

# PERFORMANCE BASED CONTRACTING

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Performance Information Procurement System

**“PIPS”**

# What is Performance Based Contracting?

According to: [nextgov.com](http://nextgov.com)

- In the performance-based approach, an agency says **what problem needs to be solved** and allows contractors to make bids detailing their proposed solutions.
- Also identified as **Value Based** or **Best Value** contracting.



# PIPS

## Performance Information Procurement System

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Performance Based Studies Research Group



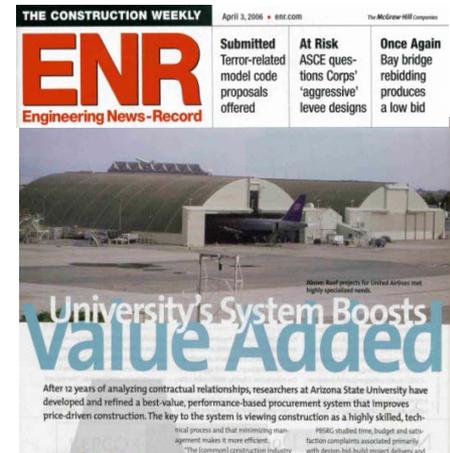
[www.pbsrg.com](http://www.pbsrg.com)



# PBSRG

(Performance Based Studies Research Group)

- 700 Procurements
- \$4.5 Billion construction and non-construction services
- \$1.3B Euro (\$2B) construction test ongoing in the Netherlands
- Africa/Southeast Asia/Australia
- ASU procurement - \$100M cash savings over 10 years
- GSA implementation in 2009
- 98% Customer satisfaction, 90% of PM/RM transactions minimized
- Increased offeror profits and decreased cost



# Performance Information Procurement System

Vendor is an Expert



Our focus for today's training is the selection phase....



CLARIFICATION



Vendor Expertise is Verified



Vendor is an Expert



Weekly Risk Report

AWARD



# What does the PIPS approach offer?

- Identifies Suppliers who can **see the entire project** through completion
- Process efficiencies provide **win/win** environment
- Allows identification of **all associated risks** and provides for a comprehensive **mitigation plan** to address each risk
- Suppliers with **superior expertise** can differentiate themselves
- Shifts **contract management** supplier to enable profit maximization
- Relies on **dominate** information to minimize decision making

# What is dominant information?

- It is simple
- It is accurate
- It is measurable
- It stands out
- It minimizes decision making
- It predicts the future outcome
- It is clearly understandable among all parties
- It shows the offeror's understanding what are required



# Dominant vs. Non-Dominant

## Dominant

- Roof material has been installed and is performing:
  - 65 Customer Responses
  - Average Roof Age: 25 years
  - Percent Not Leaking: 99%
  - Customer Satisfaction: 9.8



## Non-Dominant

- Roof material is high performing:
  - Tensile strength is 800 PSI
  - Elongation is 300%
  - Tear strength is 400 lbs
  - Xenon testing: 10,000 hrs



# INDUSTRY STRUCTURE

High

<b>Performance</b>	<u>III. Negotiated-Bid</u> Owner selects vendor Negotiates with vendor Vendor performs	<u>II. Performance Based</u> Best Value (Performance and price measurements) Quality control <b>Contractor minimizes risk</b>
	<u>IV. Unstable Market</u>	<u>I. Price Based</u> Specifications, standards and qualification based Management & Inspection <b>Client minimizes risk</b>

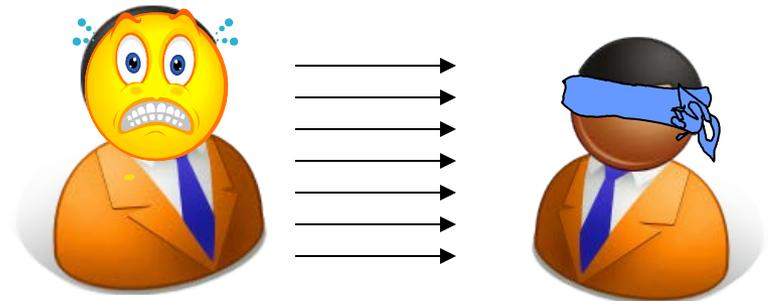
Low

**Perceived Competition**

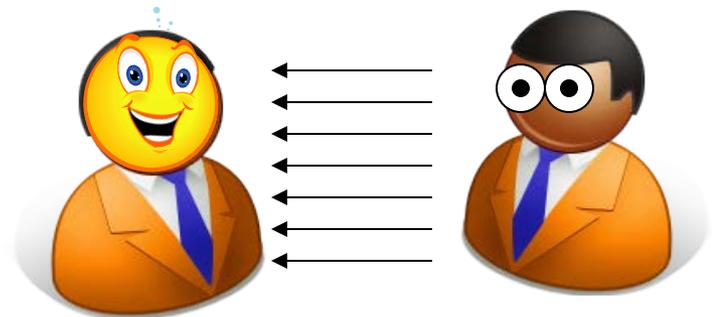
High

# PERFORMANCE CHARACTERISTICS

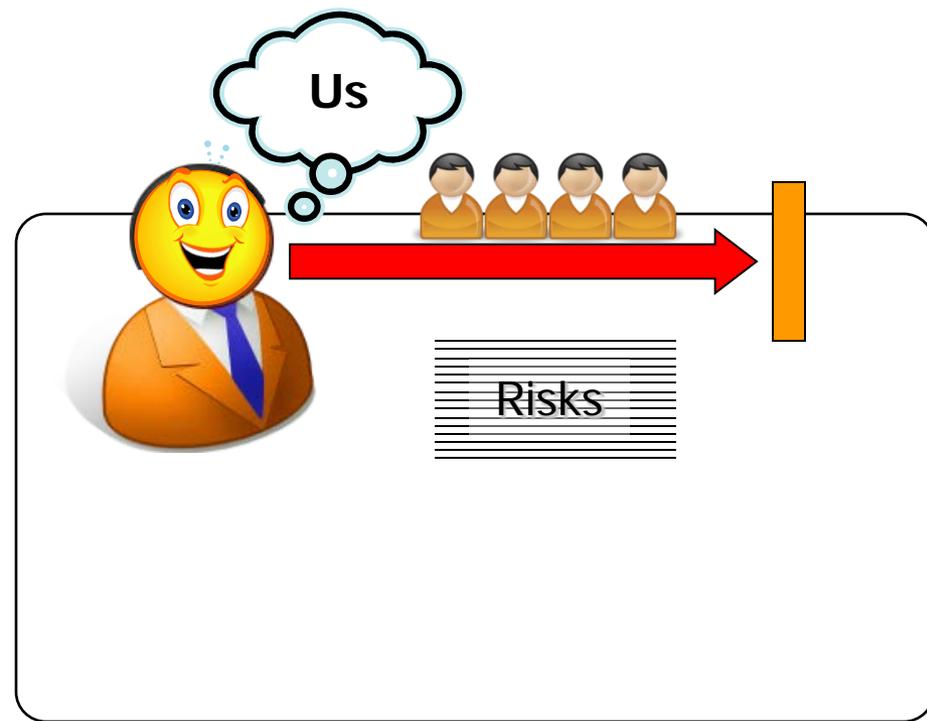
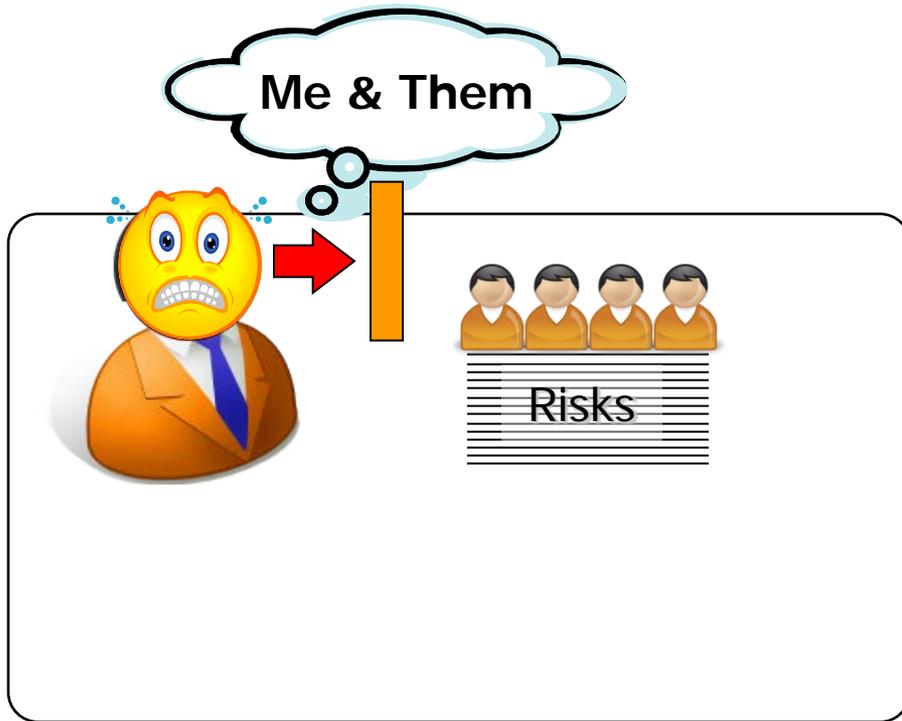
- **Price based** (transaction based)
  - Wrong person talking
  - Decision making on both sides
  - Can perfectly predict the future
  - Experts told to not think
  - Buyer tells the vendor what to do and how to do it.



