ELICITING MAXIMUM PERFORMANCE IN SERVICE CONTRACTING

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ABSTRACT. Arizona State University (ASU) has changed their procurement model and the organization of departments, by using the Performance Information Procurement System (PIPS), which changes the paradigm of purchasing and aligns expertise rather than the traditional direction and control of vendor services. ASU has procured $1.3B in services using the new paradigm. On the first three major services, ASU is receiving $52M in increased revenues and decreased costs, full measurement of contract performance and deviations from the vendors, and upgraded value and performance. This paper shows the implementation and the results of the ASU food service implementation of the PIPS. The food service results show the increase in efficiency and performance that can occur using the PIPS. The new procurement model has led to user reorganization, transparency, and a reduction of user/buyer transactions. It has also exposed the requirement for re-education for buyers, user, and vendors.

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INTRODUCTION

Even in 1996, Arizona State University was huge. With 47,000 students and 6,500 faculty and staff, the University had aggressive plans to expand. While we might hope that students select a university on the strength of its academic disciplines, they also make this choice on the tangible amenities a university offers. A superior food service program, then, will assist the University in attracting the highly qualified students we desired. So, with the expiration of the current food service contract, both Student Affairs and Purchasing determined to find a supplier to provide that superior food service program.

The existing food service supplier had continually won the contract over the years, so that at the end of the current contract, they were the food service provider for the previous 42 years. There was nothing wrong with the current food service provider's performance, but there was nothing particularly noteworthy about it either. It was just a solid, average program.

The selection of the next food service provider would be via a formal Request for Proposal, a solicitation document in which other factors than cost can be considered. Arizona State University diligently constructed the Request for Proposal. Of course, in order to get a superior food service program, the University would need to provide detailed specifications covering every aspect of the program. With the assistance of an outside consultant, the specifications were detailed in 36 pages, and the entire solicitation was 178 pages long. The Request for Proposal was issued on September 30, 1996, and proposals were due on January 10, 1997. The University expected to make an award on April 1, 1997, and the contract would start on July 1, 1997.

Since this was a significant solicitation that would involve students, the Evaluation Committee consisted of Student Affairs officials as well as students. Several proposals were received, one of which was delivered in an actual life-size wooden pirate's chest. This was no

doubt intended to show what a treasure the proposal was. All proposals contained a lot of marketing materials, and promises of superior food service. All proposers were invited to an interview with the Evaluation Committee. As part of the interview process, proposers fed the Evaluation Committee a meal that was supposedly of the high quality that students would enjoy every day. Each firm's marketing people promised an outstanding program. The Evaluation Committee recommended that the University make an award to the firm with the best food and the biggest promises. The award was made on time on April 1, 1997, and contract negotiations started (Sullivan, et. al, 2008; Michael, et. al., 2008; Kashiwagi, 2010; (Kashiwagi J., Sullivan and Kashiwagi D., 2010).

The awarded supplier then sent in their corporate attorneys to negotiate. It soon became apparent that their function was to make sure that none of the promises made by the marketing staff were incorporated into the contract. Since the awarded vendor was also the incumbent, the new food service program started on July 1, 1997. The new contract, however, was not signed until March 13, 1998, almost a year after the award, and some nine months after the start of the new food service program. It took the food service provider's attorneys that long to eliminate the provider's promises.

The contract was for a ten year period. It was a ten years of an average performing contractor. Naturally, the University continually encouraged better than average performance, and hired a contract administrator to make sure the contractor was fully complying with the contract. The problem was that the contractor was, in fact, fully complying with the specifications of the contract. Because the University wrote the specifications in the contract, and the contractor was complying with them, the mediocre performance of the contractor can really be attributed to the University and not the contractor.

To be fair, it is not easy to write the specifications for a major food service contract. For example, if you wanted the food service contractor to have special programs and decorations for major American holidays, exactly what would you specify? Which holidays?

Wouldn't you have to ensure that you did not miss any holidays that were significant to diverse groups? And also make sure that you did not offend any group? Further, what are decorations? Wouldn't these decorations have to comply with the fire code and other safety requirements? How many decorations? Over what period? In the end, you wind up with far more questions than answers.

