Business Processes
&
Best Practices Theme

Performance-Based Contracting

Theme Managers
- Dave Ruch / MSP
- John Payne / Pueblo Technology Group, Inc.

Panel

- John Payne, Pueblo Technology Group, Inc.
- John Tsucalas, Master Technology Consultant, HP
- Dave Bannard, Partner, Foley Lardner, LLC

PBC – A short history:

- o Developed in the 1990's in DoD
- o Reaction to Cost Plus contracting – *"There's got to be a better way.."*
- o Definition(s):
  - o Focuses on business outcomes (what) not how they are achieved
  - o Provides incentives to vendors to partner with the business to generate revenue or reduce costs
  - o Goal: Multi-year operational performance improvement
  - o Target Systems: Common Use, FIDS, et al, ERP, HRMIS, Airport Revenue, CCTV, ACAMS, WiFi, DAS, etc.
  - o You're buying *Performance*, incentives used to optimize

o **Implications:**
  - o Not needed – precise definitions of how the contractor will achieve specified objectives
  - o Needed - methodology for arriving at measurable metrics
  - o New skills in IT, Contracting and Legal
  - o Strongly recommend a 'go slow' trial approach initially
    - o RFP lead time will increase initially
  - o Vendors are now a strategic partner
  - o New entrants have an new opportunity
  - o Continous improvement built in
  - o Gather input on performance indicators from the vendors prior to RFP
  - o Have a separate business metrics RFP initially
  - o Allow for customers to Exit

o Benefits:
  - o Decrease in vendor costs (15% - 30%…)
  - o Vendor satisfaction improves (20%…)
  - o Revenue increase / Cost reduction measure on an ongoing basis
  - o Business Driven IT

PBC – Cutting grass...

o   A city needs to cuts its grass and contracts to have it cut every six weeks. But seasonal variations drastically impact the growth rate and auditing the grass cutters is costly.

o   Re-frame the problem:
   o   Keep the grass no longer than 3″ in height
   o   Pay by the acre
   o   Random audits are used to enforce (kid with a ruler)

o   Step back from the problem and ask '3 x why'

Resources

- NIGP – National Institute for Government Purchasing
  2-Day Course on developing Performance-Based RFPs
  http://www.nigp.org/eweb/Dynamicpage.aspx?webkey=cd6dc796-e244-4595-87c8-7e09884dba0c

- Office of Federal Procurement Policy Performance-Based Service Acquisition
  http://www.whitehouse.gov/omb/procurement_index_pbsa

- William Eggers
  Deloitte or www.WilliamEggers.com

- The Outsourcing Institute
  http://www.outsourcing.com/

- Rockefeller Institute
  Performance Based Contracts in NYC
  http://www.rockinst.org/pdf/workforce_welfare_and_social_services/2012-06-Performance-Based_Contracts.pdf

- Performance Based Contracting
  http://reason.org/news/show/performance-based-contracting

Feedback wanted...!

Send comments / suggestions:

Dave Ruch   david.ruch@mspmac.org

John Payne   jmp@pueblo.com