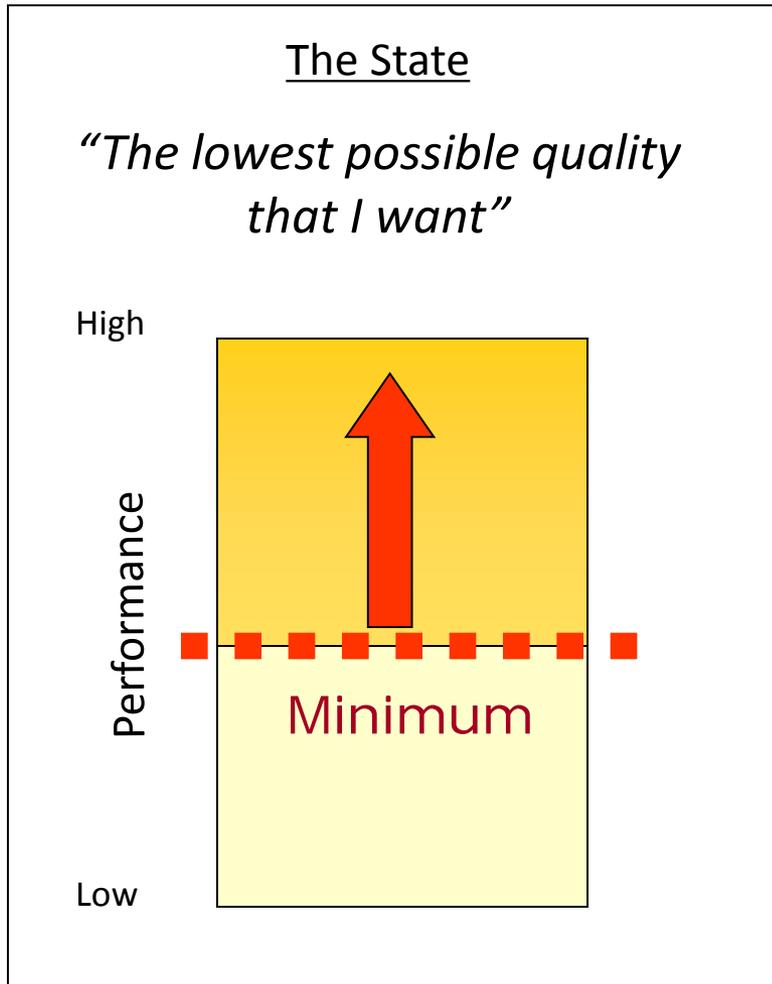
- **Best Value** (efficient, minimized transactions)
  - Buyer says what he wants
  - Vendors tell buyer what he can get