As the current food service contract would end on June 30, 2007, the University began work on a new solicitation in 2006. Since every other solicitation resulted in an average food service contract, clearly a new approach was needed. Isn't doing the same things over again and expecting different results a widely accepted definition of insanity? Fortunately, Professor Dean Kashiwagi of the Performance Based Studies Research Group at Arizona State University had devised a new approach. And, not only did this new approach promise to be a better method of procurement, it also offered a promise of producing an easier to manage contract (PBSRG, 2012; Chong, et. Al., 2007; Pauli, et. al.,2007).

THE NEW PROCUREMENT PROCESS

We begin by asking a simple question: Who is the expert?

It turns out that the answer usually is: Whoever has the money.

Since the buyer is paying for a service, shouldn't the buyer tell the supplier what service to provide? The response has almost always been: Of course! But this answer is wrong.

Is not the service provider in business to provide the service? Is not the service provider the one with the knowledge and experience in providing the service? Is not the service provider the one with the pride in his or her business? Is not the service provider the one striving to leave a business legacy for his or her children? So, is not the service provider the expert in providing the service?

Moreover, if the buyer tells the service provider exactly what to do, and the service provider does it, but the result is not satisfactory,

whose fault is that? Certainly not the service provider, after all, he or she did exactly what the buyer told him or her to do. The fault would be with the buyer.

The risk of failure, then, would be assumed by the buyer. Let me say this again. The risk of failure is assumed by the buyer and not the supplier. Most service providers are very willing to transfer this risk. Some even hope that the service is less than satisfactory as the buyer then will pay more money to the service provider to fix it. And, most buyers do not recognize that they have assumed the risk of failure.

The concept of the buyer telling the service provider what to do results in the worst service at the lowest cost. Why this is so is simple logic. A service provider knows he or she must submit the low bid to get the work. Even in a Request for Proposal in which the buyer seeks the best value, the best value will be the proposal that meets the requirements at the lowest cost. The way to submit the low bid is to plan to not do all the required work while promising to do so at the same time. To restate this, the only way to win the award is to submit the low bid, and the only way to make money is to not perform all of the work. This is why service providers always ask the buyer how the buyer plans to inspect the work before submitting a bid. It makes perfectly sound business sense to not do all the required work, and then have a stand by fix-it crew ready to correct only the work not done that the buyer finds in the buyer's inspection program.

This is the primary reason why the previous food service contractor's performance was mediocre.

Is it possible then, to get the best service at the lowest cost? Yes. But it requires a paradigm shift.

The buyer will have to stop telling the service provider how to provide the service. The buyer will have to stop writing specifications and will instead have to state the buyer's expectations. Potential service providers will be invited to state how they will meet these expectations, and also how they will measure their performance so

that both the service provider and the buyer will know that these expectations are being met (Kashiwagi, 2007; Kashiwagi, 2010; Meyer, 2010).

Perhaps a simple example will illustrate this concept. Do you want to buy carpet cleaning, or do you want to buy clean carpets? In the first instance, the buyer tells the carpet cleaner exactly how to clean carpets, using what specific chemicals and equipment, on a specified schedule. The buyer incurs all risk that the carpet will be clean. In the second instance, the buyer states that he or she has an expectation that the carpets will be clean, and invites carpet cleaners to state how these carpets will be kept clean. A carpet cleaner might ask the buyer how the building is used, and based on this information, might say: "I will clean carpets every Thursday night. If the buyer notifies me a week in advance that the buyer will hold an event in the facility after hours, I will also clean the carpets after the event. My fee for this service is $x per cleaning. I will measure carpet cleanliness by the X-ray fluorescence method using the TRACeR III-V scanner. A copy of each report will be e-mailed to the buyer. If the buyer does not notify me of an after-hours event and has to call me out, my fee for that cleaning will be $y."

Using Arizona State University's solicitation for a food service provider as an example, here is how the Best Value, or Performance Information Procurement System, works.

THE PERFORMANCE INFORMATION PROCUREMENT SYSTEM

There are three phases in the Performance Information Procurement System (Kashiwagi, 2011):

