

## ACQUISITION ADVISORY PANEL

Meeting Minutes

April 19, 2005

The Auditorium, Federal Deposit Insurance Corporation (FDIC)  
Washington, D.C.

The Acquisition Advisory Panel (AAP) convened its fourth meeting on April 19, 2005 in the Auditorium at the Federal Deposit Insurance Corporation (FDIC), Washington D.C. Ms. Marcia Madsen, Chair of the Acquisition Advisory Panel, opened the meeting at approximately 09:05 AM.

The Chair welcomed everyone to the fourth AAP meeting and noted a very full day's agenda with guest speakers from industry and the Government Accountability Office (GAO).

The Chair reviewed the schedule and dates for upcoming Panel meetings: May 17<sup>th</sup> and June 14<sup>th</sup> at FDIC, Washington, D.C., May 23<sup>rd</sup> at the Federal Building, Ft. Worth, TX; and June 21<sup>st</sup> in San Francisco, CA [after this meeting, the venue was changed to Long Beach, CA on July 27<sup>th</sup>]. The Chair stated that time will be allotted to hear oral public comments at both the May 17<sup>th</sup> and May 23<sup>rd</sup> meetings. Ms. Madsen encouraged the public to submit requests to speak through Ms. Laura Auletta, the Designated Federal Officer (DFO) and noted that additional meeting details and instructions on how to submit comments will be forthcoming in a Federal Register Notice to be posted on the AAP website.

Ms. Laura Auletta, the AAP's DFO, called the roll. The following Panel members were present:

Mr. Louis Addeo  
Dr. Allan V. Burman  
Mr. Carl DeMaio  
Mr. Marshall J. Doke, Jr.  
Mr. David A. Drabkin  
Mr. Jonathan Lewis Etherton  
Mr. James A. (Ty) Hughes, Jr.  
Ms. Deirdre A. Lee  
Mr. Thomas Luedtke  
Ms. Marcia G. Madsen  
Mr. Joshua I. Schwartz  
Mr. Roger Waldron

The following Panel members were not in attendance:

Mr. Frank Anderson  
Ms. Melanie Sabelhaus (Note: Ms. Sabelhaus attended the afternoon session)

Several guest speakers presented at the meeting as summarized below:

Mr. Peter Allen, Partner and Managing Director for Global Practices, Technology Partners International, Inc. (TPI) (Attachment 1). Mr. Allen thanked the Panel for the invitation to speak and encouraged questions throughout his presentation. He provided a brief overview of the corporation's mission to "help clients achieve sustained improvements in business performance through the evaluation, negotiation, implementation and management of sourcing relationships." Mr. Allen discussed in detail TPI's approach to the sourcing lifecycle and emphasized a Service Delivery Framework, leveraging contractual relationships and competition to develop provider partnerships and ensure value creation. Mr. Allen stated that how a contractual agreement is achieved is as important as what the final contract includes. He identified the top 10 factors for successful outsourcing and emphasized the importance of ensuring that the record shows that strong operational relationships and aligned objectives are the most important factors. Mr. Allen concluded by discussing the importance of anticipating change and his belief that value is achieved in living the relationship, not talking about it during negotiations. Mr. Allen opened up the floor to questions.

Panel member Dr. Allan Burman asked Mr. Allen, based on his experience in both the public and private sectors, what would and would not work in Government? Mr. Allen replied that in industry they use a technique called "the walk down the hall" which occurs at the first of their collaborative meetings focused on the relationship. During the contract performance, Mr. Allen said they work closely with their clients to understand the issues. Mr. Allen believes that although coaching exists in Government, there is much more emphasis on it in the private sector. Mr. Allen explained that the coaching is a very informal, interactive process aimed at ensuring that the client sees and hears the very best that the service provider has to offer.

Panel member Carl DeMaio asked for some more specifics on the percentage of the contract used for sourcing management activities - specifically, what is the makeup of the number and how is it measured and tracked. Mr. Allen replied that they do not track information for every engagement, but it is measured through dialogue with their clients. He said they have a forum that they call "Enforcing Leadership Exchange" which occurs twice a year where their clients get together and share best practices. It is an opportunity to understand what is working in terms of the techniques of managing these relationships. Mr. Allen noted that there have been some measurement studies done in the industry and that his company is a participant with Carnegie Mellon on an outsource service capability model that looks not only at the service providers and their competency, but at the competency of governance organizations within corporations. Mr. Allen stated a common question from their clients is how much should be budgeted to do sourcing management. He answers that it should typically amount to about 4 to 6 percent and this is included in the pricing model for the business case.

Panel member Ty Hughes asked if there are areas of direct conflict that arise based on TPI's approach as a buyer's representative versus the seller's approach. Mr. Allen replied that suppliers often think that because they are supporting so many different clients in

many different transactions, that the supplier is taking market knowledge from one deal into the next. He stated that every deal stands alone and the pricing is shared internally. The suppliers know how they have priced differently, and they also know that they must price to the client's needs if they want to win the deal.

Panel member Ty Hughes asked a question about business terms – is there an inherent conflict between the buyer's and seller's sides? Mr. Allen stated yes, and that termination rights and exclusivity are typically the key business terms that are challenging and are driven because the provider is making a significant investment. Mr. Allen stated they have adopted standards around service level credits, which is an approximation of the profit on a relationship at risk. He emphasized that it is not about performance credits, but encouraging behavior. Mr. Allen added that with respect to termination rights, having a "referenceable" client is absolutely the most important thing to them.

Panel member Deirdre Lee asked about ensuring that there is inherent capability in the organization to manage relationships, specifically pertaining to diversity of suppliers, and to "smart buyer." On supplier diversity, Mr. Allen stated that they have seen an incredible explosion of the number of suppliers that are credible providers of outsourcing services in the marketplace. Mr. Allen cited several - IBM, EDS, CSC; however, he indicated that they are still seeing most of the buying of outsourcing being performed by large enterprises. In response to the second question, Mr. Allen stated that there is some policy design, process design, intellectual ownership and business ownership of the services at the top of the pyramid. He added that all of the transactional work is done at the bottom. TPI typically tells its clients that the clients are going to keep the top 10 to 15 percent of that pyramid. Mr. Allen provided an example – Human Resource (HR) transactional functions are outsourced, but not those in the HR front office.

Panel member Dr. Allan Burman asked a question regarding Mr. Allen's views on the validity of customer satisfaction as a metric. Mr. Allen stated that the metric is used often, but in his opinion, it is not a good measure. Mr. Allen said that the reason it does not work is the science of customer satisfaction measurement does not result in actionable indices for outsourced services. He added customer satisfaction surveys should be used to get at the general sense of satisfaction and perhaps identify high level concerns.

Panel member Joshua Schwartz asked about new investments in core competencies and the kinds of people that it takes to perform these functions for TPI clients. Mr. Allen stated the investment takes the form of what one would expect for the course of training, standards, and the tools required to help employees do their jobs. But, he added, there are different competencies that focus on business needs, so it is easy to envision that retained organization within the management organization looks down on services, because they were in a service-delivery role previously, and now they are going to manage a service provider performing the work. Most of the energy should be focused on where services are consumed and, typically, that is in the internal business operations. Mr. Allen cited examples of innovative models in major corporations - General Motors, Procter & Gamble, J.P. Morgan, and Kodak. These organizations put into place their shared services organization "stewardship" over a portfolio of sourcing relationships.

Panel member Carl DeMaio asked Mr. Allen if Government contracting officers might need soft skill competencies in addition to technical skills. Mr. Allen answered yes, that soft skills are very important. He stressed the importance of relationships over the paper exchange and price fly-off, and that there should be more focus on alignment of objectives and business expectations.

Panel Chair Marcia Madsen asked how to start those relationships and how can business interests align in a competitive environment. Mr. Allen replied that he believes this area is where they have a lot of fun, meaning it is very competitive because everyone wants to compete for a relationship. He added that once they understand that this is not about getting through a hoop, but instead about forming mutually beneficial, long-term relationships, the dynamics change. They maintain a beneficial competitive setting and down-select to two providers.

Panel Chair Marcia Madsen asked if these “relationships” work in a competitive setting. Mr. Allen replied absolutely, and added that the providers put their best feet forward so the clients can see the best they have to offer. The providers are in the same relative range of price so that the differences are understood. The clients are able to make a selection based upon a relationship.

Mr. Neil Hassett, Assistant General Counsel, United Technologies Corporation (UTC) (Attachment 2). [Panel Chair Marcia Madsen was absent for this speaker]. Mr. Hassett thanked the Panel for the invitation and encouraged comments and questions throughout his presentation. Mr. Hassett stated his presentation was geared toward the questions he had received from the Panel, specifically in the areas of competition, fixed price contracting, reopening competition, terms, time and material contracting, gain sharing, base lining and performance incentives. Mr. Hassett provided a brief history of the corporation and its major product and business service lines. He focused on non-product purchases (services) which equal \$6B of the company’s purchasing activity. He discussed at length the use of Master Terms Agreements (MTAs) negotiated at the corporate level for use at the business unit levels. Mr. Hassett shared an example of “reverse auctions” and stated that because they are purely price-based, they must be very detailed and have specific requirements in order to succeed. Mr. Hassett also provided an overview of the company’s formal “8 Step” sourcing process and associated tool box. He stated that his company does not prepare “term sheets” and typically goes through an RFP process to down-select to four offerors. The process includes an open question and answer session with all four offerors. Upon receipt of proposals, there is another question and answer session, but with each of the companies. Mr. Hassett stated that, at this point, two offerors are selected to participate in full negotiations. Even after best and final offers, there are often more negotiations. The company prefers to maintain competition because firm-fixed price contracts developed without competition build in too many contingencies. Mr. Hassett opened up the floor for questions from Panel members.

Panel member Carl DeMaio asked Mr. Hassett to talk more about the company’s code of ethics and how it was developed. Mr. Hassett replied that his company has a code of ethics

that it uses for its customers and suppliers. He added the company also enforces a strong set of ethical standards for dealing with the U.S. Government. Mr. Hassett emphasized that his company will terminate for default in situations where ethics violations are determined.

Panel member Ty Hughes asked when their company down-selects to four suppliers, is it through the RFI process or is it through the market research that the company conducts on the four suppliers? Mr. Hassett said that to date they have used the RFI process, an informal questionnaire relative to capabilities. He stated that they review the questionnaires and determine the four best qualified suppliers. Mr. Hughes asked if UTC uses detailed cost and pricing data or simply relies on competition to determine reasonableness. Mr. Hassett replied that they obtain some detailed cost and pricing data in certain cases, but he does not know to what extent. He offered to get more information on the subject and provide it to the Panel.

Panel member Roger Waldron asked if MTAs are competed and if so, is there an ordering process that is used. Mr. Hassett clarified that the agreements are not requirements contracts nor are they sole-source contracts. The business units are free to use or not use them. Mr. Hassett said this is difficult because there is always an off-deal where a better price can be obtained than what might be reflected in the master agreement. He stated that the corporation does dictate utilization for some services, for example, travel services. The company is trying to instill more discipline into the process and require the utilization of those contracts.

Panel member Dr. Allan Burman asked how much time is spent upfront defining who is responsible for overall monitoring of contractor performance. Mr. Hassett replied that on their large IT outsourcing, they have at least one individual who is responsible for monitoring and sometimes there is additional support for that individual. He added that monitoring is a defined role, but whether or not it is a full-time person depends on the circumstances.

Panel member Joshua Schwartz asked about the resources and training associated with performing the company's centralized purchasing function. Mr. Hassett replied that their centralized procurement group is comprised of from 30 to 40 people who come to the business units with procurement backgrounds. He said that they are currently hiring young MBAs who are very interested in the supply management field. In terms of internal training programs, they do not rely on outside certifications, but on experience combined with accounting or MBA educational backgrounds.

Professor Schwartz asked that after having made the decision to centralize the procurement function, have they seen tensions with the customer units within the corporation? Mr. Hassett responded yes, tension does exist, but the change is becoming increasingly accepted. He added that it is simple to order things and the business units can reduce their headcount. Mr. Hassett said, for example, our company does not have one person in each business unit ordering paper, it is done through the MTA.

