when to use the Request for Partner method.

APPENDIX 1: COMPATIBILITY AND TRUST ASSESSMENT

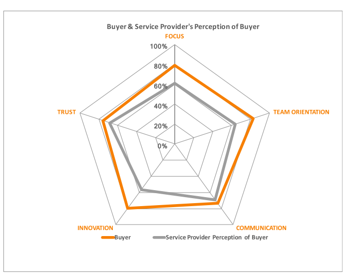
The Compatibility and Trust® (CaT) assessment was developed by Gerald Ledlow Ph.D. and Karl B. Manrodt Ph.D. to measure the compatibility and trust between a buyer and supplier's organization.

A key outcome of the CaT is to help organizations understand their maturity across five key dimensions of compatibility and trust. For each dimension, participants are asked to rank statements related to the relationship on a scale from "never" to "always." The CaT survey's reliability and consistency are statistically significant.

- **Trust:** Questions relating to the organizations' performance to promise and meeting commitments, reliability and behaviors.
- **Innovation:** Looks at the willingness to change (not innovation activity), the level of support and encouragement and the organizations' willingness to take risks.
- **Communication:** Questions relating to information flow, consistency, availability and effectiveness.
- **Team Orientation:** Questions relating to respect, value and how the organizations work together.
- **Focus:** Questions relating to the organizations' common purpose and direction and clarity of roles.

Besides the ranked statements, there is a section where the participants are asked to supply three adjectives to describe the relationship. There are also six open-ended questions that ask the participants about relationship improvement and a perspective on what might weaken the relationship. The last question of the survey asks the participants to "grade" the relationship on a scale of "F" to "A."

The CaT can help gauge if two parties have a strong and mature enough relationship to move into a Vested relationship. The survey data is evaluated with Qualtrics (a statistical analysis program) and provides an "Index" score. The higher the score, the better the potential or propensity to move to a more Vested relationship.



The survey data is often used to set a baseline for a buyer-supplier relationship and is used to measure relationship health. A feature of the survey is that it shows the overall "raw score" and highlights "perception gaps" between the parties. Once organizations know where they have gaps, they can use the information to help them consciously close the gaps and proactively work to build a stronger relationship. Understanding and closing your gaps across each of the five dimensions of compatibility and trust is essential to developing a successful Vested relationship.

Regardless of how you use the CaT, it is an excellent resource to help you improve your relationship.

Organizations interested in conducting a CaT Assessment should contact their local Vested Center or Excellence or contact Kate Vitasek at kvitasek@utk.edu

COMPATIBILITY and TRUST DIMENSIONS	Average Score	Buyer Compared to Service Provider Perception of Buyer	Service Provider Compared to Buyer Perception of Service Provider	Total Difference
	Percentage Score	Difference	Difference	Absolute Total
FOCUS	69%	-18%	-10%	28%
TEAM ORIENTATION	74%	-19%	-8%	27%
COMMUNICATION	69%	-5%	0%	5%
INNOVATION	65%	-23%	7%	30%
TRUST	71%	-7%	-6%	13%

APPENDIX 2: REQUIREMENTS ROADMAP

The University of Tennessee developed the Requirements Roadmap template as part of their original research conducted for the United States Air Force. The goal of the Requirements Roadmap to help organizations create a list of critical few Desired Outcomes with clear links to objectives and measures. Each measure is also clearly defined – having a calculation, frequency and noting who collects the data and where the data should come from.

In some cases, a Desired Outcome may have more than one objective (as shown in the generic template with the first Desired Outcome having three lines for objectives).

Desired Outcome	Performance			Incentive	Inspection			
	Objective	Standard	Tolerance/ AQL		Who	Data Source	Calculation	How Often Collected

We recommend no more than five Desired Outcomes and 12 objectives/metrics. We view having over 20 metrics as a contributor to Measurement Minutiae – one of the key “outsourcing ailments” uncovered in UT research and profiled in chapter 3 of the book *Vested Outsourcing: Five Rules that Will Transform Outsourcing.*

To download a Microsoft Word and/or Microsoft Excel version of the Requirements Roadmap template visit the University of Tennessee’s dedicated website at www.vestedway.com

ABOUT THE AUTHORS AND CONTRIBUTORS

Kate Vitasek is a world's authority on highly collaborative win-win relationships for her award-winning research and Vested® business model. Author of seven books and a Graduate and Executive Education faculty member at the University of Tennessee Haslam College of Business, she has been lauded by *World Trade Magazine* as one of the "Fabulous 50+1" most influential people affecting global commerce.