1. Selection Phase.
2. Pre-Award Phase.
3. Risk Management and Quality Control Phase.

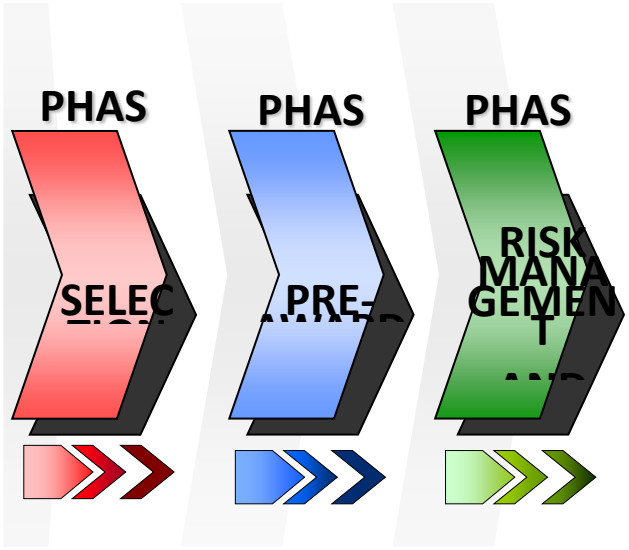

Figure 1: Performance Information Procurement Systems Phases

The Selection Phase is designed to efficiently identify the one best value supplier with which the buyer should contract. It uses a series of filters to narrow the potential service providers to the one best value supplier. There are five filters used:

1. Past Performance Information.
2. Capability to do the Project.
3. Interview of Key Provider Staff.
4. Prioritization and Determination of Relative Value.
5. Cost Verification.

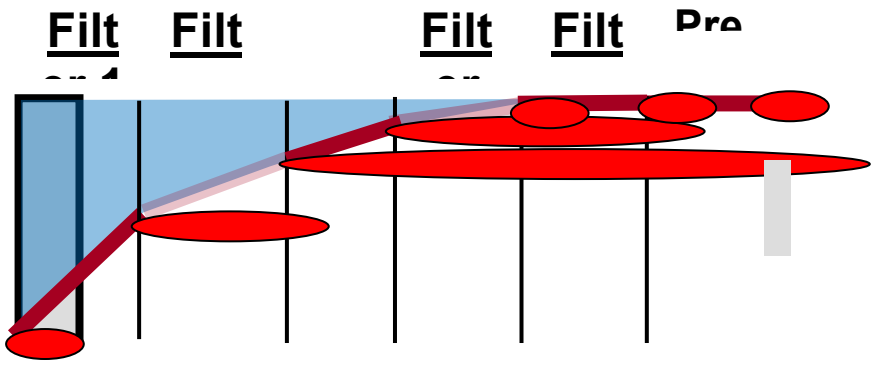

Figure 2: Performance Information Procurement System Filters

The selection phase criteria that were used are as follows:

1. Past performance information that is required on the vendor and the individual.
2. Risk assessment.
3. Value added.
4. Financial Proposal.
5. Interview.

The price is already controlled by the budget and the competition. If the best value is over 5% over the next best value, it is deleted unless there is dominant information to show otherwise. If the best value is lower than 10% below the average price, the vendor is eliminated unless dominant information is in the proposal. Dominant information is when the information is simple, easy to understand, and motivates the buyer to act without extra justification.

The Selection Phase filters (Figure 2) work in unison to mitigate the chance of a non-performer getting the award. The key components of the best value approach are:

1. The risk assessment, and value added submittals are short (2 pages maximum) and contain claims and dominant information to justify the claim.

2. The rating system is "10", "5", and "1." If a decision has to be made, the rating is a "5." If the claim is high performance, and is verifiable, the rating is a "10."
3. The vendor's key personnel must go through an interview and identify what they are going to do before they do it, how it is different and how they will mitigate risk that they do not control. The vendor's project manager's answers will be concise, short and clear.

The environment is transparent. Decisions will not be made. Time will not be spent to make decisions. Vendors who do not perform will be easily identified. After the selection phase, the clarification phase will ensure the vendor can perform.

The PIPS process is different from other purchasing processes due to the following:

1. The vendor creates the scope of work. The buyer does not specify everything that the vendors should include in their proposal.
2. Vendors are selected on their ability to identify risks that they do not control, and their ability to minimize those risks.
3. Technical information is not evaluated. Vendors must show their value in terms of measurable performance.
4. The vendor is in control of the service. The client does not direct, manage, or control the vendor. The vendor must make their own plan and requirements.

ASU IMPLEMENTATION OF PIPS

Arizona State University began by retaining a consultant to assist Student Affairs in developing their expectations for the contract. In truth, a consultant was not really needed. But, the Student Affairs people knew that the food service program was very important to students, and they needed reassurance that they would get a superior food service program through the new-to-them Performance Information Procurement System (PIPS). Moreover, higher education institutions rarely believe their own experts, but readily accept the

same information provided by an outside consultant. Perhaps the fact that they paid for the information makes it more valuable and more believable. Thus, a consultant was retained only to manage expectations of the Student Affairs organization, and not to run the PIPS process.