Panel member Ty Hughes asked if Mr. Hassett has a feel for how much measuring they perform when buying services. Mr. Hassett replied that they are good at measuring the output and they are doing it more and more. He added that they have their own Six Sigma-type routine called ACE and their chairman, George David, measures everything.

Mr. Robert Zahler, Partner, Pillsbury Winthrop Shaw Pittman LLP (Attachment 3). Mr. Zahler thanked the Panel for the invitation and welcomed comments and questions throughout his presentation. Mr. Zahler discussed his firm's outsourcing services and commercial practices used in acquiring Information Technology (IT) and Business Process Services. Mr. Zahler presented the Panel with an overview of the business model used by his organization and provided recommended approaches for creating value, increasing the probability of success by focusing on objectives, critical success factors and its term sheet process. He stated that procuring services is materially different from procuring products and advised writing requirements that are easy to change, warning that words of specificity are words of limitation. Mr. Zahler recommended developing a "term sheet," a matrix spreadsheet that depicts the requirement and is relatively easy to update during the course of contract performance. He shared some key lessons learned, with a focus on the process, substance and post-contract areas. Mr. Zahler stressed that complex contractual relationships fail because pre-award alignment of scope with objectives has not been accomplished and that when the sole objective is low price, working relationships rarely succeed. Mr. Zahler stated he is a strong advocate of competition because it produces better service relationships. In his opinion, Requests for Information (RFIs) are useless, and recommended that organizations issue streamlined Requests for Proposals (RFPs) which focus on inviting submission of solutions. Mr. Zahler entertained questions from Panel members.

Panel member Ty Hughes asked Mr. Zahler to expound on his company's pricing mechanisms, specifically related to FAR Part 12. Mr. Zahler emphasized that when there is a competition, it is very important to be able to model what each supplier provides and also have an understanding how that will change over time. In terms of pricing, an example of a very mature activity is outsourcing of IT services. Mr. Zahler stated his company utilizes different pricing algorithms for different services. He provided input-based examples from the mainframe area, specifically four pricing metrics: CPU minutes, tape, parity and print. Mr. Zahler also provided an example of an output-based mechanism, claims processing. Mr. Zahler said that in the commercial industry there is currently much emphasis on benchmarking for long-term services agreements. Mr. Zahler stated the benchmarking that his company has performed almost never works unless the benchmarking clause allows the prices to be changed and usually that means "reduced." He emphasized the need for an "action-forcing provision" when benchmarking. Mr. Zahler stated there are no simple answers to Mr. Hughes's questions because for each specific type of service within the industry, there is a unique set of pricing algorithms.

Panel member Ty Hughes asked a follow-up question on the commercial practice of pricing and information provided to suppliers. Mr. Zahler stated that with respect to the suppliers' pricing, almost all suppliers will not discuss their costs. He clarified by discussing the inputs that are used - the number of people, length of time, resources

expected, etc. Mr. Zahler said that the company should be able to develop a bottoms-up build of the supplier's inputs to analyze the charges. Mr. Zahler noted that when a company has leverage, it is common to get that kind of build-up data from potential suppliers.

Panel member Marshall Doke asked how to translate the term sheet's use into a purchasing environment such as the Government's, with an acquisition workforce that is under strain with too few people. Mr. Zahler stated he believes that the purchasing people within the Federal Government actually have the domain expertise to do this, but unfortunately their time is being spent on things that may not produce value in the process. He added that they may need to use a business model, but claimed the key is to wring out those non-value-added activities that are occupying their time. Mr. Zahler added that the term sheets should be handheld and that Federal employees should be empowered to use the templates as a tool. Mr. Zahler stated the workforce needs to adapt and apply the term sheet to that specific situation and tailor it to its value.

Panel member Carl DeMaio asked about the down-select process, specifically if all bidders are allowed to submit basic information. Secondly, does his company's term sheet evaluate the two or three most impressive submissions? Thirdly, does the company create opportunities for small business? Mr. Zahler stated that he is not a big believer in Requests for Information (RFI) because they occupy a great deal of time. RFIs are useful when little is known about the market and thus market intelligence is needed. He suggested that it is actually more effective to hire a consultant to provide that market intelligence rather than going through the RFI process. Mr. Zahler stated that the standard Request for Proposal (RFP) can be streamlined significantly to produce a focus on objectives, specifications and requirements. He recommended that the down-select be based on capabilities and commitments. Mr. Zahler recommended down-selecting to two suppliers; that evaluation of three or more is exponentially more time consuming. With respect to small business opportunities, Mr. Zahler stated that for the most part, there are a lot of Government contractors out there. He added that in almost all cases, large suppliers will use a number of the small businesses as subcontractors.

Panel member Carl DeMaio asked if Mr. Zahler had ever seen a down-select process in the commercial area result in the two finalists actually reaching out to other companies. Mr. Zahler replied affirmatively and provided an example from a major multi-billion dollar outsourcing contract with J.P. Morgan. He stated that partnering frequently occurs, but said that he is a much bigger believer in the prime/subcontract arrangement, or some hybrid of a prime contract, rather than executing separate contracts with all these suppliers.

Panel member David Drabkin asked how much pre-award time is involved in reaching an award decision. Mr. Zahler replied that the time involved depends on whether clients are starting from scratch and turning over all their activities. In addition, he stated that his firm looks at the length and dollar value of the contract. For complex contracts, it may take nine to twelve months to award a contract. Mr. Zahler explained that one of the "lessons learned" is announcing a schedule and sticking to it. He added when producing an aggressive schedule, it is very important that the schedule be absolutely achievable.

Panel member David Drabkin asked how many people are typically involved in the company's process. Mr. Zahler responded that if it is a large procurement, his firm uses multiple teams, especially with international deals. He added that they typically use a staff of three or four, a combination of lawyers and consultants. If it is a multi-jurisdictional deal, then his firm may utilize several multiples of three or four. On the client side, he added, their goal is to leverage their client's capabilities, so they want the client to do the leg work. Mr. Zahler stated key factors for success are the involvement of a senior stakeholder who is an absolute champion of the project, and dedicated project management and project leads.

Panel member Dr. Allan Burman asked how flexible is the company on meeting metrics, and if those metrics are included in the contractual documents? Mr. Zahler said metrics always show up in the contractual document, otherwise they do not serve any purpose. He added that their standard contract requires the supplier to put in place mechanisms to monitor and measure how well the metrics are being met. In addition, the contract specifies how the parties are to interact with each other, and if the vehicle is well constructed, it serves as a set of principles that stipulates how the parties should interact with each other. Mr. Zahler emphasized that one should not assume that the commercial sector is doing any better than the Government. He believes the Federal Government is actually doing a better job on performance-based contracts than the commercial sector because of the larger quantity of these types of requirements in the public sector.

Panel member Jonathan Etherton asked if Mr. Zahler had any lessons learned that were applicable to the use of interagency contract vehicles. Mr. Zahler responded that these arrangements are not found in the commercial sector, but recommends an "adopter" contract be used to document how the vehicle is used and what services will be received under the vehicle. Mr. Zahler said the key is to understand these areas, but not reinvent the wheel. He noted that one of consulting firms his company uses came up with an incredible term called "mass customization" which addresses sourcing contracts in a mass context. He stated that it is very difficult because the whole value of the customization is tailoring to unique situations.

Panel member Marshall Doke asked what has worked in terms of a governance process. Mr. Zahler responded that they have a whole set of activities they ask their clients to focus on, specifically a three- or four-step process. He detailed the oversight processes and provided specific examples of the management or governance over the contracts. Mr. Zahler said his firm has developed screening criteria to identify what they call "high friction interactions" - specifically, what is the risk, cost, number of resources required, etc. This process allows them to sit down in a joint meeting with the customer, supplier and facilitator and work through various scenarios. One technique used is called "swim lanes" which is a work-flow model. The top swim lane is the customer and the bottom swim lane is the supplier. Mr. Zahler stated that they identify who is going to do what, the inputs, outputs and interactions. The goal is to identify high-friction interactions - where the parties may disagree with each other. Mr. Zahler stressed the importance of developing an interaction model for areas where there has been a dispute.

Panel Chair Marcia Madsen asked if the commercial sector is buying off catalog prices. Mr. Zahler replied that in the commercial sector, there are many suppliers and most of the major commercial companies have online buying mechanisms for their purchases via a set or catalogue of goods and services. In some instances, he added, a custom service relationship may exist which provides commodities within the scope of what is bought and used. Ms. Madsen asked about the competitive and down-select processes with new market entrants. Mr. Zahler explained that his company spends a great deal of time with their clients making sure they understand the market and what is available. He added that a very clear principle embraced by his firm is that if they are not going to contract with a supplier, they do not put them through the down-select process. Mr. Zahler encouraged their suppliers to partner and share their market intelligence with new entrants.

Panel Chair Marcia Madsen asked how they make trade-offs on reliability between new entrants and established vendors. Mr. Zahler replied that they help them and then provided an outsourcing example where his firm developed a custom-tailored agreement and issued it to many sources. He added that they talk to them about processes and procedures to ensure the suppliers have an understanding of the fundamentals as well as the details. Mr. Zahler stated that it is in both parties' interest to produce good working relationships with each other and it is entirely in their clients' interests to have good relationships. Treating them entirely at arm's length in a complex, customized service relationship does not work. These partnerships, he noted, are a legal partnership with common objectives. Mr. Zahler cited an example where auto companies are working cooperatively with their suppliers.

Mr. David Sides, Senior Vice President and Chief Information Officer (CIO), Basell Polyolefins USA, Inc. (Attachment 4). [Panel Chair Marcia Madsen was absent for this speaker]. Mr. Sides thanked the Panel members for the invitation and introduced Mr. Sam Slovak, Vice President, North America Procurement, Basell USA, Inc. Mr. Sides provided a brief overview of the company's worldwide business structure, production capabilities and its main product line, polyolefin materials and technologies. Mr. Slovak provided an overview of the Basell procurement process, providing information on corporate governance and typical practices. He provided some examples of the types of services procured including IT, consultants, transportation, travel management and payroll. Mr. Sides stressed that in terms of IT Services, one size does not fit all and that commodity services, value-added services and innovation services processes are different. Mr. Sides discussed objectives and the processes used in commodity services. For global infrastructure service contracts, Mr. Sides also addressed some key terms such as forward priced for annual efficiency improvement, benchmarking (with rights), performance metrics, governance and compensation for failures and rewards for success. Mr. Sides concluded his presentation and he and Mr. Slovak entertained questions from Panel members.

Panel member Dr. Allan Burman asked about the length of a contract and if the company is anticipating re-competition at some point. Mr. Sides answered that the original contract is structured as an eight-year deal, with two-year options. He said what they officially call a "re-negotiation" versus continual management is a fine line. What TPI tries to do is to find areas that need to be performed better than in the original contract. Mr. Sides added part of

this process is evaluating the milestones that have been built into the contract and determine if there is a need for a potential re-negotiation.

Panel member Dr. Allan Burman asked about incentives for contractor performance. Mr. Sides replied that he needed to be careful about discussing too much detail on his firm's contracts, but added that basically the firm is in the arrangements because they want the service, not to beat the vendor up. They focus on how they will get the service, and the relationship plays a large part. Mr. Sides expounded by stating if there are incentives in the contract, they are there to drive behavior. It is important, he noted, to define the incentive and what they need to achieve to get the incentive.

Panel member Ms. Melanie Sabelhaus asked how can small businesses compete for these contracts, and are they used globally? Mr. Sides stated that yes, there are many small businesses globally. He added they use a single supplier to drive a level of standardization. On a local basis, he said, Basell uses a lot of independents to do certain things, all managed by one company that subcontracts to small businesses in a number of countries. Mr. Slovak stated they do track how many of those small businesses are minority-owned, and have metrics around those activities.

Panel member Mr. Tom Luedtke asked when outsourcing critical functions of a company, what does Basell do to protect itself? Specifically, if the contract "goes south," what kind of approach does the firm use to handle it? Mr. Sides stated when they outsource, they have probably only transferred a small number of people and they have a critical supplier who is overseeing it. Mr. Slovak added that the firm looks very carefully at the risks that the business has in dealing with that particular industry or that particular supplier, and what are our contingency plans in the event that we do have failure in service level.