# Me vs Us



# Problem with Priced Based Systems



# Problem with Priced Based Systems

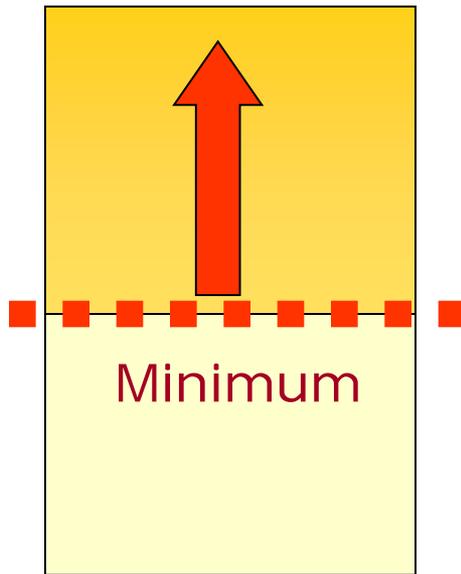
## The State

*“The lowest possible quality that I want”*

High

Performance

Low



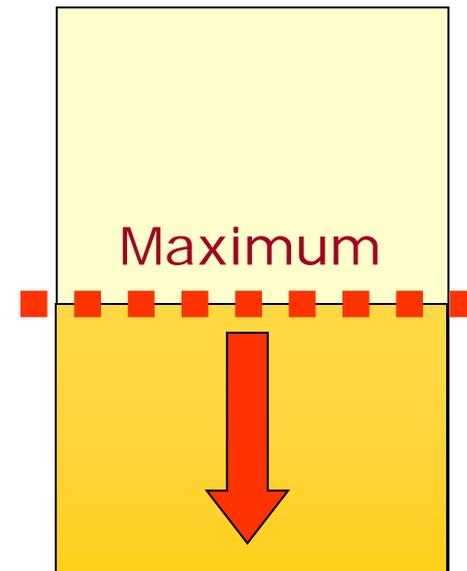
## Contractors

*“The highest possible value that you will get”*

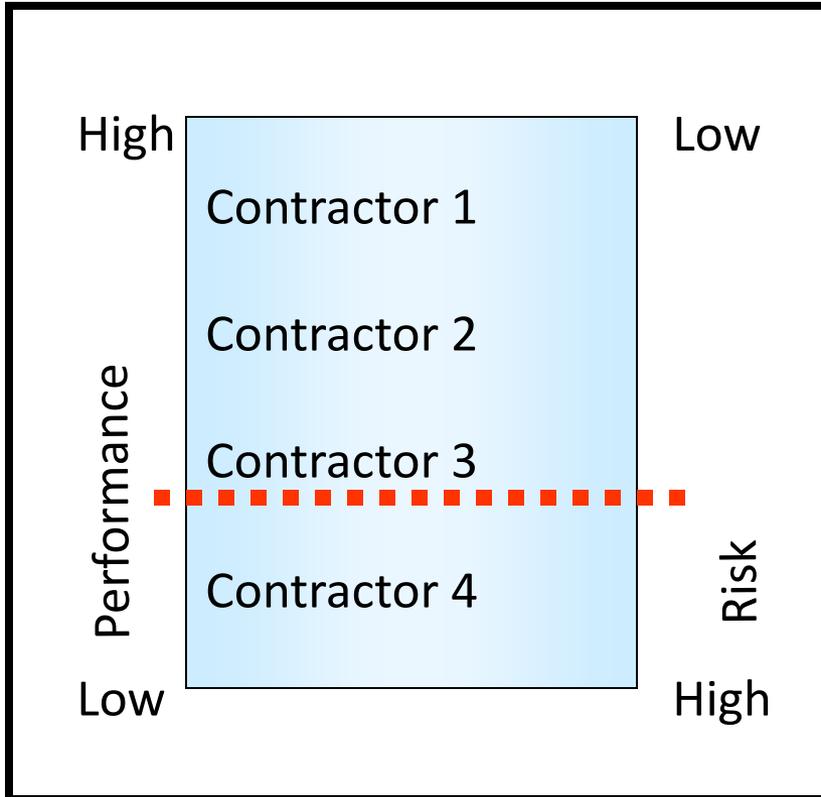
High

Performance

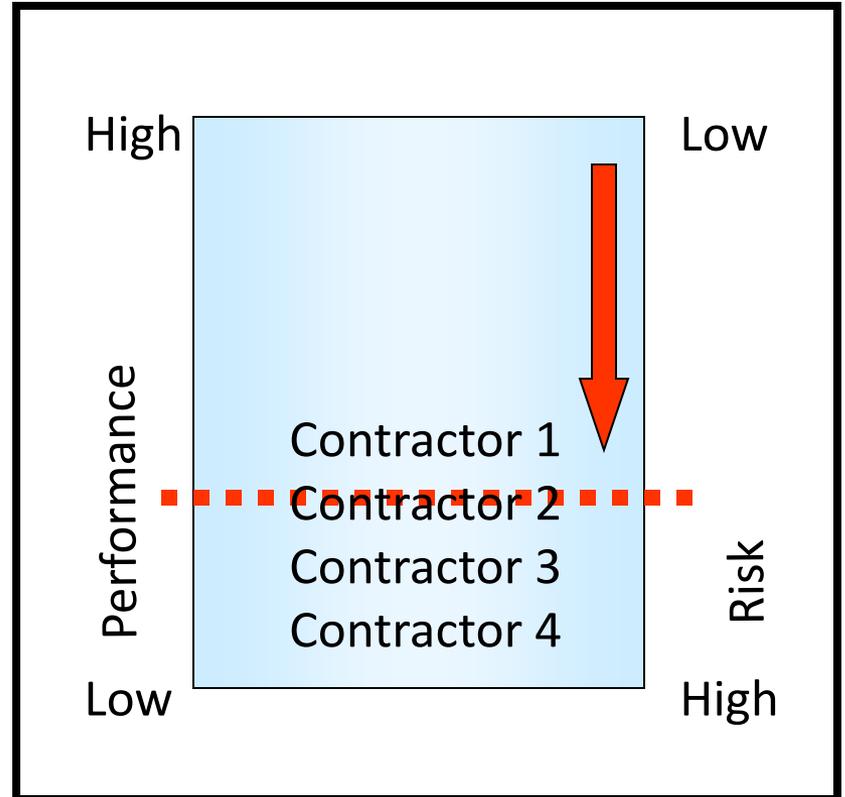
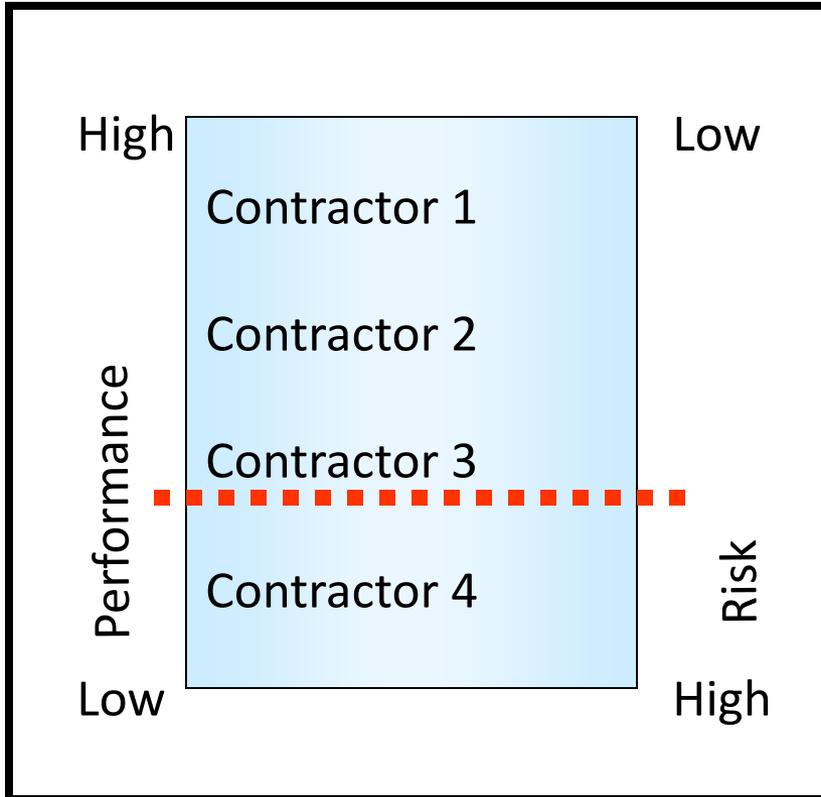
Low



# Performance Based vs. Low Bid

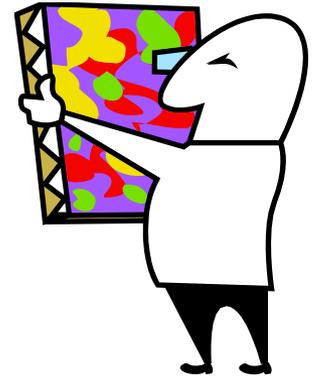


# Performance Based vs. Low Bid

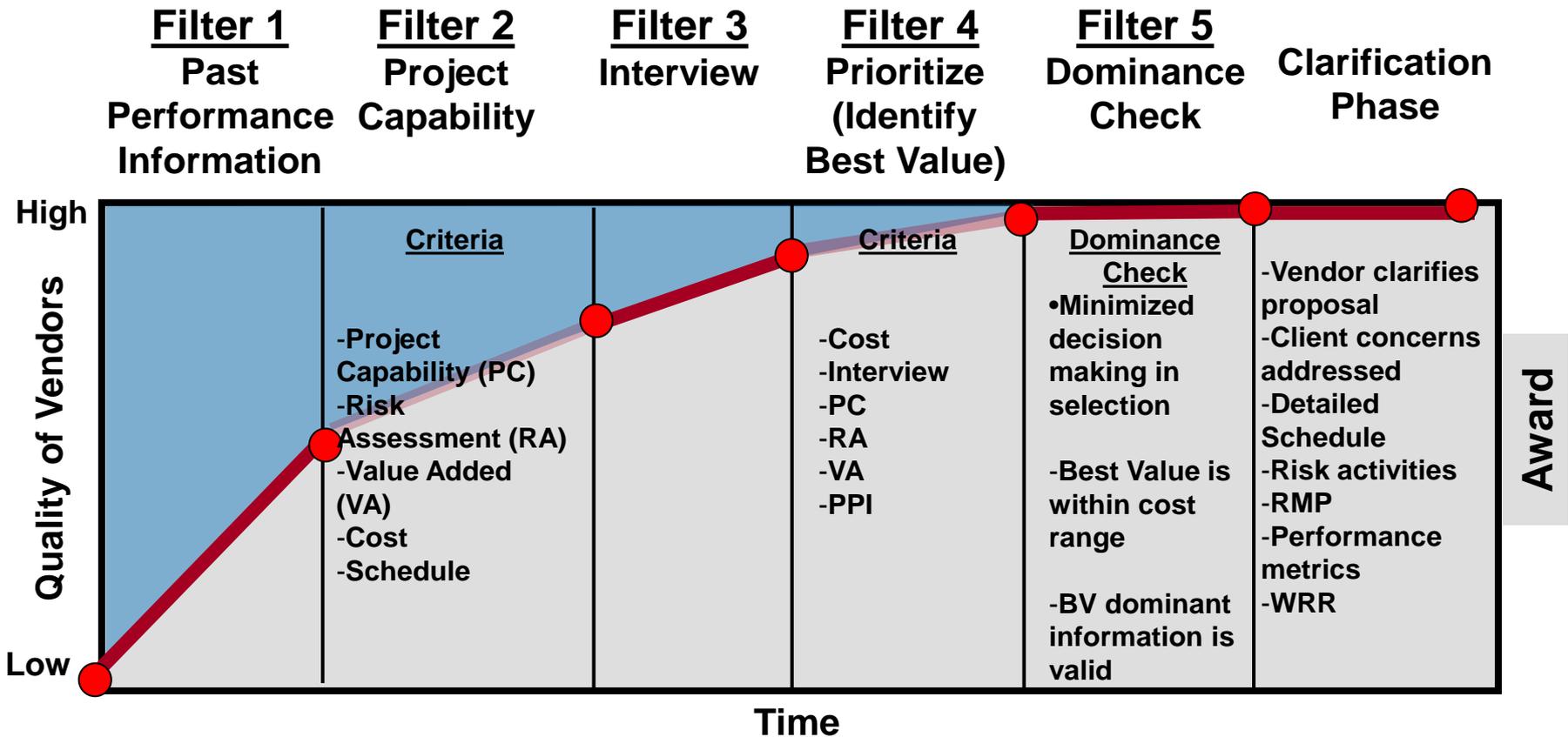


# PERFORMANCE INFORMATION PROCUREMENT SYSTEM (PIPS)

- Let the expert take lead
- Use dominant information to show the way
- Keep it simple and logical (dominant)
- Performers minimize risk that they don't control
- Minimization of Management through performance measurements



# Selection Phase Filters and Clarification Phase



# Selection Criteria

- Past Performance Information (PPI)
- Project Capability (PC)
- Risk Assessment Plan (RA)
- Value Added (VA)
- Price
- Interview

# PROJECT SUBMITTALS

- **Project Capability** (*previously nontechnical risk*)
  - Two Pages
  - No names or marketing material
  - Claims and verifiable performance metrics
- **Risk Assessment**
  - Two pages
  - No names or marketing material
  - Risks and Mitigation plan
- **Value Added**
  - Two pages
  - No names or marketing material
  - Claims and verifiable performance metrics

*All project submittals documents should be written in simple, non-technical language.*

# *Sample Project Requirements*

- New laboratory construction
- Intensive Mechanical systems, clean room environment
- Fast track project
- University campus

# Project Capability Submittal

## **Claim:**

Best project manager in company, does only clean room projects, best in the Midwest area

## **Verifiable performance metrics:**

1. Performance history for last 10 years
2. 20 clean room projects completed
3. Average scope \$50M
4. Customer satisfaction 9.5
5. Cost deviation .1%
6. Time deviation 1%

# Sample Risk Assessment



Risk: *Concrete Escalation*

## RA Plan 1

The owner can be assured all risks associated with material escalations will be eliminated because we offer the benefit of an experienced project team that includes the most detailed, prequalified and extensive list of subcontractors and suppliers, from around the world.