Once the consultant was educated on the Performance Information Procurement System, she was excited to see how it would turn out, as she knew full well the problems with the standard method of selecting major service contractors.

The consultant worked with Student Affairs officials to draft and refine their expectations. This was not an easy process, as leaders in Student Affairs found it difficult to only state outcomes rather than specify processes that hopefully would achieve the desired outcomes.

The solicitation document provided potential food service contractors with detailed information on the Performance Information Procurement System. A preproposal conference was scheduled so that the Performance Based Studies Research Group could provide detailed training on the Performance Information Procurement System theory and practice.

The selection phase of the Performance Information Procurement System is designed to select the best contractor through a review of the least amount of information. Further, the process to select the best contractor minimizes the need to make a decision as to which is the best contractor, as the data will clearly show if there is a contractor that rises above the rest. In the event that there is not a contractor dominantly better than the rest, then the buyer should select based on the least cost, or in the case of a food service contract, the highest return.

The University assumed that each of the food service companies responding to the solicitation could provide a food service program. Further, each of these companies had been engaged in providing food service long enough that there should be no risk to them in conducting their internal activities. They knew what it would take to

provide a quality food service program, and had long sense resolved any internal challenges in doing so. Accordingly, the only events that could adversely impact their ability to provide a quality food service were external to their operation. Thus, the only risks to them were events that could occur that were outside their ability to prevent. Finally, while they may not be able to prevent these outside events from happening, they certainly could anticipate them, and devise mitigation strategies in advance.

The University also knew that each of the competing food service companies could provide an absolutely superior food service program, and each was also capable of providing a truly mediocre program. The difference would be caused by the quality of the people each firm chose to dedicate to the program. The selection phase of the Performance Information Procurement System encourages potential contractors to dedicate their best people to the project.

In the selection phase, the university encourages proposers to submit brief proposals that differentiate themselves from competitors and provide the data to illustrate their dominance so that the university does not have to decide which supplier offers the best value as this will be clear from reviewing the supplier data.

The university and the Performance Based Studies Research Group conducted a pre-proposal conference for potential suppliers and for the key university staff who would be working with the successful contractor. This meeting was video recorded and made available to potential contractors via the web. Potential suppliers were advised to make their submissions non-technical so that any reasonable person could understand them. They were also advised that these proposals should be constructed by their operational staff, the people who really understood what it would take to produce a superior food service program. It was strongly suggested that their proposal not contain any marketing material as the university would hold the successful firm to any promises made by that firm.

Since all of the potential proposers were successful food service program providers, any details relating to food service experience

would not be a differentiator. Accordingly, and surprisingly to them, they were requested to not provide any material on the food service program they intended to provide.

The initial submission consisted of a Risk Assessment and Value Added Plan of no longer than five pages, plus a one page Transition Milestone Plan for a total of six (6) pages. Potential proposers were advised that the Risk Assessment and Value Added Plan must not contain any information that would identify the firm, as these Plans would be evaluated blind by the Evaluation Committee.

The Risk Assessment Value Added Plan contained three sections: 1) Risk Assessment, 2) Value Added Differentiation, and 3) Transition Milestone Plan.

The Risk Assessment section addressed any risks that the proposers see that could impact a successful delivery of dining services to meet the university's expectations. Proposers were told that the university assumes that all proposers have the capability to effectively deliver dining services and meet all the university's expectations. The university wishes to examine the relative ability of each firm to understand and convey the key risks to this service and how each risk would be minimized. Each proposer should focus on risk that it does not control, that is to say, the university expects each proposer to have the capability to manage the risks that they do control (e.g. food quality, etc.), and the Risk Assessment plan should be used to manage risk that is not controlled by the proposer. For example, if the university population did not meet projections, how would the proposer compensate for that? The Risk Assessment section gave the opportunity for the proposers to differentiate their capabilities based on their ability to understand, see, and minimize risk to the university and risk to a successful outcome of the dining services contract.

The Value Added Differentiation section highlights any areas of dominance that the proposer considers separates them from the other proposers. Each proposer was asked to consider the question: "What value do I bring that differentiates me from my competitors?"