Panel member Ms. Deirdre Lee asked how the firm handles a large outsourcing effort, and how are the contracts incentivized? Mr. Sides stated they have procurement professionals manage those particular categories and as they go through it, there are different types of agreements that they end up with, depending upon the level of complexity of the service. He stated that the higher the "spend," the more people get involved, so on the high dollar spend agreements everything is done by a multi-functional team. Mr. Slovak noted that as the dollar spend diminishes, then they delegate more to the local sites. He said it all comes back through a common payables organization, using their systems to analyze and track the spending, measure it and drive performance against the measures the company wants to achieve.

Panel member Deirdre Lee asked if it is a conscious decision at the corporate level to delegate. Mr. Slovak replied that it is, and explained "sides" are corporate-driven. On the IT side, for example, they buy the tool set from those IT experts, but they maintain the standard from the corporate perspective. Ms. Lee asked how Basell handles rogue buying. Mr. Slovak stated that they have a very sophisticated Enterprise Resource Planning (ERP) system that allows procurement leads to initiate any new vendor that is added to the database. He clarified that this can occur when the individual has an approved requisition in the system, from an approved vendor. Leads are free to buy up to their budget.

Panel member Joshua Schwartz asked Mr. Slovak to elaborate on the centralization of procurement and the decision to seek external expertise on the global IT infrastructure example he had cited earlier. Mr. Slovak responded that when Basell has a large spend decision, there are strong opinions on the direction the sourcing should be driven and that the decision is very challenging. He added that when they recognize they do not have specific internal talent to address specific issues, they may seek external assistance in making the procurement decision. The ultimate decision, however, is still an internal responsibility. Mr. Sides stated that this involves gathering input from his experienced peers: how they did it, what their options were, and what challenges they encountered. It becomes very clear as they go through the lessons learned.

Panel member Roger Waldron asked Mr. Slovak to comment on the percentages of both fixed-price and time-and-material contracts in the Basell portfolio. He also asked him to discuss management challenges he has had with time-and-material vehicles. Mr. Slovak replied that the time-and-material approach is difficult, and that due to the nature of the business, they very seldom take that approach. He stated that they do a lot of competitive bidding, and noted that when a firm picks the right partners to bid with, the firm will often be surprised at how much can be achieved in that process. Mr. Sides stated that time-and-material gets back to the complexity wheel diagram in his presentation because IT projects usually entail some level of business process or organizational change. When analyzing time-and-material type arrangements, the focus is on internal management of scope. Mr. Sides emphasized the importance of their company's internal discipline and ensuring that the key stakeholders are involved throughout the process.

Panel member Deirdre Lee asked if Basell has any protest procedures similar to that of the Government. Mr. Sides replied that they operate under different principles than the Government because the Government is spending taxpayers' money and is subject to special scrutiny. Mr. Sides believes the private sector has more luxury and leeway than the Government, and noted that they look at companies from both a financial and relationship perspective. Mr. Sides noted that Basell is a commodity business, but the major evaluation factor is cost, just as in the Government. Mr. Slovak stated he disagreed a bit with Mr. Sides and that their focus can be on "value," not always "price." Ms. Lee asked if the suppliers may protest when they do not get the business. Mr. Slovak and Mr. Sides said that no, the Government's process does not apply to Basell's unsuccessful bidders.

Panel member Joshua Schwartz asked how Basell assesses results achieved in the course of contract performance. Mr. Sides responded that the parties to the agreement cannot have a relationship if they are not meeting contractual obligations. He stated that they have established a separate structure that manages the contract and the performance against the contract. It is separate from the organization that manages the service delivery. Mr. Slovak added that they perform regular assessments of all of their key suppliers, including performance during the previous period. The assessment is multi-functional in scope and the users of the service or materials as well as financial personnel are part of the assessment team. He cited an example of a contractual problem that needed resolution -

continual complaints from the accounts payable group because invoices did not match the contract. Mr. Slovak stated that they utilize a formal scoring procedure in which results are shared with the supplier.

Panel member Melanie Sabelhaus asked if they have a formal process to solicit small business and if the company establishes goals for supplier diversity. Mr. Slovak replied that they do measure small business participation and they do seek to improve in some areas. He added that their goals are not as robust as those of the Federal Government. Mr. Slovak said because they are a large manufacturing company with a large spend, there are a limited numbers of suppliers who can support their requirements. However, Mr. Slovak stated that in their assessment process, large service contractors that utilize minority subcontractors are rewarded for that activity.

Panel member Jonathan Etherton asked how they reconcile the forces of competition with the development and maintenance of relationships with their suppliers. Mr. Sides replied that on large contracts, they build into their contracts options that ensure suppliers stay competitive. He said they use a number of clauses and if the supplier does not maintain its competitiveness, they look elsewhere in the market. Mr. Slovak stated that a fairly large percentage of their supplier assessments deals with suppliers' innovation and behavior.

Panel member Jonathan Etherton asked if they have a mechanism to get a sense of how well a contractor is keeping abreast with the best practices of their competitors. Mr. Sides replied that the company tests the market on a regular basis to keep up on new practices. Mr. Slovak stated there are quite a number of industry associations and universities that do significant work on benchmarking and those benchmarks constantly drive toward continuous improvement. Most commercial organizations constantly review benchmarks and determine where they are relative to their competition or industry standard.

Panel member Marshall Doke referenced an earlier statement Mr. Sides had made indicating that details of his company's contractual relationships needed to be treated as confidential. Mr. Doke asked what parts of the contracts were considered confidential and why. Mr. Sides replied that he had discussed his presentation with his legal people and they said the examples are fine, but they would be leery about his going into further detail especially in a public session. He added that he was just heeding his counsel's advice.

Mr. William T. Woods, Director, Acquisition and Sourcing Management Team, Government Accountability Office (GAO) (Attachment 5). Mr. Woods thanked the Panel for the invitation and welcomed questions throughout his presentation. Mr. Woods introduced his associate, Ms. Carolyn Kirby, Assistance Director, Acquisition and Sourcing Management, who assisted in the presentation. Mr. Woods provided an overview of GAO and its perspective on acquisition. He focused primarily on GAO work, addressing two of the Panel's areas that promise opportunity for significant financial and performance improvements: commercial best practices and interagency contracting. Mr. Woods noted that he would address questions on GAO's performance-based services acquisition and workforce-related work. Mr. Woods identified three guiding principles of acquisition: competition, transparency and accountability. Ms. Kirby stated that there has

been a significant increase in the dollars spent on services. She indicated that traditional Federal purchasing uses fragmented approaches with little visibility or control at the department level. In addition, Federal agencies are not fully leveraging their buying power and provided some best practice examples from industry. She recommended combining volume buys and changing business practices to yield lower costs. Mr. Woods indicated there is a need to identify leading commercial practices, and to take a strategic approach to acquiring services. Such an approach requires focus in four areas: commitment from top leaders, knowledge of procurement spending, change to create supporting structures, processes and roles, and support to enable success through sustained leadership communication and metrics. Mr. Woods also discussed in detail why interagency contracting is on GAO's 2005 High Risk List, specifically citing poor management, oversight, and accountability, and improper use of fee-for-service incentives. Mr. Woods concluded his presentation by reiterating that the Panel can gain insights from the private sector on ways to make acquisitions more efficient and effective, and the need for stronger oversight and accountability for interagency contracting.

Panel member Marshall Doke asked if there are disciplinary procedures in place if a Government person violates a regulation, such as placement of a letter in the offender's personnel file. Mr. Woods stated that it varies. He provided an example from a recent bid protest where the procurement officer was removed from the procurement. He added that there must be an egregious circumstance for disciplinary action to occur, but that it is appropriate in some instances. He explained that awareness of a violation could surface through a hotline complaint. Mr. Woods stated that GAO is not in the business of trying to point fingers at individuals, but instead, GAO is looking for systemic methods to improve accountability. They do not view their mission as looking for individual accountability, but rather ensuring that the systems are set up properly to ensure that the right policies, processes and procedures are in place.

Panel Chair Marcia Madsen asked if GAO is currently looking at these systems to ensure that the proper processes and procedures in place. Mr. Woods replied that they absolutely are and that the Panel will see other reports in the very near future that will have very specific, targeted recommendations to increase accountability in the interagency contracting area.

Panel member Marshall Doke asked if GAO evaluates or makes recommendations on whether an agency has internal controls in place to take disciplinary action when they discover errors. Mr. Woods replied absolutely, and added that one of the first things that GAO looks for in any review is the agency's internal control system. Sometimes it is a program official, and sometimes it is an Inspector General who is responsible for making sure that internal controls work. Mr. Woods emphasized that reviewing the structure and implementation of an agency's system of internal controls is a very important part of the work GAO performs.

Panel member Jonathan Etherton asked Mr. Woods to discuss what reports GAO expects to issue in the near future. Mr. Woods replied that GAO has a mandate to review the operations of franchise funds. This requirement flows from the DoD Authorization Act.

The report is expected to be released sometime before the end of May. He explained that they have another report on the Abu Ghraib situation due in the April/May timeframe - . why the abuse happened and what were some of the pressures that operated there.

Panel member Melanie Sabelhaus asked if GAO tracks the number of protests associated with out-of-scope challenges to orders placed against interagency contracts. Mr. Woods replied that this is a good question. He explained that while they do not have a system that tracks individual subject matters, they do look at these issues and will perform reviews of protest decisions.

Panel member Roger Waldron asked GAO to elaborate on their recommendation that GSA help customers adopt strategic buying. Ms. Kirby cited testimony received in the fall of 2003 concerning GSA's reorganization of the Federal Supply Schedule and Federal Technology Service. GAO saw an opportunity for GSA to work with customers at an enterprise level.

Panel member Roger Waldron asked how people are realigning their purchasing power and trying to do strategic sourcing, as it relates to commercial practices. Mr. Woods stated he could not have said it any better. Mr. Woods explained that when GAO approaches industry, the companies tell them that the Government should focus on strategic sourcing. He cited the purchase card program and emphasized the importance of having the proper spend data to obtain discounts.

Panel member Joshua Schwartz asked questions on acquisition workforce trends and human capital planning reported in GAO's reports of 2002 and 2003 and if agencies are beginning to effectively address the issues. Mr. Woods explained that GAO had issued four reports in the 2002-2003 timeframe and because they believe they had covered the issues thoroughly, they had moved on to other more critical issues. Mr. Woods added that recently GAO decided to see whether the conditions are the same. Mr. Woods said the Senate Armed Services Committee has asked them to review DoD's processes for buying goods as well as workforce training opportunities, requirements and incentives. He said that because this effort is just getting underway, the Panel would not see report in the near term. He added that GAO is also starting a companion piece to look at the civilian agency side.

Panel member Dr. Allan Burman asked how well agencies have been doing on performance-based contracting and if GAO had any recommendations. Mr. Woods replied that at this time, GAO does not have any efforts underway on performance-based contracting.

Panel member Melanie Sabelhaus asked if GAO has examined the effectiveness and use of FedBizOpps by agencies. Mr. Woods replied that GAO has not specifically looked at FedBizOpps, but agreed they hear from small businesses that not all agencies are fully utilizing it. Mr. Woods added it is a critical point of entry for small businesses, as well as others, and as such it is important that that system work well.

Panel member Carl DeMaio asked GAO about the integrity of procurement data and what Federal acquisition data should be accessible to acquisition officials and policy makers. Mr. Woods replied that his most recent frustration was associated with accessing data on interagency contracting. GAO was unable to use the Federal Procurement Data System – Next Generation (FPDS-NG) to determine how much spending is occurring on the vehicles, especially those outside of GSA.

Panel member Carl DeMaio asked GAO to identify the key areas where agencies made mistakes on characterizing a vehicle as performance-based, a follow-up question associated with a 2002 study GAO issued on performance-based contracting. Mr. Woods replied that he was not sure that any issue stood out as a single key element. He thinks it was just a general misapplication and misunderstanding of the definition of performance-based contracting.