# Sample Risk Assessment



Risk: *Concrete Escalation*

## RA Plan 1

The owner can be assured all risks associated with material escalations will be eliminated because we offer the benefit of an experienced project team that includes the most detailed, prequalified and extensive list of subcontractors and suppliers, from around the world.

## RA Plan 2

The cost of concrete has been rising drastically. Since this project requires a substantial amount concrete, cost is a risk. To minimize this risk, we have and signed a contract with a local concrete manufacturer to prevent any increase in cost during the duration of this project.

# Sample Risk Assessment



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## RA Plan 2

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# Value Added Submittal

## **Claim:**

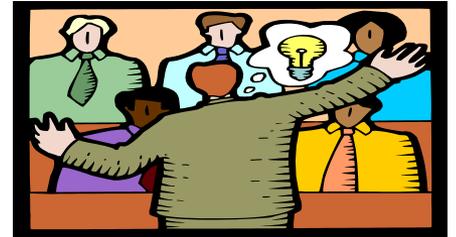
Vendor will track all building major components for the first year including energy consumption, and give client recommendations to extend life of the building

## **Verifiable performance metrics:**

1. Last five buildings, vendor has done this.
2. Performance metrics:
  - 9.5 customer satisfaction
  - \$40M scope
  - Deviation rate 1%,
  - references and documentation available upon request

# Vendor Recommendations

- Do not allow the client to make decisions
- Show vision and understanding
- Show that you can minimize risk (minimize the unknown)
- Show you have expertise (know what is going to happen before it happens)
- Show that if you have the service, you will control it through performance measurement
- Use Value Added to highlight areas of differential
- Emphasize dollars, revenue, time, and quality/expectation (client's interest)
- What is written in the PC, RA, and VA becomes part of the final contract



# INTERVIEW

*The interview of key personnel is the event when the selection committee can get the most dominant information to identify a best value vendor.*

The interview is different in the following ways:

- The key person who will do the work is the one who will be interviewed.
- The interview is searching for an "expert".
- The interview is non-technical.
- The interview is searching for an individual who can lead a team.

The interview should have the following characteristics:

- Be as short as possible. A 20 minutes duration is sufficient.
- The number of questions should be limited to a few questions, and clarifications can be asked if the key personnel do not respond in a dominant fashion.



# Interview Objectives



- Can the individual see into the future?
- Does the individual know what they are looking for?
- Does the individual think in terms of everyone?
- Does the individual look for continuous improvement?
- Can the individual understand other people?
- Is the individual capable of accepting others for who they are?
- Does the individual see the project as complex or simple?
- Is the person quick, concise, very perceptive and polite?
- Can a project manager quickly identify what to do on a project?

# Selection Criteria



- Considering:
  - Pass/Fail Criteria (Required Forms)
  - Scored & Weighted Criteria (Project Capability, Risk Assessment, Value Add, Interview)
  - Weighted Criteria (Past Performance, Price)
- Select potential Best Value Vendor
- One Vendor, the Potential Best Value, will move forward into the Pre-Planning Stage

# Rating System

- Two components:
  - Claims.
  - Verifiable performance measurements (VPM) to substantiate each claim.

- High performance claim with VPM.

10



- High/Low performance claim with no VPM.

5

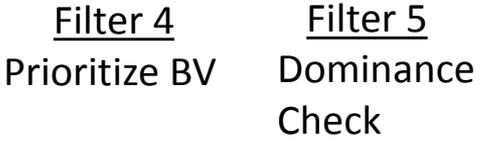
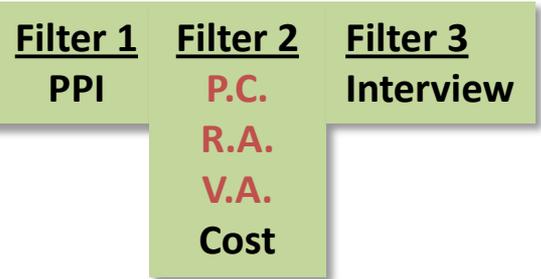
- If a decision has to be made.

- Low performance claim with VPM.

1

# Performance Information Procurement System

Vendor is an Expert



Vendor Expertise is Verified



- Vendor defines scope
- Client concerns addressed
- Detailed schedule
- Risk activities
- Risk Mitigation Plan
- Performance Metrics
- Weekly Risk Report Developed



Vendor is an Expert



**AWARD**

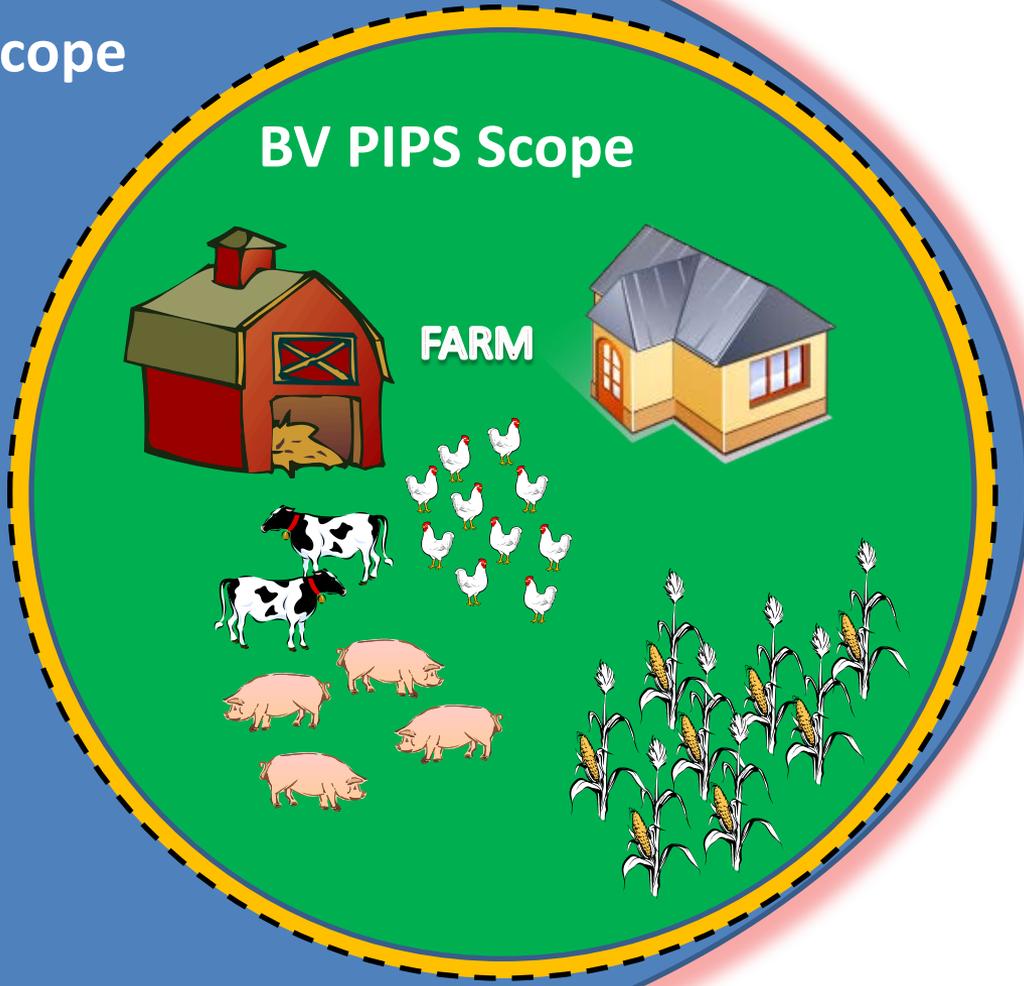
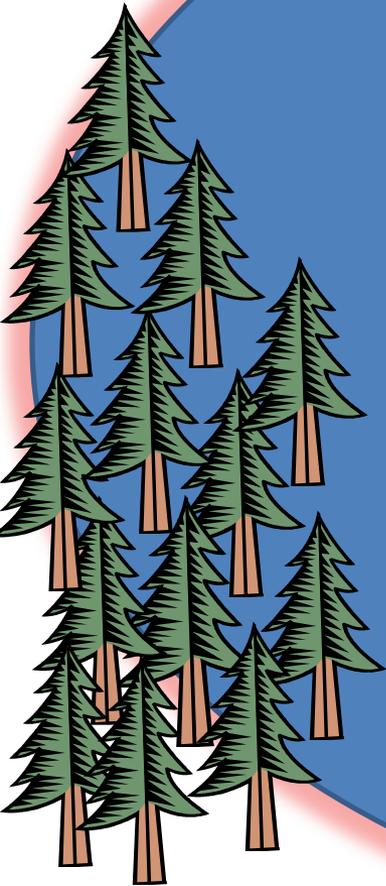
- Risk Management Plan
- Quality Control
- Usage Reports
  