Proposers were advised that marketing material would be considered worthless by the university and would only have a negative impact on a proposer's evaluation. The Value Added Differentiation section should be used by each proposer to show how it will add value, what the size or level of impact that value will have, and how the level of added value will be measured during the course of the service. Each value added option must have an impact on dollars, time, meals, and/or the satisfaction of the university community.

The Transition Milestone Plan identified key action steps and milestone dates for transition to the new contract.

Proposers were advised that the Risk Assessment and Value Added Plan would become part of the successful proposer's contract.

As a critical part of the selection process, Proposers are required to furnish Past Performance Information in two distinct capacities: 1) As performance surveys to past/current University clients and 2) As detailed financial and performance data presented in simple graphs and tables.

The university provided Past Performance Surveys that the proposers sent to their clients. Clients sent the completed surveys back to the proposer, who then provided them to the university. This was done so that proposers were aware of what their clients said about them. The university reserved the right to verify any information contained in these surveys.

The university also required past financial performance information to be submitted for each proposer in an easy to read graphical format. Proposers were instructed to provide separate graphs for each item and each past client, up to a total of ten clients. These graphs contained:

- Total return (in dollars $) to past client university by time in years (as a date, not 1, 2, 3, etc.).
- Total return (as a percentage % of sales) to past client university by time in years.

- Retail revenue (in dollars $) by time in years.
- Catering revenue (in dollars $) by time in years.
- Voluntary meal plan revenue (in dollars) by time in years.
- Total sales per labor hour by time in years.
- Total enrolled student population by time in years.
- Total number of meals per enrolled student by time in years.
- Total number of retail meals per enrolled student by time in years.
- Meal plan average missed meal percentage by time in years.
- Customer satisfaction (for students) normalized on a 1-10 point scale by time in years.

In addition to the above graphical presentation, the university required that tables with the raw data for each requirement also be submitted. In the provided raw tabular data, each Proposer must include calculated totals and averages for every requirement above.

The Evaluation Committee also interviewed the specific people selected by each proposer for the following five positions: on-site general manager, general manager's immediate supervisor, the regional vice president, the director of catering, and the executive chef. Each person was interviewed individually, and the interviews were video recorded. Each firm was advised that the video recordings would be made a part of the resulting contract for the successful proposer. Firms were cautioned that they would be held to any promises made in the interviews. Because of this, firms were expressly told in the clearest language possible to not bring any marketing people for an interview.

The interviews were very interesting. The people being interviewed knew their professions and could easily explain what they did, why they did it, and how they could do it better. The firm's leadership, sitting outside the closed meeting room, probably found this process more stressful that they should have.

Finally, proposers were asked to submit a detailed financial proposal in an electronic spread sheet template provided by the university.

Firms were told that the financial proposal must encompass and address all the expectations of the university. The university advised that the level of financial performance proposed would become the performance benchmark that the successful proposer must deliver, and that this financial information would become part of the successful proposer's contract. The financial proposal would cover the first three years of the contract. It included commissions offered to the university for meal plan sales, retail sales, subcontractor sales, catering sales, and summer conference dining sales. The financial proposal also included a Capital Investment Plan and an Equipment Replacement Reserve. Proposers were also requested to provide a list of any proposed Overhead or Indirect Costs of Operation such as General and Administrative Overhead Charges, Purchasing Charges, and other Corporate Charges to the account. Firms also provided a list of all costs that they considered to be Direct Operating Costs of operations. Firms were to use the current meal plan structure, with meal plan pricing escalated annually for inflation. Proposers had to identify the basis of their projections, and note any other factors that influence their projection. Finally, they had to provide details on proposed staffing levels and employee benefits packages for all operations the proposer did not intend to subcontract.

The Risk Assessment and Value Added Plan was 30% of the total score. The Management Interviews were 25% of the total score. The Past Performance Information/Client Survey Ratings were 25% of the total score. And the Financial Compensation to the University was 20% of the total score.

Evaluation Committee members were instructed to look for areas that differentiated a proposer from other proposers. Using a ten point scale, if an Evaluation Committee member believed a proposer was significantly better than the other proposers in an area, assign a score of 10. If an Evaluation Committee member believed a proposer was significantly worse than the other proposers in an area, assign a score of 1. And if an Evaluation Committee member could not tell if a proposer was significantly better or worse, then assign a score of 5.