Panel Chair Marcia Madsen asked why competition mechanisms are complex. Mr. Woods replied that, for starters, a large number of parties are involved in the process. There are multiple contractors, different agencies offering competing vehicles, program offices and sometimes multiple contracting offices available within that agency. He explained that the contract vehicles are also complex, each with a different set of rules depending on whether an individual is dealing with a multi-agency contract GWAC or schedule. Each has its own unique set of rules. There are some commonalities, he noted, but determining what the differences add to the complexity.

Panel member Joshua Schwartz asked how the use of interagency vehicles has progressed to a level of dysfunctionality despite good intentions and valid reasons for using them. Mr. Woods said that this was a very good question, but that it was difficult to come up with a single answer. He said it was the intentional complexity - meaning when the Government started down the road of procurement reform, acquisition was a very slow and complex system. Mr. Woods added he believes the Government has, for the most part, fixed the "slow" part of that process. There are other complexities - agencies now have multiple choices and can be more flexible. Mr. Woods added that, in his view, the growth of interagency contracting is beyond expectations and aspects of the complexity were probably unintended consequences.

Panel member Roger Waldron asked if GAO is seeing a difference between out-of-scope issues occurring on government-wide contracts and those on agencies' home-grown procurement vehicles. Mr. Woods answered that he has no data on the question, but it is his sense that a larger share of the problem occurs on interagency contracts because there are multiple players and the Government personnel making the orders are not those with hands-on responsibility for the contract vehicle. Sometimes the basic contract is not available in the ordering office.

Panel member Marshall Doke asked if Mr. Woods has seen legislation that complicates both accountability and performance relative to commercial-type buying practices. Mr. Woods replied that Congress is trying to push agencies toward commercial-type buying and that Congress wants to create more incentives. They will, however, carve out non-

commercial procurements and state that up to a certain threshold one can take advantage of the Part 12 rules. Overall, he stated, Congress has been trying to repeatedly create an environment where agencies are incentivized to make greater use of commercial-type buying practices.

Panel member Deirdre Lee asked that, if both Title 10 and Title 41 agencies are trying to use the same vehicles, did Mr. Woods have any thoughts on the value of rationalizing those kinds of rules. Mr. Woods replied that he did not believe that the fact there are separate statutes for the civilian and DoD agencies is a significant issue. He added, however, that every time complexity is introduced, there are more possibilities for agencies (“and good-hearted agency officials”) to make mistakes. With respect to rationalizing the number of vehicles, Mr. Woods stated that reducing the numbers would be positive, but it would be difficult to determine what the right number of vehicles should be because of competing interests, and difficult to determine when the right number is achieved. He added that more flexibility and choices for agencies is a good thing.

Panel member Carl DeMaio stated that the Panel was looking for ideas on how to improve the functionality and accountability of the current FPDS-NG system and asked if GAO should be the Government’s repository of procurement data. Mr. Woods replied that GAO could not constitutionally assume this responsibility. He said GAO relies on the FPDS system to obtain data and this enables GAO to use the system to identify what is and what is not working. GAO is a user of the Executive Branch system and he does not believe it appropriate for GAO to be the keeper of the data.

Panel Chair Marcia Madsen asked if the Panel should look at the issue of fees for using interagency contract vehicles or had GSA solved that question. Mr. Woods stated he could not give a single answer to her question. He cited an example where in the Federal Supply Schedule the industrial funding fee is now set at three-quarters of one percent as opposed to the previous one percent fee. He stated that he did not know whether this reduction has resulted in revenues being any closer to actual costs and that he had not seen similar reductions to fee at other agencies. He noted that GAO has not tracked the information, but that he is aware that some fees are multiples of what GSA charges; however, agencies provide different levels of service.

Panel member Roger Waldron asked whether GAO has looked across the board at the unique nature and complexity of individual procurements. For example, Mr. Waldron explained, in a service buy, there is always an additional piece of something that the agency needs to fully complete the project. He asked if GAO has looked at contract structures that agencies use and whether these structures contribute to scope problems. Mr. Woods said this was a very good point. Mr. Woods said that they look at individual task orders and, for example, it is very difficult to understand exactly what is being expected. Mr. Woods claimed that when reviewing the task orders, he did not know how easy or difficult it was to understand the services for professional management support. These normally constitute a broad category in the statement of work and sometimes it is difficult to understand exactly what service the contractor is supposed to provide.

In addition to the guest speakers above, the Panel heard the following reports:

Each of the five Panel Working Group Chairs, Mr. Jonathan Etherton (Interagency Vehicles), Ms. Melanie Sabelhaus (Small Business), Mr. Carl DeMaio (Performance-Based Service Contracting), Professor Joshua Schwartz (Federal Acquisition Workforce) and Mr. Ty Hughes (Commercial Practices) provided a short oral update on working group progress since the March 30<sup>th</sup> Panel meeting. Mr. Hughes stated that a list of questions regarding commercial practices from both industry and government perspectives would be posted shortly to the AAP website, and he encouraged members of the public to provide feedback on the questions. The feedback will assist the Panel members with identifying significant issues, concerns and best practices.

Laura Auletta, DFO, provided a short update on current Working Group Data requests (Attachment 6). Ms. Auletta stated she is obtaining data from the FPDS-NG and other sources (covering several years of data where possible). Specifically, Ms. Auletta is obtaining data on dollars and percent of dollars by product and service codes, North American Industry Classification System (NAICS), and agency. The data will be further subdivided into other categories such as contract type, competitive status, and top-10 contractors. She observed that obtaining some of the data is challenging and that some of the information requested by the Panel is not collected and, therefore, unavailable. She stated that each Working Group should consider the type of data they will need in order to determine if their recommendations are successful, and should they be implemented. The DFO explained that she has also requested data on contract bundling for the Small Business Working Group and performance-based awards for the Performance-Based Service Contracts Working Group. She concluded by requesting that Panel members submit all future data calls directly to her.

The Chair concluded the meeting by noting that the next meeting was scheduled for May 17, 2005 at the same location, the Federal Deposit Insurance Corporation (FDIC). The DFO stated that further information on the May 17<sup>th</sup> and May 23<sup>rd</sup> meetings would be posted shortly to the AAP website.

#### ADJOURNMENT

The DFO adjourned the fourth Acquisition Advisory Panel meeting at approximately 4:15 PM.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.



Ms. Marcia Madsen  
Chair  
Acquisition Advisory Panel

JUL 15 2005

**Index of Attachments to Minutes  
Acquisition Advisory Panel  
April 19, 2005  
Federal Deposit Insurance Corporation (FDIC)**

- Attachment 1 – Technology Partners International, Inc.
- Attachment 2 – United Technologies Corporation
- Attachment 3 – Shaw Pittman
- Attachment 4 – Basell Polyolefins USA, Inc.
- Attachment 5 – Government Accountability Office
- Attachment 6 – Data Requests



# **TPI: Sourcing Industry Best Practices**

---

Acquisition Advisory Panel  
Office of Management & Budget

April 19, 2005

Peter Allen, Partner and Managing Director for Global  
Practices, TPI



# Personal Credentials – Peter Allen

## *Partner & Managing Director, TPI – The Global Sourcing Advisors*

### Career Synopsis

- ▶ BS, Computer Science, University of Maryland
- ▶ BBN: ARPAnet Engineering Team; Defense Data Network; NSA Signals Intelligence Data Network
- ▶ Computer Sciences Corp.: NSA/CIA/DIA systems integration; Defense Enterprise Integration Services; Joint Logistics Material Management Modernization; JPMorgan IT Outsourcing
- ▶ Data Dimensions: Chairman, President, CEO
- ▶ TPI: **Business Process**

### Commercial Outsourcing Resume

- ▶ Applications Development & Maintenance
- ▶ Software Testing
- ▶ Information Technology Operations
- ▶ Business Process Operations



## TPI Value Proposition

*Our value proposition integrates expertise, unparalleled market insight and collaboration to ensure innovative and objective solutions.*

People

Collaboration

Objectivity

Data &  
Tools

Diverse thought leadership and expertise

Collaborative solution between the client, the advisor  
and the service provider

TPI is service provider and solution agnostic

Proprietary market data, best practice tools and  
proven engagement methodologies



# TPI Credentials

**TPI Mission: We help clients achieve sustained improvements in business performance through the evaluation, negotiation, implementation and management of sourcing relationships.**

## People

- ▶ 250+ advisors with an average 21 years consulting, operating and sourcing experience
- ▶ TPI advisors combine strategic capabilities, industry knowledge, deep domain expertise and operating know-how to create realistic strategies that work

## Collaboration

- ▶ TPI Client & Service Provider Events, Training, Exchange & Liaisons
- ▶ *Journal of Sourcing Leadership (JSL)* – TPI publication, circulated to more than 7,000 professionals.
- ▶ TPI Index – Partnership with global Equity Research leaders to share sourcing industry data (10 quarters)

## Objectivity

- ▶ No conflicts of interest with providers – TPI does not represent service providers
- ▶ 30-40% of engagements result in alternate service delivery strategies to outsourcing transactions
- ▶ “Advice with no strings attached” – Denny McGuire, TPI founder

## Data & Tools

- ▶ Power of 650+ transactions, 1,100 engagements and US \$360B in total contract value
- ▶ More BPO assessments and transactions than any other sourcing advisory service
- ▶ Proprietary market and service provider data repositories – market-based data for quantitative analysis of alternatives, SLAs, delivery capabilities and decision making
- ▶ Proven Strategy and Assessment methodologies (ITO & BPO) developed over 100 engagements, 15 years
- ▶ Financial business case that focuses on financial realities and delivers expected results
- ▶ Business-based frameworks and strategies for success

# Representative Client Scope: Americas

                    	<p>Total Unique American Clients</p> <p>Total Number of TPI Engagements in the Americas</p> <p>Number of Assessment Engagements</p> <p>Number of Transaction Engagements</p> <p>Number of Renegotiation Engagements</p> <p>Number of Sourcing Management Engagements</p> <p>Total Contract Value of TPI Advised Contracts</p> <p>TPI Advisors with Americas Region Experience</p>	<p>286</p> <p>643</p> <p>101</p> <p>461</p> <p>48</p> <p>45</p> <p>\$181.6 B</p> <p>More than 190</p>
--	---	---



## TPI's Approach to the Sourcing Lifecycle

*TPI's approach emphasizes a Service Delivery Framework, leveraging contractual relationships and competition to develop provider partnerships and ensure value creation.*