- Quality Assurance



# Priced Based Scope vs. Best Value Scope

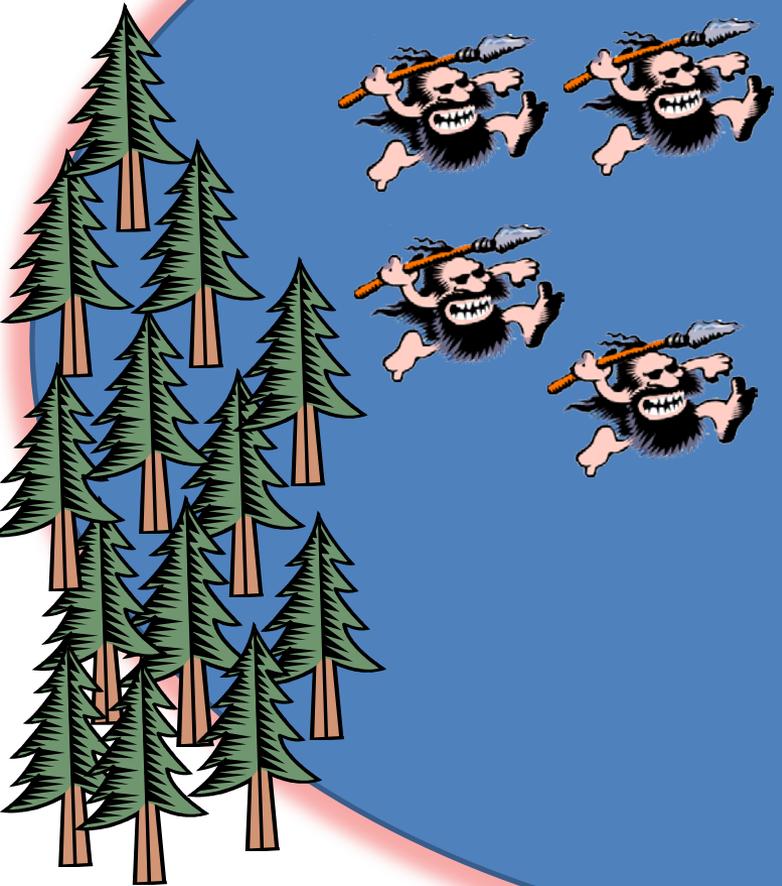
Price Based Scope

BV PIPS Scope

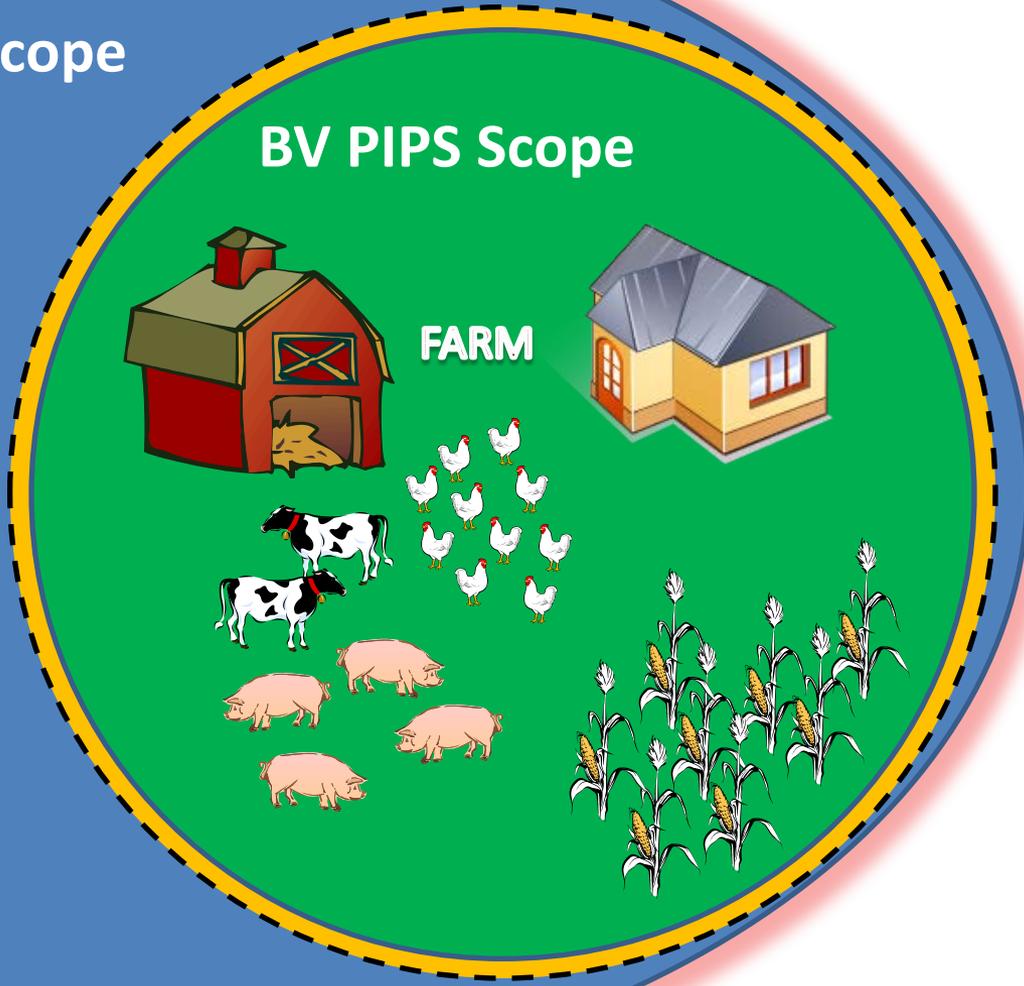


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Price Based Scope



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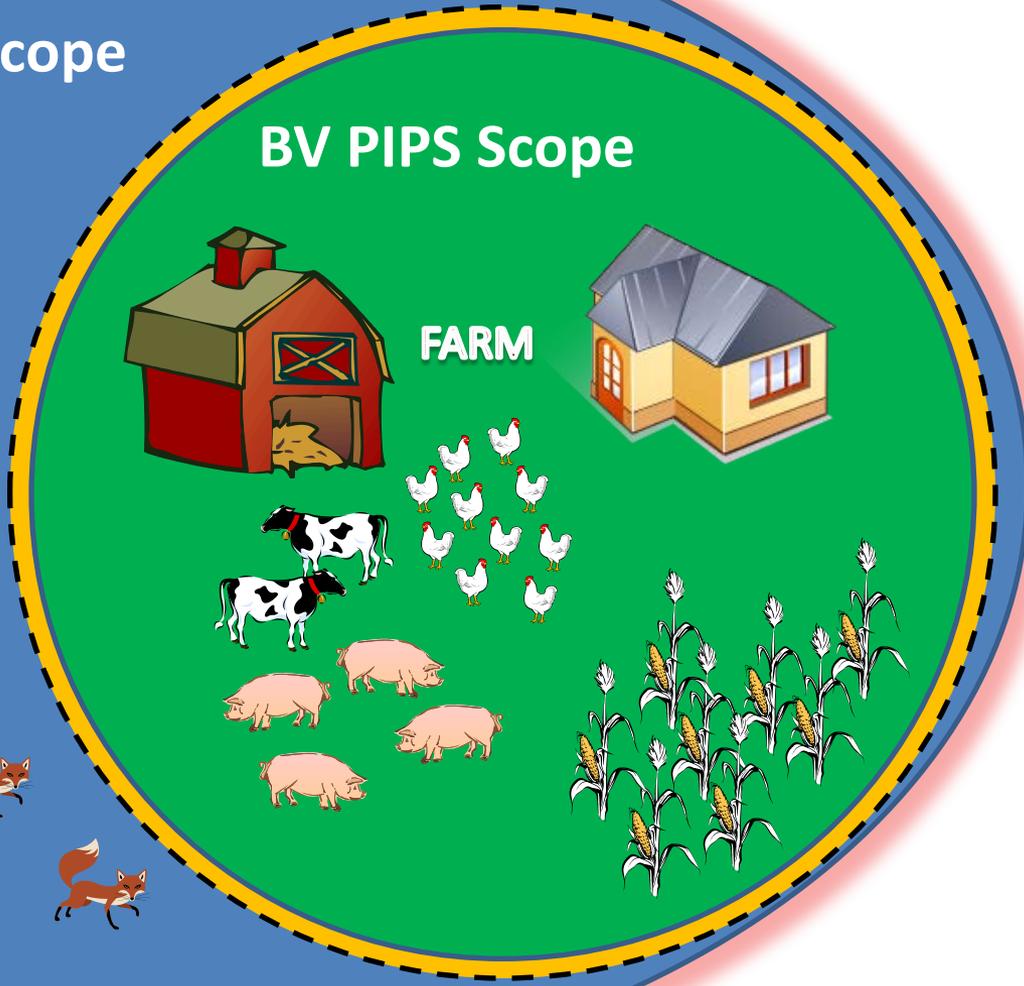


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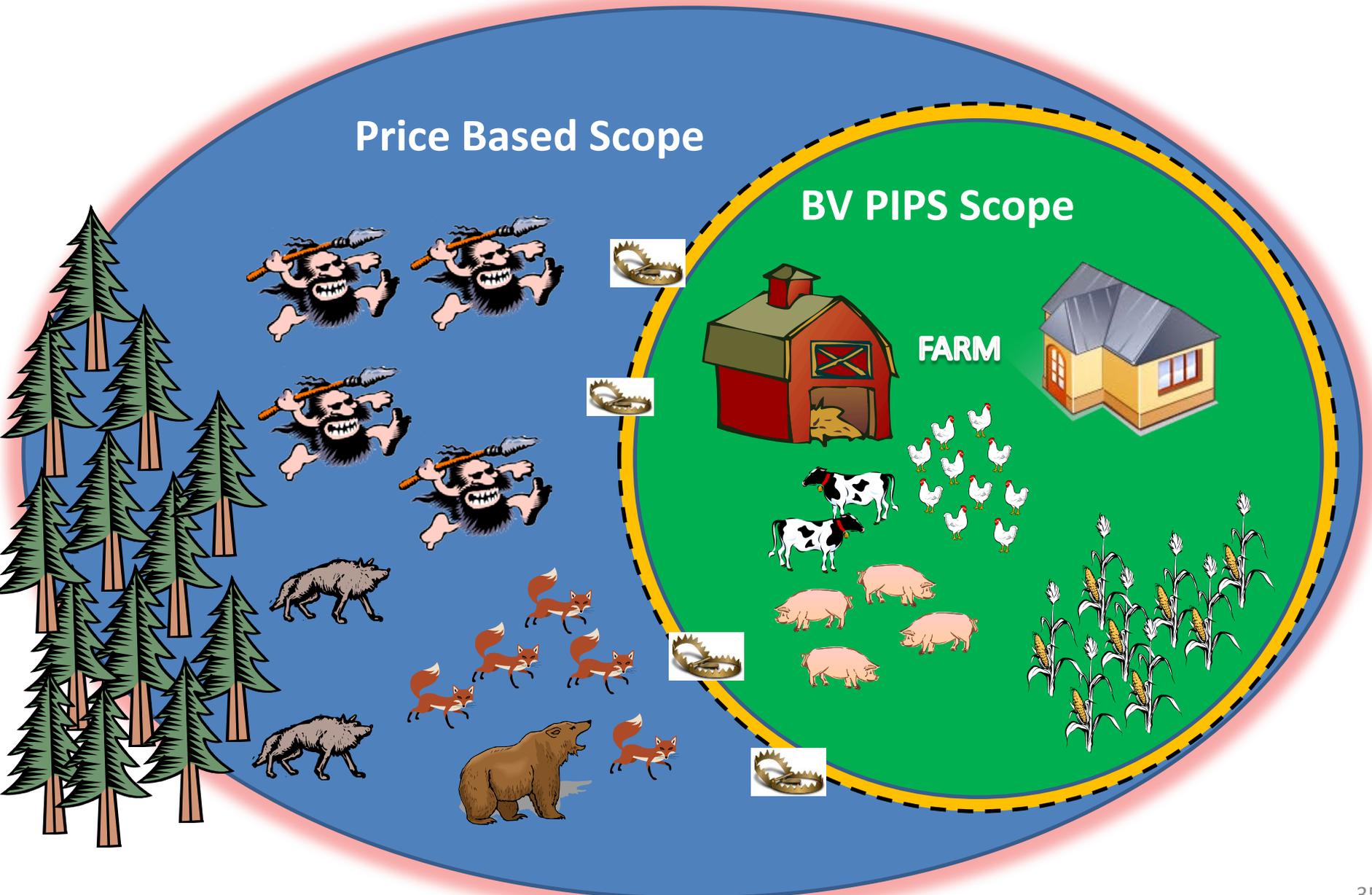
Price Based Scope