Here is the information presented to the Evaluation Committee after the data was collected, the blind Risk Assessment and Value Added Plans were scored, the interviews scored, and the financial information analyzed:

RESULTS	
A	0.823
B	0.771
C	0.748
out of 1.00	

			Total Return ($) v Time			Total Return (%) v Time			Retail Revenue ($) v Time			Catering Revenue ($) v Time		
No	Client	Years	Average	Change	Slope	Average	Change	Slope	Average	Change	Slope	Average	Change	Slope
1 A		5	447924.8	1747781	463197	0.258	0.05	0.013	6800224	1889451	481348	3144517	197971	46407
2 B		3	2286360.33	1229874.87	614937	0.214949	0.033569	0.0168	5621405	3230424	2000000	1841100	206410	103205
3 C		5	5516803	1702367.49	356813	0.238555	0.001786	-0.0003	4873445	1079451	237307	1009180	513137.6	134529
4 D	(Same GM as proposed)	5	951415	667150	151047	0.13895	0.030057	0.0055	2282967	974689.3	214746	1388600	1095383	300797
5 E	(Same GM as proposed)	5	2544320.2	15674	8664.1	0.2546	-0.067	-0.0015	2532877	738646	177655	1173455	237008	57127
6 F		5	4670650.6	881335	226738	0.1884	-0.006	-0.0012	6749465	2009289	502177	3924982	1601828	387961
7 G		5	1250600	-1143000	0.3914	0.181004	-0.31202	-0.0626	2663034	2735488	677066	1017581	492589	110449
8 H		5	2980149.8	744473	109597	0.365819	-0.07246	-0.0273	1748575	1015377	266750	999618	1125895	279281
9 I		5	2322933.2	890978	222867	0.1242	0.0024	0.001	1192475	3962566	946027	2396547	934010	220262
10 J		5	3075174.56	2314277	581920	0.35426	0.0701	0.0171	3789130	4340203	1000000	6353607	633101	162899
	Averages	4.8	3007765.15	905081.036	273698	0.231874	-0.02696	-0.0053	4896588	2197548	650207.6	1751994	703733.3	180293.7
1 A		5	964746.496	60311.00628	16007	0.158914	-0.00957	-0.003	1427528	76617.86	20113	466465.7	111771.6	34245
2 B		5	2007710.71	453969.6	59607	0.157085	-0.02496	-0.0103	9292100	2047222	600895	1407764	790702.7	196990
3 C		5	3051016.79	2004889.28	963307	0.1597	0.055617	0.0353	2848065	483890.9	196916	1416464	364277.2	128432
4 D		5	2626679.15	19379.09944	60011	0.241602	-0.01164	-0.0038	4797777	3311912	860742	7156516	1356472	33775
5 E		5	3060629.06	-463621.642	-113191	0.390124	-0.01715	-0.0043	1463480	52969	14666	510045	-109927	-31576
6 F		5	1184976.39	342848.24	29619	0.149771	0.003691	-0.0062	6286705	1934326	459694	1628765	318729.5	72217
7 G		5	2019872.05	747249.9872	146769	0.116308	0.00061	-0.0015	5721011	2210056	448223	2676678	799655	217959
8 H		5	2204888.32	1258253.724	243568	0.176297	0.056929	0.0076	1917502	1340759	316928	5235807	1636399	41705
9 I		5	4422834.65	1115102.76	256457	0.301123	0.011112	0.0006	9419925	2502268	608184	7118866	-1319.62	-7887.2
	Averages	5	2394839.29	615375.7839	184672.7	0.205658	0.00706	0.0016	4797121	1551114	391820.1	1117476	269906.5	76206.64
1 A		5	1227746.5	1349126.99	450647	0.984298	-0.17271	-0.0391	5079704	1559371	440438	2283534	1669587	404708
2 B		5	1427136.46	344332.12	85709	0.129926	-0.00074	-0.001	4986661	947796	263239	1482419	962801.01	13404
3 C		5	3300340.99	2234701.3488	67512	0.337197	-0.04768	-0.0122	3094649	4147309	1302116	4847091	28694.89	15731
4 D		4	479258.315	383618.13	134335	0.107129	0.050068	0.0181	2010027	1396578	498268	1010901	163996.8	42461
5 E		4	3608737.54	1052903.1	376308	0.465559	-0.00234	0.0042	1568673	175637	56658	1549499	9064759	274265
6 F		5	3629417.25	1032656.833	215245	0.326962	0.021401	0.0006	6072150	1132781	347662	7966223	2526539	72956
7 G		5	2246022.1	749850.18	184964	0.213648	-0.00522	-0.0018	2779752	1348633	313930	907273	115725.2	30083
8 H		5	9663648.32	-1018296.33	-495390	0.602008	-0.09011	-0.0354	4403919	-1257151	-365554	3857432	3357948	97469
9 I		5	306073.91	-22247.52	-4171	0.052791	-0.01437	-0.0035	4651600	620389.4	161313	1027089	194038.2	57770
10 J		5	844042.765	107100.67	107100.7	0.105293	0.000137	0.000137	5438569	1575579	1575579	2152527	235000.7	235000.7
	Averages	4.5	3768414.27	420251.4523	112226	0.332481	-0.02616	-0.00701	4006870	791434.4	342173.9	1556750	400025.3	124366.7