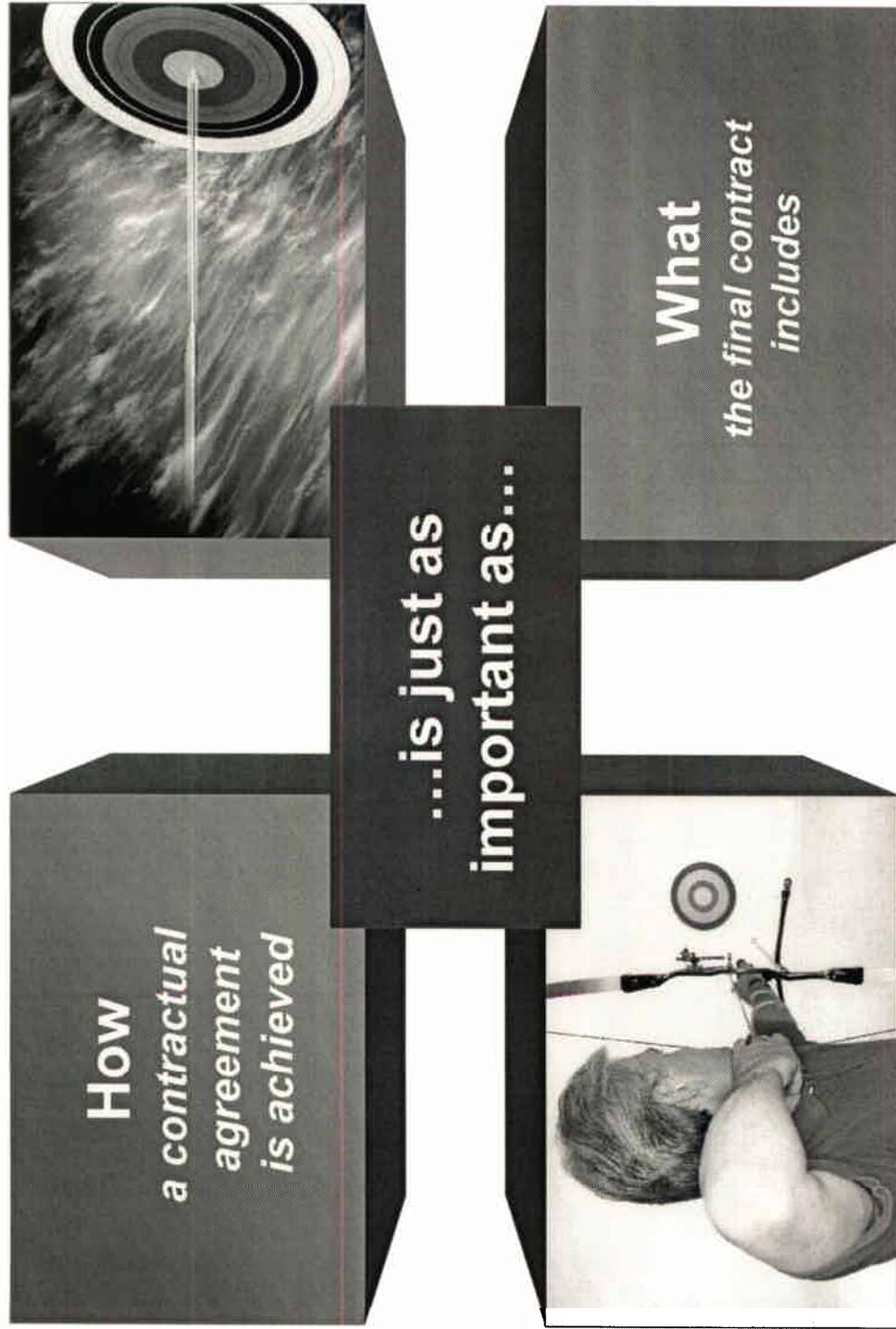


- ▶ Define Service Delivery Framework
- ▶ Synchronize future business requirements with operating realities
- ▶ Design sourcing strategies and create business cases
- ▶ Optimize Service Delivery Framework around dimensions of Value, Speed and Risk Mitigation
- ▶ Implement chosen sourcing strategy
  - ▶ Internal solutions
  - ▶ External solutions
- ▶ Most solutions result in a hybrid operating approach
- ▶ Utilize written business agreements, formalized service levels and internal governance models even for internal sourcing alternatives
- ▶ Leverage competition and benchmarking
- ▶ Sourcing strategy implementation and project management
- ▶ Manage sourcing relationships
- ▶ Create partnership that is dynamic over time
- ▶ Benchmark periodically to ensure market price
- ▶ Redefine / Renegotiate contracts
- ▶ Redesign retained functions
- ▶ Ensure value creation and retention



## Foundations for Success

*Regardless of the approach used to develop an outsourcing relationship, there are components that are essential for a successful transaction.*





## Foundations for Success



- ▶ A vision and strategy for the outsourced function(s) that supports the overall business strategy
  - ▶ Value-creation orientation
- ▶ Well conceived and realistic expectations for sourcing
- ▶ Ownership and sponsorship from executive management
- ▶ Effective sourcing / procurement strategy and process
  - ▶ Focus on collaboration and alignment of expectations
  - ▶ Profit is not a four-letter word
- ▶ Sufficient time, focus, dedicated project leadership and a multi-disciplinary team



## Elements of Success

**What  
the final contract  
includes**

- ▶ Organizational Change
  - ▶ Sourcing Management
  - ▶ Transition / Transformation Planning
  - ▶ Change Management / Communications Plans
- ▶ Clarity of Scope
  - ▶ Statements of Work
  - ▶ Definition of Services
- ▶ Defined and Variable Pricing
  - ▶ Consumption Based Pricing
  - ▶ In-scope Project Pricing
  - ▶ Asset Treatment
  - ▶ Transition and Transformation Fees

**TPI recommends a set of elements  
that every successful sourcing  
agreement should include.**

- ▶ Market Based Business Terms
  - ▶ Exclusivity
  - ▶ Control Rights
  - ▶ Intellectual Property
  - ▶ Limits of Liability
  - ▶ Performance Reviews
  - ▶ Dispute Resolution
  - ▶ Exit Rights
  - ▶ Gain Sharing Potential
- ▶ Measures of Service ROI and Quality
  - ▶ Operational Performance Reporting
  - ▶ Transaction Performance Reporting



## Top Ten Factors for Successful Outsourcing

*The record shows that strong operational relationships and aligned objectives are the most important factors.*

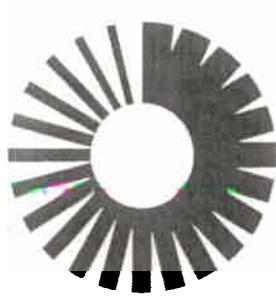
1. Understanding company goals and objectives – a “business view.”
2. Having a strategic vision and plan for the outsourced services.
3. Selecting the right service provider – emphasis on relationship and process expertise.
  - ▶ Pricing comes through scale and process.
4. Managing the relationship on an ongoing basis.
5. Creating a properly structured contract that anticipates change.
6. Keeping communication open with affected individuals and groups.
7. Securing senior executive support and involvement, including BoD and Audit authorities.
8. Paying careful attention to personnel issues.
9. Ensuring short-term financial justification.
10. Using outside expertise.



## Anticipating Change

*Value is achieved in living the relationship, not talking about it during negotiations.*

- ▶ Economic conditions, technology and business objectives are bound to change during the life of the outsourcing contract.
- ▶ Contract must permit customer to retain control, maintain leverage and manage change.
- ▶ Include mechanisms that incentivize the service provider to keep pace with changes in the environment, strategies, and processes.
- ▶ Define and establish metrics to determine business value delivered.
- ▶ Provide incentives that encourage both performance improvements as well as innovations to gain competitive advantage.
- ▶ Institute a multi-tiered contract evolution process – including risk and reward sharing terms, and metrics – which can be redesigned and realigned to fit the evolving business environment.



# **United Technologies**

## **Federal Acquisition Advisory Panel Acquisition of Services**

**Neil A. Hassett  
Assistant General Counsel**



**United  
Technologies**

---

## Agenda

- United Technologies Corporation
- General Supply Management Organization and Approach
- Panel Questions Addressed
  - Competition
  - Fixed Price Contracting
  - Reopening Competition
  - Terms of Contracts
  - Time and Material Contracting
  - Gain Sharing
  - Base Lining
  - Performance Incentives



**United  
Technologies**

---

## United Technologies Corporation

\$37 Billion Sales

Carrier heating and cooling

UTC Fire & Security Corporation (formerly Chubb  
Security Systems)

Hamilton Sundstrand aerospace systems and industrial  
products

Otis elevators and escalators

Pratt & Whitney aircraft engines

Sikorsky helicopters

UTC Power fuel cells

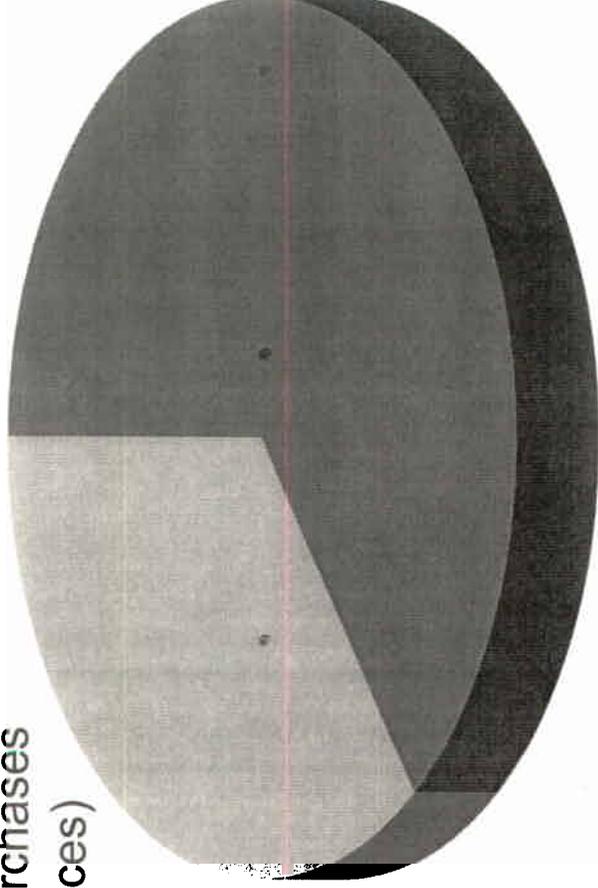


**United  
Technologies**

---

## Purchasing Activity

Non-Product Purchases  
(mostly services)  
\$6 B



Product Purchases  
\$11 B

**Purchases**



**United  
Technologies**

---

## Supply Management Philosophy

General services

Master Terms Agreements at UTC level

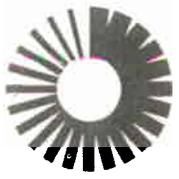
Numerous Master Terms Agreements (MTAs) for each type of service

Business units can choose

Sole source (e.g. IT infrastructure/BPO)

Avoided

Concentrated activity



**United  
Technologies**

---

## Supply Management Categories

Chemical/Environmental, Health & Safety (EH&S)