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NEVI is the Dutch Association for Purchasing Management and was founded in 1956. Since then NEVI has grown to become one of the world's leading Purchasing Management organizations. NEVI is a member of IFPSM (International Foundation for Purchasing and Supply Management) and chairman of the European division. With over 6.500 members working in the private and public field, NEVI is the world's third-largest supply management association. NEVI is the principal authority for matters concerning purchasing in the Netherlands and is the leading procurement training & development organization in Europe.

For more information, visit www.nevi.nl

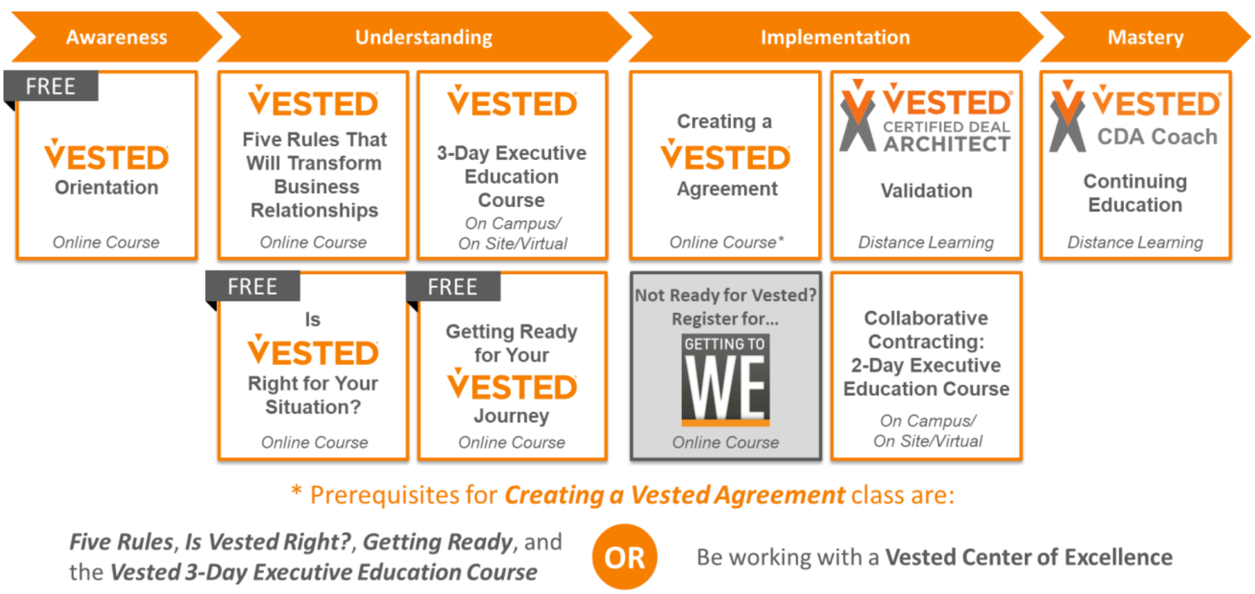
FOR MORE INFORMATION

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.

WHY | WHAT | HOW | WHEN | NEGOTIATE THE RELATIONSHIP | TELLS THE REAL STORIES

We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at [www.vestedway.com/books.](http://www.vestedway.com/books)

For those wanting to dig deeper, UT offers a blend of onsite and online courses including a capstone course where individuals get a chance to put the Vested theory in practice. Course content is designed to align to where you are in your journey ranging from Awareness to Mastery. For additional information, visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white paper and resources. For more information, contact kvitasek@utk.edu.



ENDNOTES

[1] See the 2009 Nobel Prize press release at http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2009/

[2] Oliver Williamson, "Outsourcing: Transaction Cost Management and Supply Chain Management," *Journal of Supply Chain Management* 44, no. 2 (April 2008): 5–16

[3] Kate Vitasek, Karl Manrodt, and Jeanne Kling; *Vested: How P&G, McDonald's, and Microsoft are Redefining Winning in Business Relationships* (New York: Palgrave MacMillan) 2012. For example, both Microsoft and P&G won International Association of Outsourcing Professionals (IAOP) Global Excellence in Outsourcing (GEO) awards for innovation; both are also publicly known for their use of a highly collaborative Vested sourcing business model.