Table 1: Past Performance Financial Data Analysis

No	Summary Criteria	Weight/Out of	Vendor		
			A	B	C
1	RAVA Plan	28	16.5	19.9	17.7
2	Transition Milestone Schedule	2	1.0	1.4	1.3
3	Interview	25	15.8	16.8	13.5
4	Past Performance Information - Survey	9	8.8	9.0	8.8
5	Past Performance Information - #/Clients	1	1.0	0.5	0.8
6	Past Performance Information - Financial	15	10.5	13.0	10.4
7	Financial Rating	5	2.0	4.0	4.0
8	Financial Return - Commissions	7	3.3	6.6	7.0
9	Capital Investment Plan	6	4.3	6.0	3.6
10	Equipment Replacement Reserve	2	1.8	1.0	2.0
		100	**65.1**	**78.1**	**69.0**

Figure 3: Final Scoring Summary

The proposer with the highest scores in all areas except one, and with the highest return to the University of $84.8 million over ten years, was clearly the best value firm. The Evaluation Committee did not have to decide which proposer was the best value; they simply had to look at the data.

The next phase in the Performance Information Procurement System is the Pre-Planning and Quality Control phase. This is the most important part of the Performance Information Procurement System (Kashiwagi, 2012). Until now, the university assumed that the proposers knew how to provide a quality food service program. In the Pre-Planning and Quality Control phase, the university assumes that the single firm advancing to this phase is not an expert in providing a food service program. This firm must now demonstrate that they can deliver on their promises, and that they have a mechanism for monitoring their performance so that they and the university will know whether or not they are delivering on these promises. University staff now works with the apparent best value supplier to plan exactly, and in great detail, what the proposer will deliver, and how they will monitor it. This is the time to explore all promises, to review all risks outside the control of the successful proposer, and to answer any questions either the proposer or the university may have. This is a detailed and exacting process. The good news is that it is done only with the one firm with which the university expects to contract. A significant advantage of the Performance Information procurement system is that this is done only with the single apparent best value firm and not with all potential proposers as is done in a traditional selection process.

The detailed promises made by the successful proposer, the proposer's measurement system, and the university's commitments are the essence of the contract. In the sense that the contract simply documents these promises and commitments, the contract writes itself. Of course, both parties will have standard boilerplate to be added, but the business deal is done. For this solicitation, the award was made on March 12, 2007, and the contract was signed on April 18, 2007. Work under the new contract began on July 1, 2007.

Recall that in the previous traditional method, the contract took nearly a year to negotiate.

The Risk Management and Quality Control phase begins when a contract is signed. In a very real sense, this phase is Management by Risk Minimization. In the Pre-Planning and Quality Control phase, the university and the successful contractor have agreed on a Risk Management Plan. This plan contains the clear and detailed scope of the service to be provided, a list of risks the contractor does not control but which could occur, the plan to minimize adverse impact for each risk if it were to occur, the action items and responsibilities of the university, the agreed to performance metrics and the reporting schedule for them, the format for a weekly risk report, a transition schedule, and any value added items.

The contractor manages risks to the successful performance of the contract, to include risks that might be introduced by the university. The contractor is thus managing its own performance, and also the performance of the university. For example, while the contract was being drafted, the university was not sure if it was going to collect bad debts on meal plans that the university sold, or if it was going to task toe contractor to collect these bad debts. This generated an item in the Risk Management Plan:

> If university does not take full responsibility for the collection of meal plan sales, then the contractor's bad debt risk based on historic data provided by the university is $400,000 more than budgeted in the contractor's proposal. The best solution is for the university to collect bad debt for meal plan sales. If the university is unwilling to do this, then the contractor will take the following steps to mitigate the risk:
>
> 1. Require students to pay with a credit card the total cost of the meal plan.
> 2. Students that cannot pay the full cost of the meal plan may go on a payment plan with a credit card guaranteeing payment and with an additional processing fee.