Industrial equipment/facilities

Human Resource Services

**Technology services**

Travel

**Business and office systems**

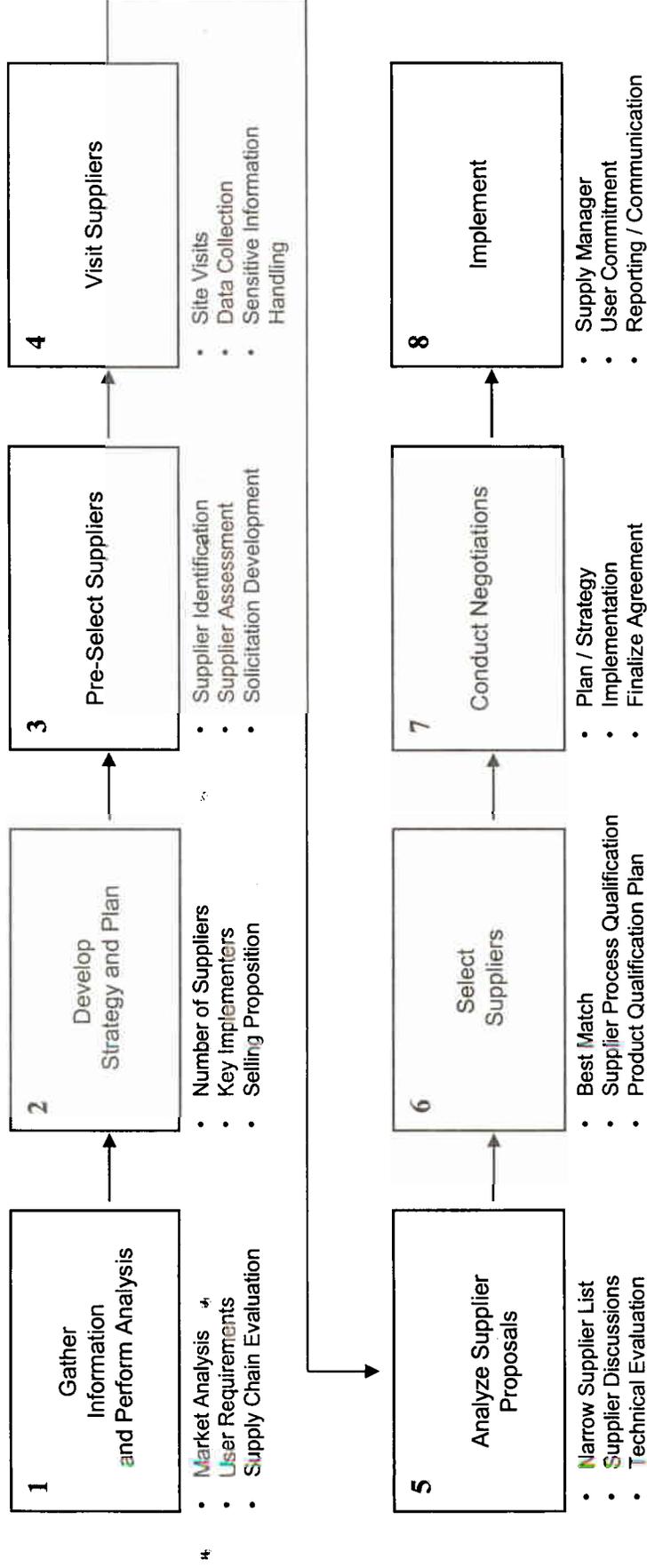
**Engineering services**

Transportation and logistics



# United Technologies

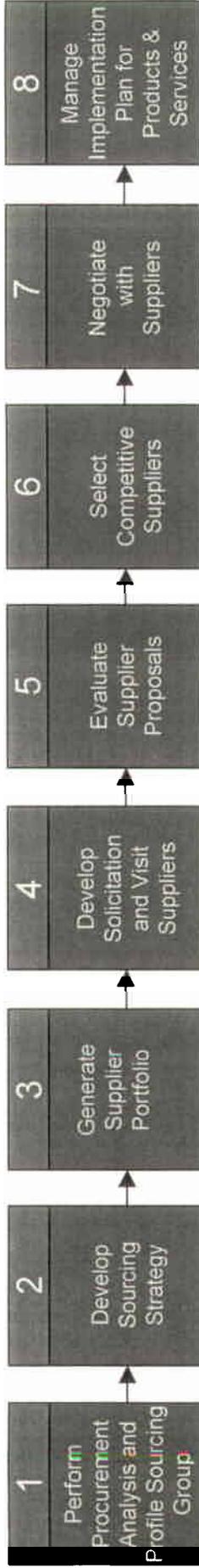
## “8 Step” Sourcing Process



# UTC Supply Management

## GGPS 8-step Process & Tool Box

 = Passport Review



enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step	enter completion date for this step
<ul style="list-style-type: none"> <li>•Step 1 Resources</li> <li>•Project Summary</li> </ul>	<ul style="list-style-type: none"> <li>•Negotiation Pre-planner</li> </ul>	<ul style="list-style-type: none"> <li>•Standard RFI</li> <li>•Open Ratings Link</li> <li>•NDA or Not</li> <li>•Contractor Security Rqmts</li> <li>•MWBE Clause</li> </ul>	<ul style="list-style-type: none"> <li>•Standard RFP</li> <li>•Recommendations of when to use QS OLBA</li> <li>•On-Line Bidding Terms</li> </ul>	<ul style="list-style-type: none"> <li>•E-Auction Templates</li> <li>•Evaluation worksheet</li> </ul>	<ul style="list-style-type: none"> <li>•Executive Summary</li> <li>•Contract Documentation &amp; File Process</li> <li>•Contract Implementation Checklist</li> </ul>	<ul style="list-style-type: none"> <li>•Implementation Process</li> <li>•Supplier Scorecard</li> <li>•Standard MTA</li> </ul>
						

\*\*Tool being developed



**United  
Technologies**

---

## Competition

- Maximize use of
  - To enter into Master Terms Agreements
  - In large projects
- Reverse auctions
- Outsourcing Contracting

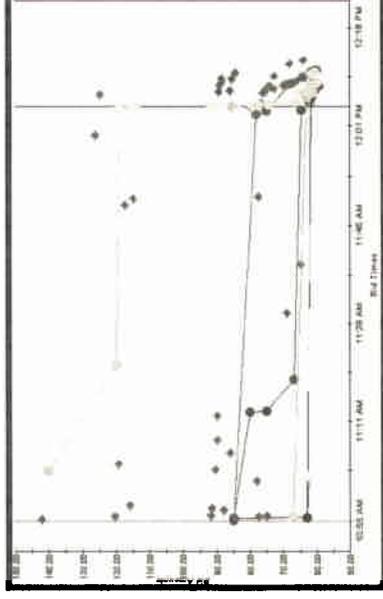


**United  
Technologies**

---

## COMPETITION - Reverse Auctions (Competition technique)

First online competitive bidding event in 1996  
Conducted hundreds of sourcing projects  
Sourced \$ billions  
Proven savings





**United  
Technologies**

---

## Competition - Bidding Examples

Tax Preparation Services

360° Feedback Services

Service Awards

Video Conferencing Services

Actuarial Services

Immigration Legal Services

Software Applications Services

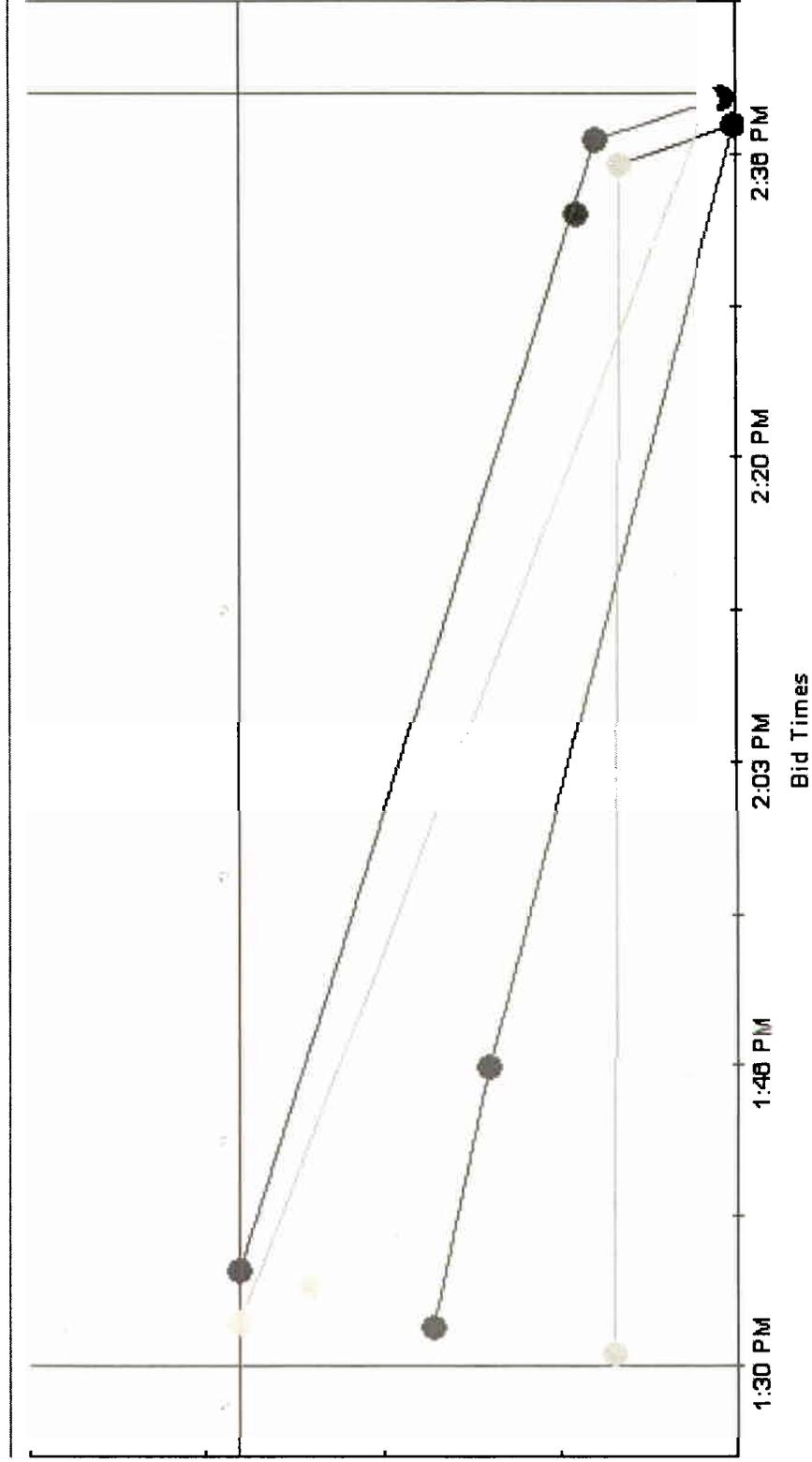
Engineering Services

Building Demolition



**United  
Technologies**

## Competition - Corporate Relocation - Example Event





**United  
Technologies**

---

## **Competition - Outsourcing Model (Competition Technique)**

**Formulate Request for Proposal (RFP) – baseline,**

**SLAs, pricing model, form contract**

**Selection process for bidders**

**RFP issuance**

**Q&A (Bidder Qs/UTC As)**

**Proposals submitted**

**Q&A (UTC Qs/Bidder As)**



**United  
Technologies**

---

## Competition - Outsourcing Model (Cont'd)

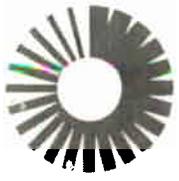
Down select to two bidders – rigorous review by procurement specialists, tower specialists, accountants (applies to apples) and legal

Negotiate with two bidders

Best and final offer

Structured review and selection including top management

Final negotiations and award



**United  
Technologies**

---

## Firm-Fixed Price (FFP) Contracts

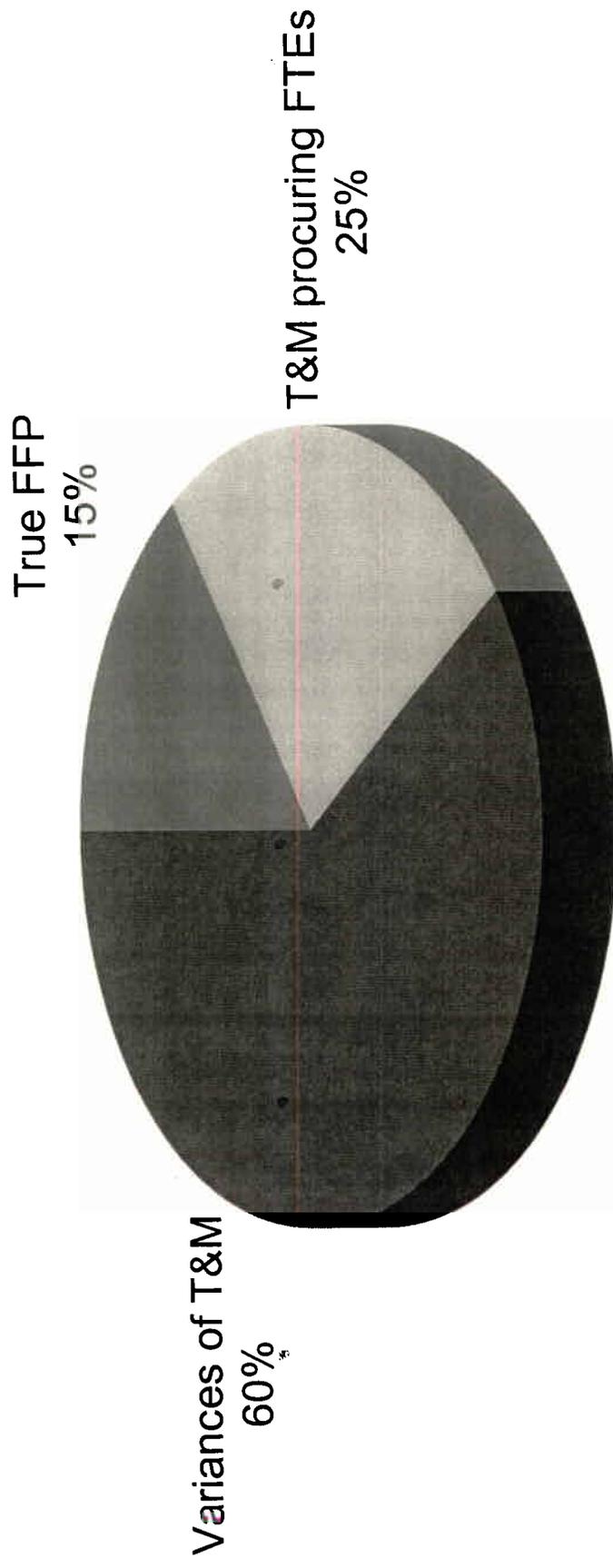
- FFP preferred when work can be defined well enough
- FFP (with competition) foster efficiency in supply chain
- FFP (without competition) results in excessive contingency