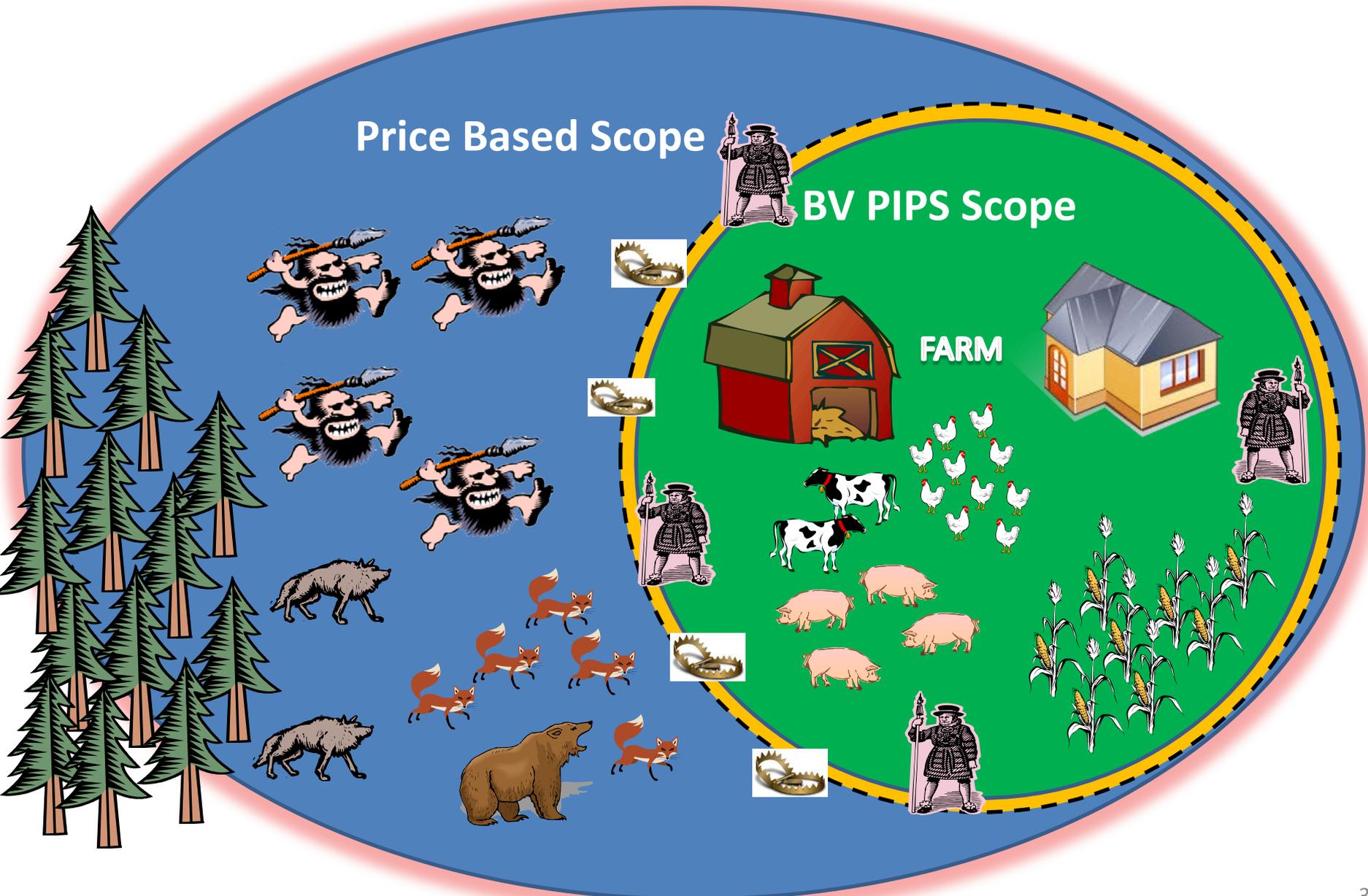
BV PIPS Scope



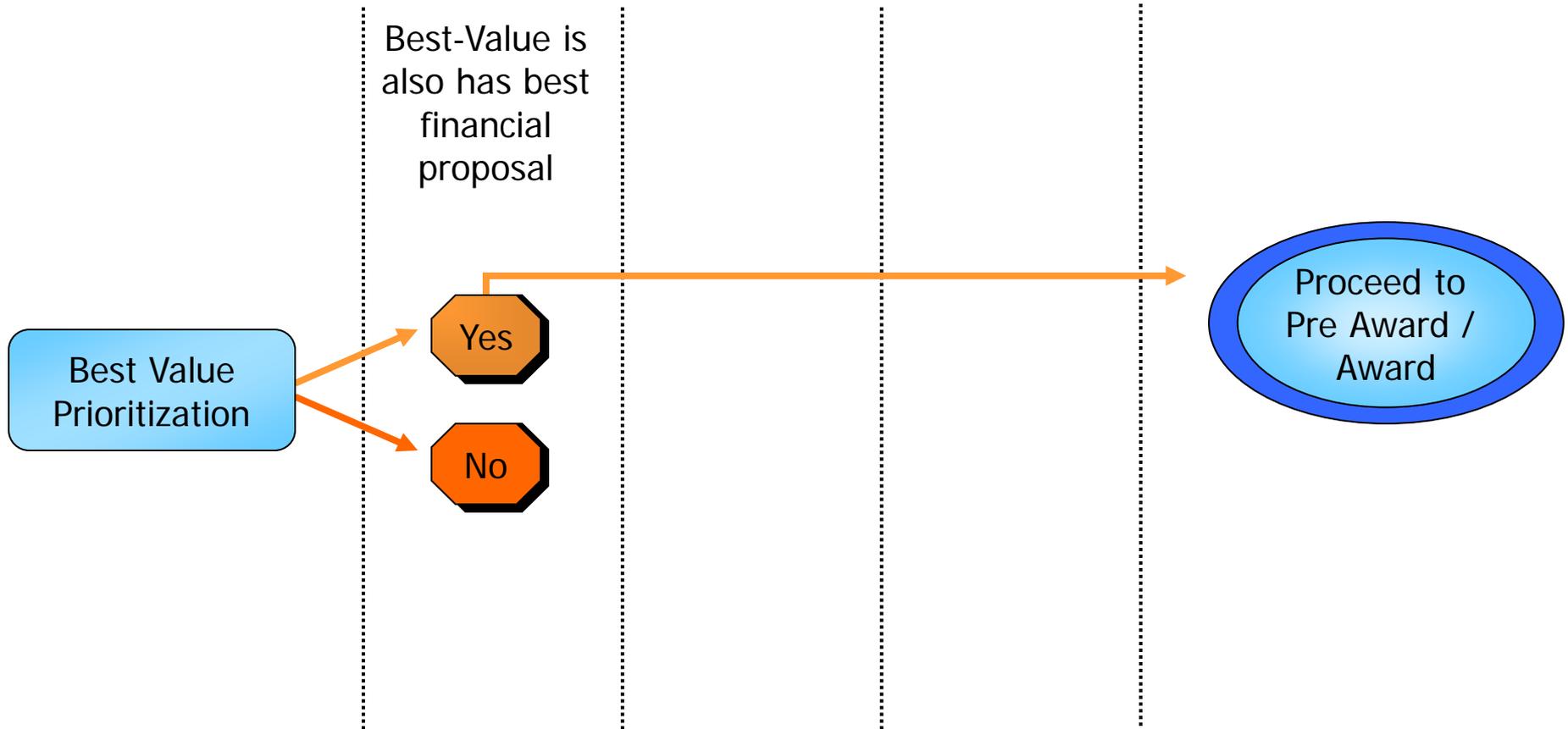
# Priced Based Scope vs. Best Value Scope