3. Any payment overdue for 30 days will result in the suspension of the meal plan and a requirement that the remaining balance be paid in full for reinstatement.
4. The university will withhold grades and transcripts until the meal plan is paid in full.
5. Students who fail to pay will have their debt sold to a collection agency.
6. Any unrecovered debt will result in a dollar for dollar reduction in commissions to be paid to the university.

The university elected to take full responsibility for meal plan debt collection.

Since the expert contractor knows how to provide an outstanding food service program, the contractor should get on with it without guidance and direction from the university. Releasing control is very difficult for anyone, and especially for university student affairs people. They have spent many years supervising people and contractors. They rose to the position they currently have based on the strength of their management skills and their ability to form strong interpersonal relationships. And now they are told to simply let the contractor do its job. They are problem solvers without a problem to solve. Taking control is also difficult for the contractor. Now, contractor people have to deliver on their own promises, and there is no one to blame but themselves if they do not. It is far easier to simply follow directions than to take responsibility for outcomes. Again, these people rose to their current position based on the strength of their management skills and their ability to form strong interpersonal relationships.

Because it is very tempting to meet and resolve a problem rather than rely on the Risk Management Plan, both the contractor and the university needed assistance in at least the first year of the contract. This assistance can be provided by a qualified PIPS person in purchasing or by an outside PIPS consultant.

If the university and the contractor understand their roles, the contract is very easy to manage. The Weekly Risk Report highlights

any event that requires mitigation, and lists the party responsible for this mitigation. The agreed upon metrics allow management by data instead of opinion. Few, if any, decisions need to be made. The Risk Report or the metrics will indicate the correction needed.

RESULTS

The food service contractor is meeting its promises. Table 2 shows the contractors performance over the first four years of the contract.

Criteria	Year 1	Year 2	Year 3	Year 4
Sales	14% Increase	11% Increase	24% Increase	13.5% Increase
Commission	23% Increase	6% Increase	20% Increase	22% Increase
ASU Management Requirement	Reduced 79%	--	--	--
Student Satisfaction	37% Increase	1% Decrease	9% Increase	3% Increase

Table 2: ASU Service Results

Risk is being managed by the contractor. One of the risks identified in the Risk Management Plan was a catastrophic event. The contractor had a fully developed crisis management plan. This was a very good thing. In the morning of Thursday, November 1, 2007, the major food service facility on campus had a fire in a storage room. The facility was evacuated and the fire put out, but the extensive smoke damage made the building unusable for an extended time. The food service contractor immediately implemented their emergency response plan. They brought in the people and material needed to convert a gymnasium floor into a full food service facility. Without any guidance or direction from the university, the contractor opened this facility at 9:00 AM on Monday, November 5, 2007 (Kashiwagi, 2012). If this were not a Best Value, or Performance Information Procurement System, contract, the contractor would have waited for the university to provide an alternate facility. But this is a contractor-managed contract, and the contractor took the necessary action to restore food service.

The university achieved such great results with the food service program, that it used Best Value, or the Performance Information Procurement System to obtain a sports marketing contractor, and to outsource its entire information technology networking capacity. In just these three contracts, the university received a financial benefit of $52 million over ten years more than the previous contracts. And this is being done with greater performance by the contractors and higher satisfaction of users.

CONCLUSIONS

The results produced by the Performance Information Procurement System (PIPS) on the Arizona State University (ASU) food service program, gives support to changing the paradigm of how universities and organizations procure services.

The ASU food service case study shows how PIPS defines and measures risk and performance. It also shows how PIPS provides an efficient way to:

1. Place accountability in the hands of a high performance contractor.
2. Hold all parties responsible for the promises they make.
3. Formalize a vendor quality control program, and provide buyers with a simple and effective quality assurance mechanism.

It is based on logic and data, not relationships and opinions. It minimizes the need to make decisions through a review of dominant data (Kashiwagi J., Sullivan and Kashiwagi D., 2010).

As universities search for ways to remain affordable, accessible, and accountable, the potential performance increase and revenue enhancement available in service contracts through Performance Information Procurement System (PIPS) solicitations cannot be ignored.

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