**United  
Technologies**

---

## Firm-Fixed Price Contracts (Cont'd)



**Engineering Services**



**United  
Technologies**

---

## **Firm-Fixed Price Contracts (Cont'd)**

**IT Services (Applications)**

**Manage applications/project work**

**Strive for FFP**

**Approximately 25% FFP**

**Work usually not defined well enough (effort not perceived to be worth it)**

**Competition to obtain Master Terms Agreement and be used by business units**



**United  
Technologies**

---

## Firm-Fixed Price Contracts (Cont'd)

Major Outsourcing Transactions

Once steady state reached

FFP with ARCs (Additional Resource Charges) and  
RRCs (Reduced Resource Charges)



**United  
Technologies**

---

## **Contract Terms**

**Standard Terms**

**Warranty**

**“Most Favored Nations”**

**Service Level Agreements and Credits**

**Social provisions**

**Treatment of UTC information (proprietary and  
security)**

**Indemnity**



**United  
Technologies**

---

## **Contract Terms (Cont'd)**

**Intellectual Property**

**Termination for convenience (charge for what has  
been delivered plus specified in contract)**

**Code of Ethics**

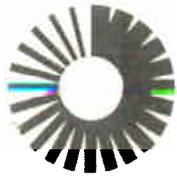
**Insurance**

**Computer access**

**Default**

**Compliance with laws**

**Audit**



**United  
Technologies**

---

## Reopening Competition

Situation with numerous Master Terms Agreements

No need to open competition; it exists

Outsourcing arrangements

Benchmarking rights

Right to insource/resource

Right to terminate for convenience (defined limits on exposure)



**United  
Technologies**

---

## Gain Sharing Arrangements

Typical – no gain sharing provisions  
Outsourcing (IT and BPO)

We have not experienced benefits with provisions  
In situations w/o direct gain sharing provisions UTC  
consent required for major process changes

With aggressive pricing, suppliers position is that  
unknown process improvements are built into the  
price



**United  
Technologies**

---

## Base Lining

Generally accepted template used

Elements

Volume counts

Asset inventory

Functional areas (towers)

Subprocesses (as granular as necessary) – for  
each define current:

Full Time Equivalents (FTEs)

\$s



**United  
Technologies**

---

## Incentives

Service Level Agreements (SLAs)

- Susceptible to analytical measurement
- Reflect desired performance characteristics
- Tie credits to misses
  - Miss “minimum”
  - Miss series of “expected”
- Earnback formulas
- Increased use in all service agreements



**United  
Technologies**

---

## Contact Information

Neil A. Hassett

Assistant General Counsel

United Technologies Corporation

One Financial Plaza

Hartford, CT 06101

(860) 728-7867

[neil.hassett@utc.com](mailto:neil.hassett@utc.com)

Kristine Kearns Fauser

Defense Programs & Policy Advisor

United Technologies Corporation

1401 Eye Street, N.W., Suite 600

Washington, D.C. 20005

(202) 336-7477

[kristine.fauser@corpd.c.utc.com](mailto:kristine.fauser@corpd.c.utc.com)

---

GLOBAL SOURCING

Pillsbury Global Sourcing  

*Presentation to the  
Federal Acquisition Advisory Panel:  
Commercial Practices Used in Acquiring  
IT and Business Process Services*

April 19, 2005

Robert Zahler, Partner  
Pillsbury Winthrop Shaw Pittman LLP  
2300 N Street, N.W.  
Washington, DC 20037  
tel: 202.663.8130  
e-mail: robert.zahler@pillsburylaw.com

*mosaic*

- Sourcing evolved: approaches for creating value
- Increasing the probability of success
  - ▶ Focus on objectives
  - ▶ Critical success factors
  - ▶ Term sheet process
- Lessons learned
- Background information about Pillsbury Global Sourcing

- Under pressure to implement change, organizations often equate sourcing success with the execution of a contractual agreement
- When pursuing **value creation** through sourcing, an organization **must**

---

Establish an operating model that enables setting priorities and manipulating the levers of change at the macro level

---

Architect a supplier's "scope" to contain those factors of production necessary for the stated objectives to be achieved

---

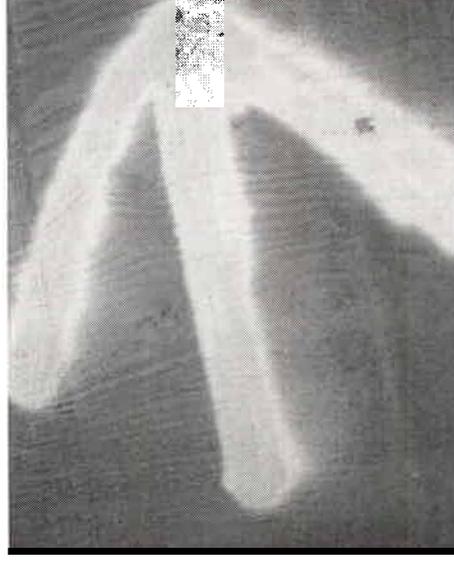
Contract for supplier services in a manner which communicates the objectives clearly, without unduly constraining a supplier's opportunity to innovate

---

Perform the change management activities necessary to successfully implement the new operating model across all of the relevant internal and external actors

---

Build a strong, vibrant and enduring relationship between the organization and its delivery actors



# Sourcing evolved

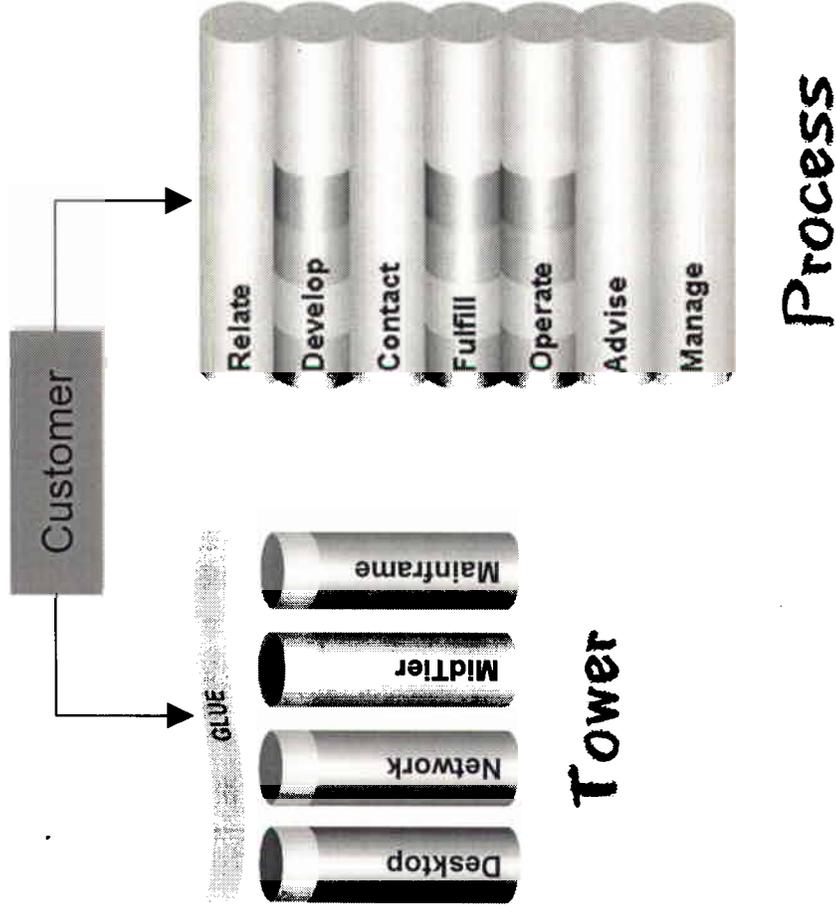
- We recommend **radically shifting** the approach to a diverse set of sourcing functions, to enable the creation of operational **value**

	Classic Approach	Next Generation Approach
<b>Sourcing Answer</b>	Outsource!	Strategy Driven
<b>Expected Benefits</b>	Cost Reduction	Value Creation
<b>Sourcing Perspective</b>	Towers	Processes
<b>Statement of Work</b>	Supplier-directed	In Context
<b>Supplier Solution</b>	Prescribed	Requested
<b>Customer Change</b>	Minimal	Change Management Program
<b>Performance Measurement</b>	Point-specific	End-to-End; Coverage-based
<b>Customer/Supplier Alignment</b>	Governance	Defined Interfaces

- To identify and **capture the value**, you should...

# Sourcing evolved

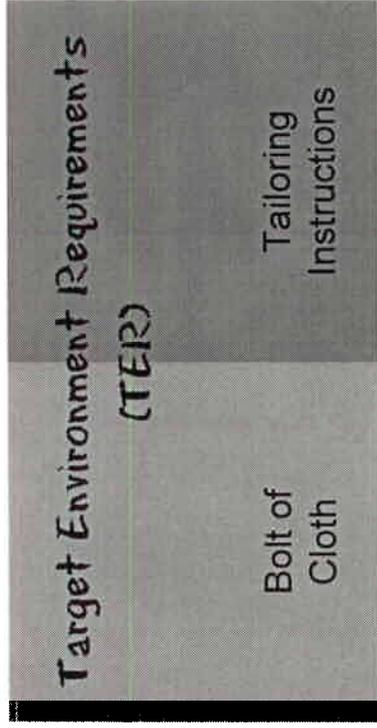
- ... shift to **sourcing by processes** rather than towers to promote the optimal state of **end-to-end design**...



≈	Provides an integrated, seamless view to operation and its customers
∫	Places the integration responsibility with the party most qualified for the role
=	Addresses internal (customer) actors in the same manner as external actors
+/-	Allows the alignment of service measures with customer expectations

- ... create mechanisms from which a **diversity of solutions** can be obtained **within the designated boundaries...**

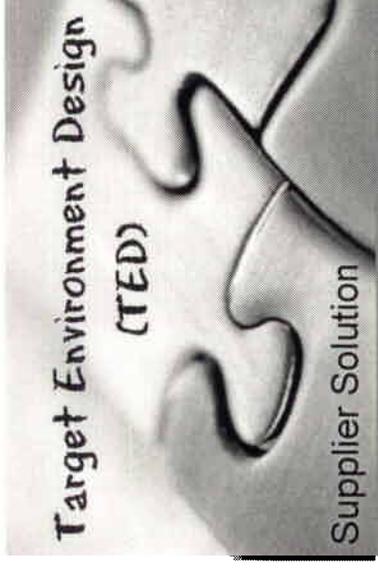
## What



- Scope model
- Process definitions
- Element definitions
- Vision
- Objectives
- Constraints
- Interactions
- Implementation



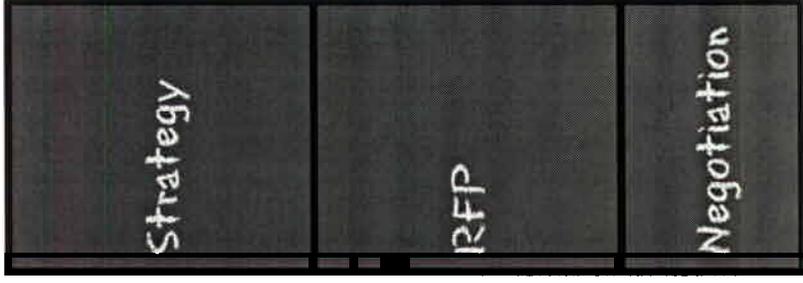
## How



- Technical solution
- Implementation plan
- Interaction models
- Performance model
- Pricing

- \* ***Produces a diversity of sourcing solutions – based on a common scope of operations***
- \* ***Leverages supplier know-how, strengths and best practices***
- \* ***Reduces supplier delivery impediments***

- ... change the **focus** of the major sourcing **processes**...