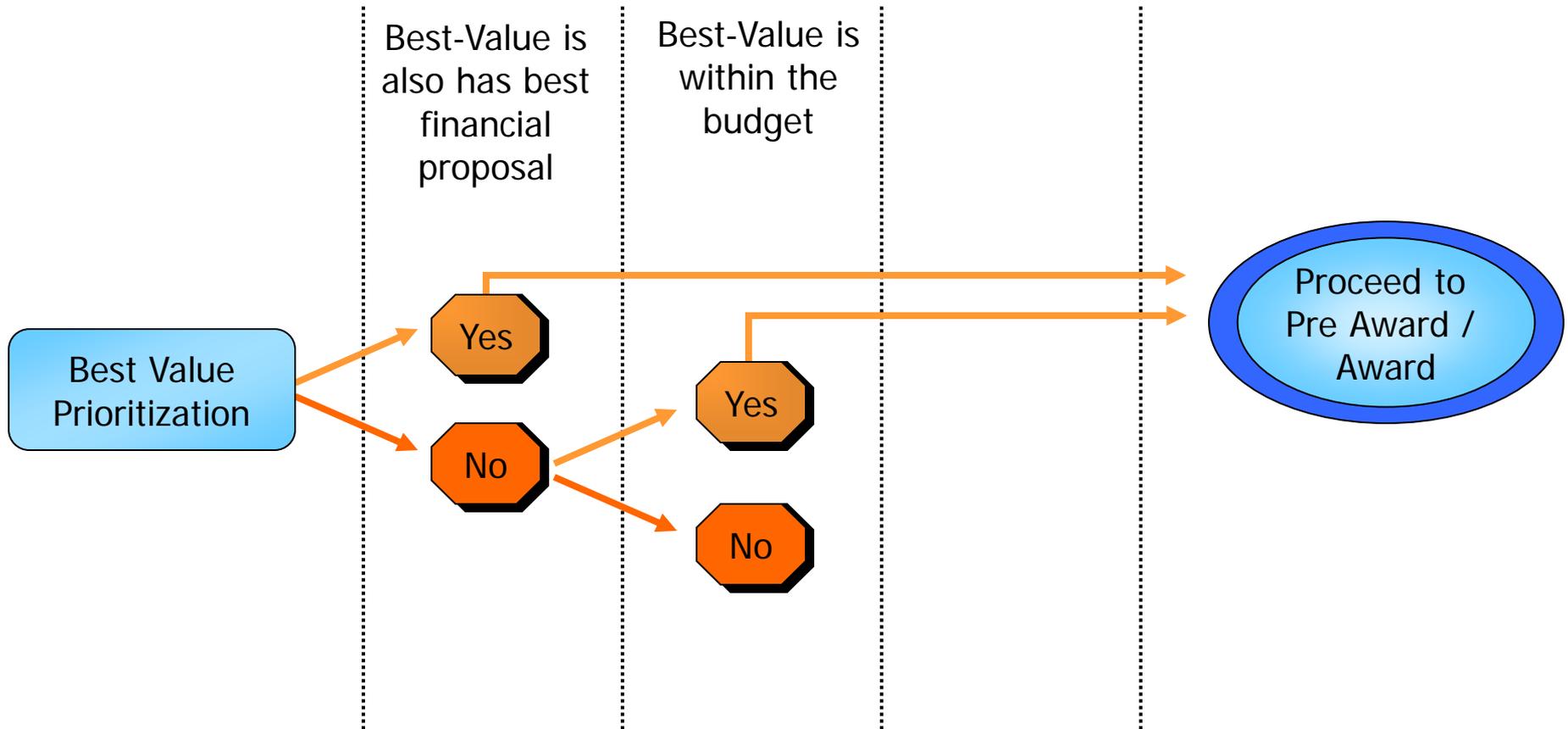
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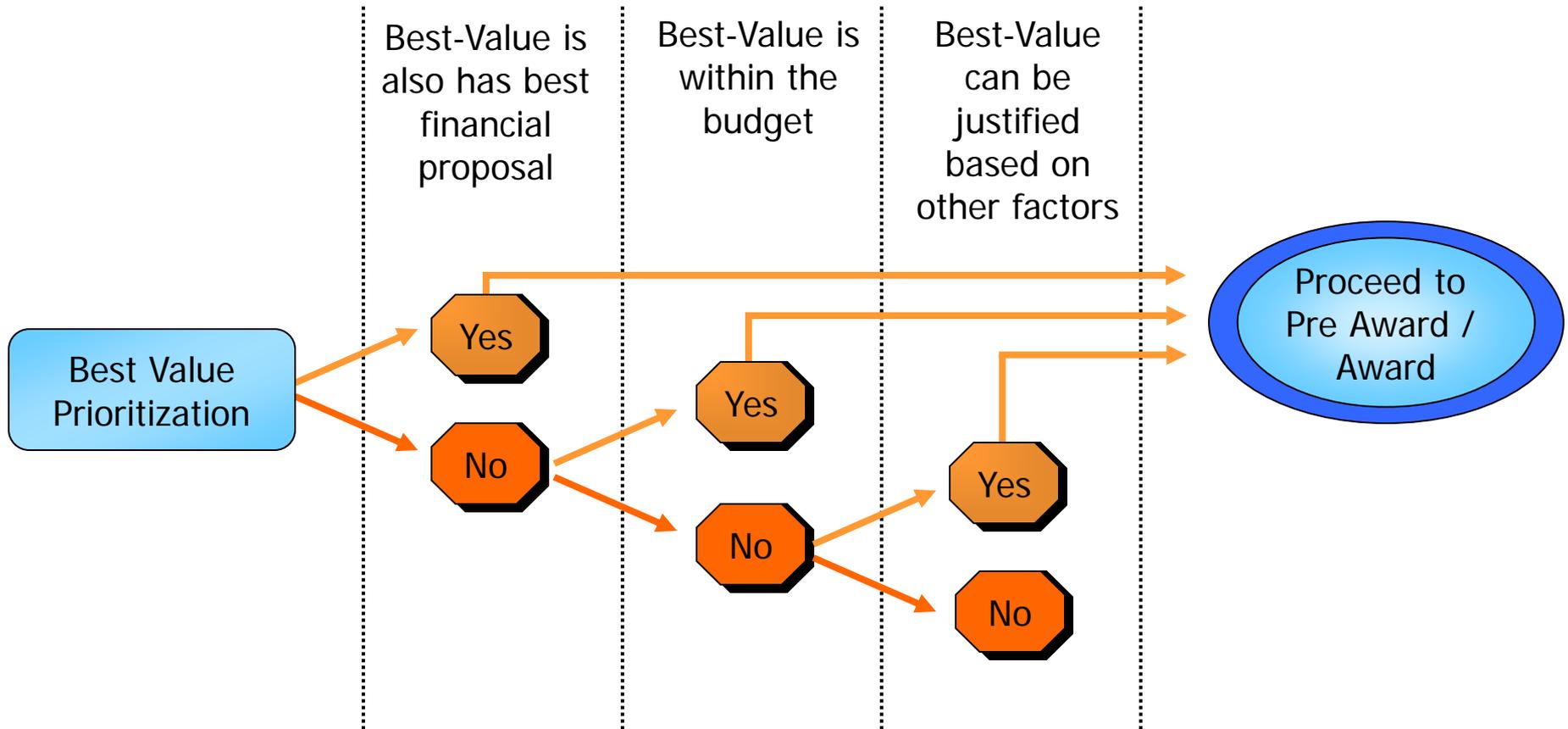
# Identification of Potential Best-Value (Within budget)



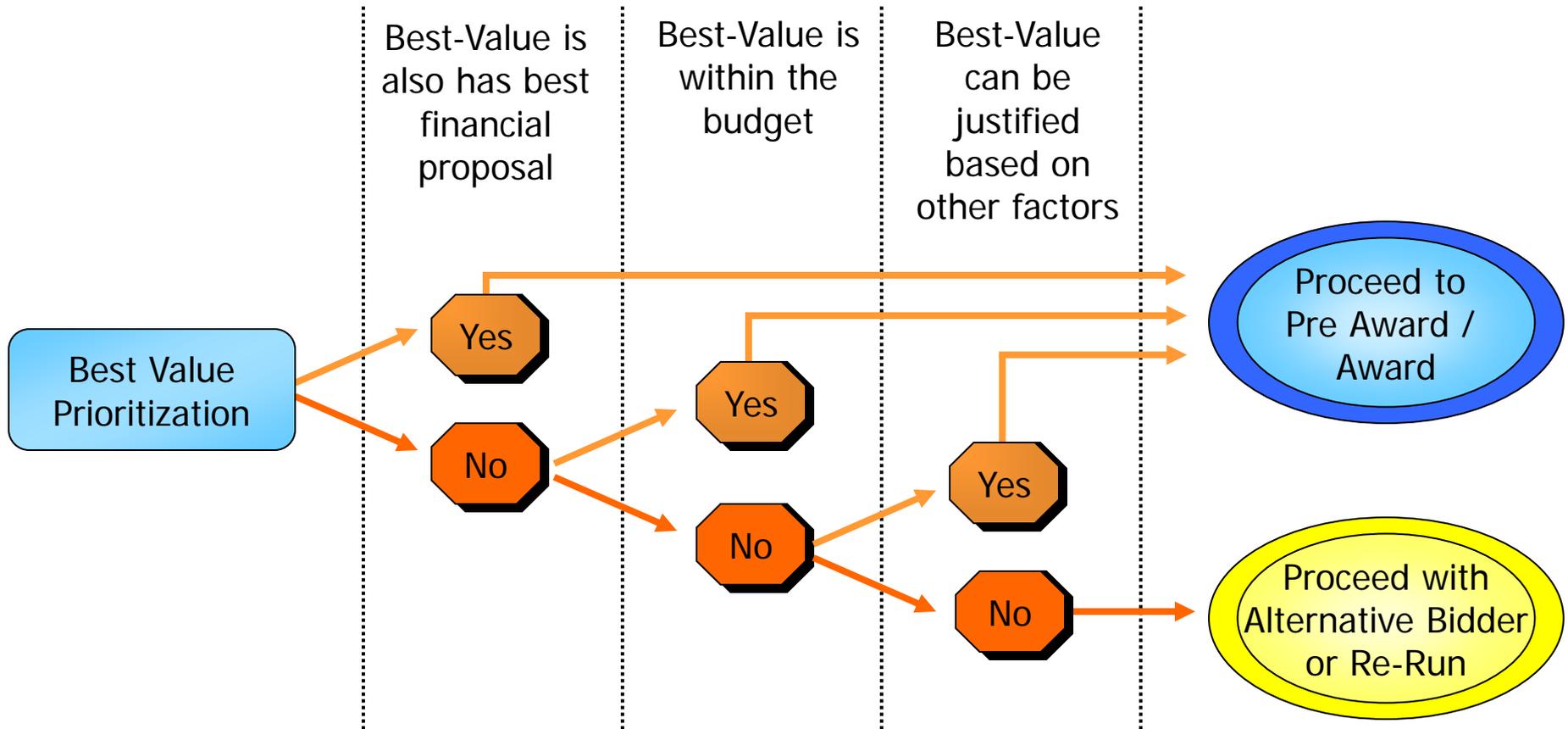
# Identification of Potential Best-Value (Within budget)



# Identification of Potential Best-Value (Within budget)



# Identification of Potential Best-Value (Within budget)



# Clarification Phase Deliverables

- Clarification Phase is not for negotiation
- Scope of Work (what is “in” and “out”)
- Executive Summary of project
- Detailed project schedule
- Detailed cost schedule
- Weekly Risk Report
  - Risk activities
  - Performance measurements
  - Risk mitigation plan
  - Milestone Schedule





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