[4] Toshihiro Nishiguchi, *Strategic Industrial Sourcing: The Japanese Advantage* (New York: Oxford University Press, 1994).

[5] Douglas M. Lambert and A. Michael Knemeyer, "We're in This Together," *Harvard Business Review*, December 2004.

[6] European Commission, Directorate General Internal Market and Services, Public Procurement Policy, "Explanatory Note—Competitive Dialogue—Classic Directive." Available at: http://ec.europa.eu/internal_market/publicprocurement/docs/explan-notes/classic-dir-dialogue_en.pdf

[7] European Commission, Directorate General Internal Market and Services, Public Procurement Policy, "Explanatory Note—Competitive Dialogue—Classic Directive." Available at: http://ec.europa.eu/internal_market/publicprocurement/docs/explan-notes/classic-dir-dialogue_en.pdf In addition, the European Commission has recently introduced procedure called "Innovation Partnership" that is geared to address some of these limitations; however, not enough research/results have been shown at date of publication. It is the authors' opinion the Innovation Partnership method – in theory – is superior to the Competitive Dialogue method.

[8] Hoezen, M., & Hillig, J. B. (2008). The competitive dialogue procedure: advantages, disadvantages, and its implementation into English and Dutch law. In J. Adriaanse, P. Kennedy, J. Adshead, & M. Brand (Eds.), *Proceedings of COBRA 2008, 4-5 September 2008, Dublin, Ireland* (pp. 1-16). London, United Kingdom: Royal Institution of Chartered Surveyors.

[9] See the PBSRG site at https://pbsrg.com/best-value-approach/

[10] Canadian government bids are available at https://www.bcbid.gov.bc.ca This bid JSRFP number is ON-002882.

[11] Hoezen, M., & Hillig, J. B. (2008). op. cit.

[12] The CaT was developed by Dr. Karl Manrodt and Dr. Jerry Ledlow to help buyers and service providers 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/

[13] See Chapter 12 of Kate Vitasek, Mike Ledyard, and Karl Manrodt, *Vested Outsourcing: Five Rules That Will Transform Outsourcing*; Second Edition; (New York: Palgrave Macmillan, 2013).

[14] See the Vested/University of Tennessee case study, "The Island Health – Hospitalist Journey to Vested: A New Day, New Way." Available at http://www.vestedway.com/vested-library/.

[15] See Kate Vitasek and Karl Manrodt, with Jeanne Kling*, Vested: How P&G, McDonald's, and Microsoft are Redefining Winning in Business Relationships* (New York: Palgrave Macmillan, 2012). Also see Jeffrey K. Liker, *The Toyota Way: 14 Management Principles*, (New York: McGraw-Hill, 2004).

[16] See the Vested/University of Tennessee case study "Telia and Veolia — From Supplier to Strategic Partner." Available at http://www.vestedway.com/vested-library/.

[17] Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC Text with EEA relevance

[18] Keith, B.; Vitasek, K.; Manrodt, K.; Kling, J., *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement* (New York: Palgrave Macmillan, 2016).

[19] See Executive Office of the President, Office of Management and Budget, "Myth-Busting" Memorandum February 2011. Available at https://www.darpa.mil/attachments/OFPPPolicyMemo.pdf
[20] See the Vested Open Source toolkit at http://www.vestedway.com/tools/
[21] See Telia-Veolia case study at http://www.vestedway.com/vested-library/
[22] Vitasek, K. et. al., *Getting to We: Negotiating Agreements for Highly Collaborative Relationships* (New York: Palgrave Macmillan, 2013).
[23] See Executive Office of the President, Office of Management and Budget, "Myth-busting 2: Addressing Misconceptions and Further Improving Communication During the Acquisition Process." Available at https://interact.gsa.gov/sites/default/files/myth-busting-2-addressing-misconceptions-and-further-improving-communication-during-the-acquisition-process-1_0.pdf

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