**Documenting the Past**  
 Here's what I do today.  
 Do it cheaper tomorrow!

**Building a Solution**  
 Here are my objectives  
 What can you do for me?

- ▶ What tower do you want?
  - ▶ Understand the As-Is, Where-Is operation
  - ▶ Identify the objectives (Strategic, Tactical, Operational)
  - ▶ Develop the To-Be future state of the operation (No change, Reengineer, Virtualize)
  - ▶ Determine how to best source the delivery actors

---

- ▶ Articulate what is done today
- ▶ Provide list of projects to be completed
  - ▶ Articulate objectives (Target Environment Requirements)
  - ▶ Provide scope of sourcing in context of total operation (ScopeModel)
  - ▶ Present interaction needs and request feedback
  - ▶ Request a holistic solution (Integration, Relationship, Technical)

---

- ▶ Nitpick statement of work
  - ▶ Refine solution (Target Environment Design)
  - ▶ Refine Transition and Transformation roadmap
  - ▶ Refine interactions

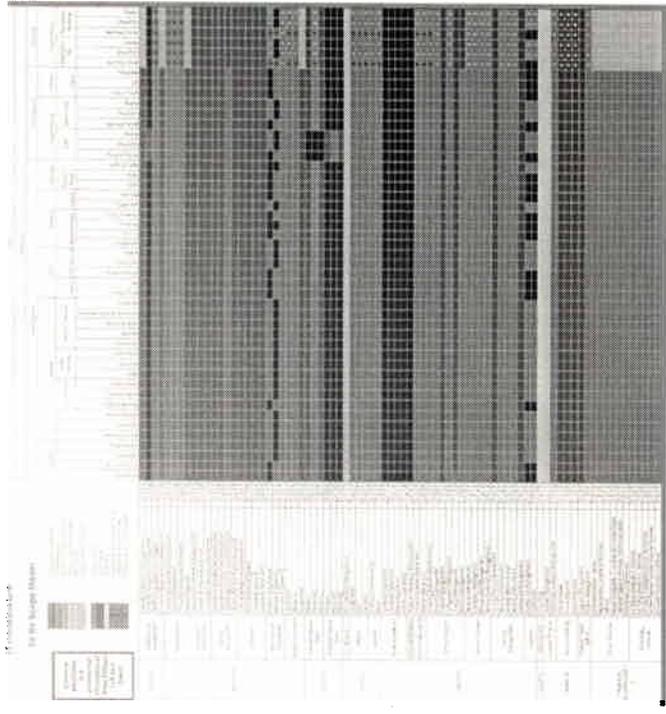
- ... deploy **straight through processing** techniques to minimize documentation re-work from **strategy to contract and beyond**...

- ▶ Supplier Proposal Presentation ▶ Down-Select (N : 2)
- ▶ Proposal Review ▶ Discussion / Negotiations
- ▶ Q&A ▶ Supplier Due Diligence
- ▶ Customer Due Diligence ▶ Down-Select (2 : 1)

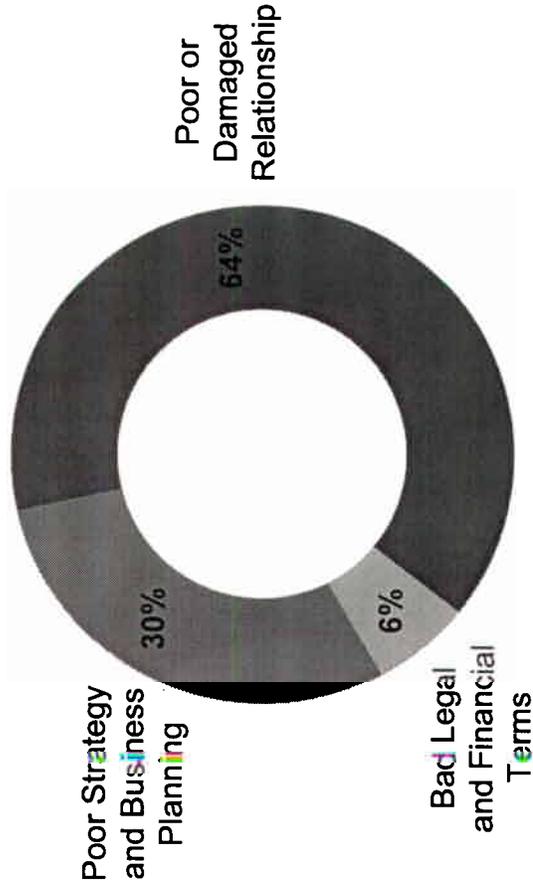
	Term Sheet	Yes, No + Comments	Terms and Conditions
Scope Model	Scope Model	Yes, Recommendations	Statement of Work
TER (high level)	TER (detailed)	TED	Statement of Work
Performance Model	Service Measure Model	Yes, No + Comments	Service Measures / Levels
Business Case	Pricing Instructions	Pricing	Pricing
Operating Model	Interaction Models	Yes, No, Recommendations	Statement of Work
Data Models	Due Diligence Data	Due Diligence Requirements	Miscellaneous Schedules
	Questions	Answers	
Sourcing Strategy	Requirements Package	Supplier Response	Contract Documents

- ... and implement the ability to work visually – **VisualSourcing**
  - ▶ Vastly **improved paradigm** for architecting deal structures and implementing commercial arrangements
  - ▶ Applicable to any fee-for-service arrangement where the elements serviced already exist or can be readily defined
  - ▶ Based on applicable **best practices**

Operationally Focused	<ul style="list-style-type: none"> <li>▶ Developed for and with operational delivery actors</li> <li>▶ Reflects the current and desired future states</li> <li>▶ Accurate reference during service delivery</li> </ul>
Accurate	<ul style="list-style-type: none"> <li>▶ Highly detailed and non-ambiguous</li> <li>▶ Consistent description of processes</li> </ul>
Leveraged	<ul style="list-style-type: none"> <li>▶ Straight through processing</li> <li>▶ Culminates in a VisualContract</li> </ul>



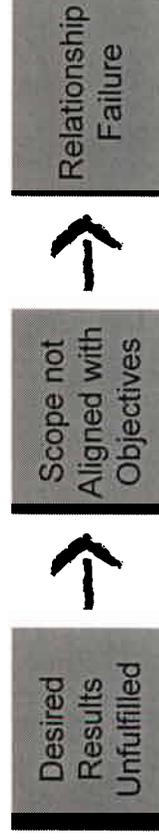
## Foremost Causes of Partnership Failure



Source – Vantage Partners

## What Does this Mean?

- ▶ “We’re still waiting for the transformation to occur”
- ▶ “We’re spending all of our time dealing with disputes”
- ▶ “Our service levels are being met, but we don’t like the service”
- ▶ “Our integration responsibilities are more than we bargained for”
- ▶ “We have a poor relationship with the supplier”



***i.e., scope and objectives must be aligned***

# Increase the probability of success

**O**bjectives:

Strategic

Tactical

Operational

**C**onstraints:

Operational  
Legal / Regulatory

Financial  
Cultural

Audit  
Geographic

**P**inciples:

Strategy

Transaction

**S**ourcing:

Processes

Responsibility	Clear understanding of who does what
Interactions	Exchanges between customer and supplier
Measures	What to measure; what levels are required

# Increase the probability of success

- Before scope can be defined, a wide range of **objectives** need to be identified...

A. Strategic Relationship Expectations	B. Tactical Sourcing Expectations	C. Operational Delivery Expectations
<ul style="list-style-type: none"> <li>▶ Leverage tolerance</li> <li>▶ Integration capabilities</li> <li>▶ Operational involvement</li> </ul>	<ul style="list-style-type: none"> <li>▶ Enable an acceleration in the pace of change</li> <li>▶ Identify solutions to achieve lower costs</li> <li>▶ Provide continuous access to leading edge processes, products, services, etc.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improve capacity management of CPUs and storage</li> <li>▶ Reduce expense and/or need for software licenses</li> <li>▶ Improve performance levels on client-facing activities</li> <li>▶ Bring best practices to the operation</li> <li>▶ Simplify and strengthen the security perimeters</li> </ul>

## Examples

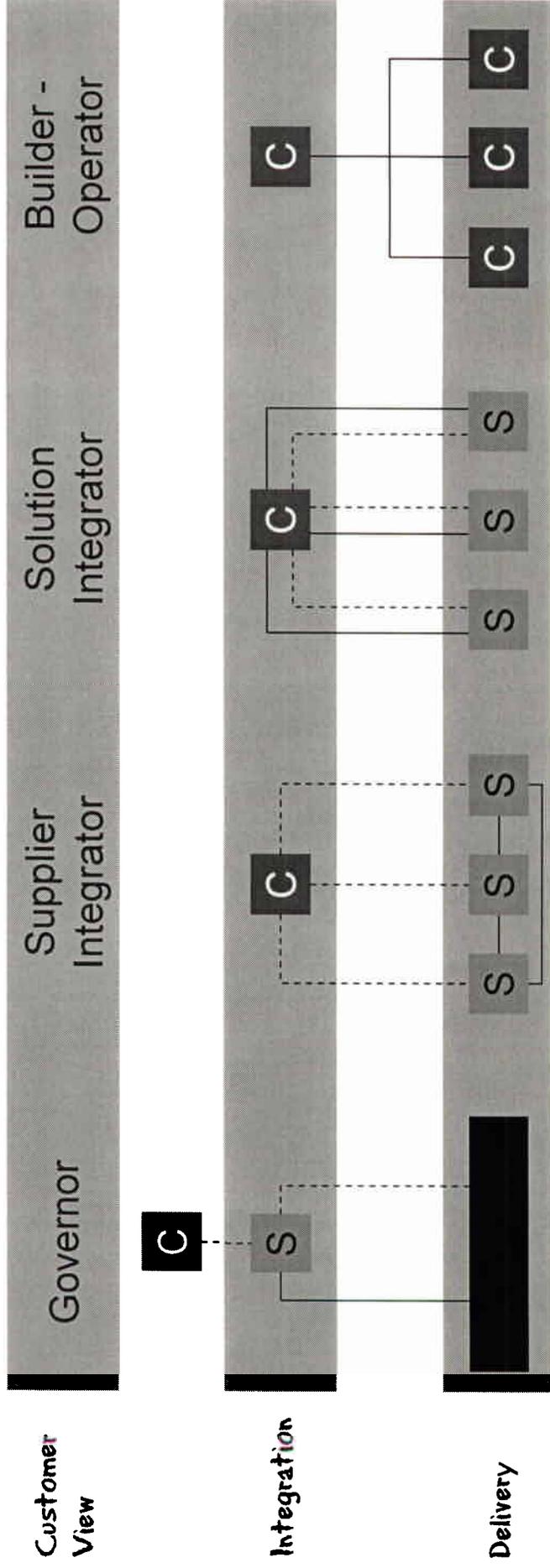
- ... as well as the **constraints**

etc.

Operational Legal / Regulatory	Financial Cultural	Audit Geographic
-----------------------------------	-----------------------	---------------------

# Increase the probability of success

- Identify the appropriate **sourcing management structure** to help determine the
  - ▶ Sourcing strategy to achieve the desired outcome
  - ▶ Change management activities
  - ▶ Procurement and contract documents



## Increase the probability of success

- Apply best practice **guiding principles** to temper or filter sourcing options...

Strategy	Transaction
<ul style="list-style-type: none"><li>▶ Any required change initiative must be of manageable size and capable of being completed within an acceptable time frame</li><li>▶ Services provided must be aligned with the ultimate users' needs</li><li>▶ Operational risk of change initiatives must be acceptable (end-to-end)</li><li>▶ Benefit stream must outweigh the cost of change and the level of risk</li></ul>	<ul style="list-style-type: none"><li>▶ Services must be commercially available</li><li>▶ Services must be negotiable in a competitive process</li><li>▶ Sufficient scope must be provided for service delivery success</li><li>▶ Scope of service must be designed to reduce the "sole source" effect</li><li>▶ Price performance must be acceptable</li></ul>

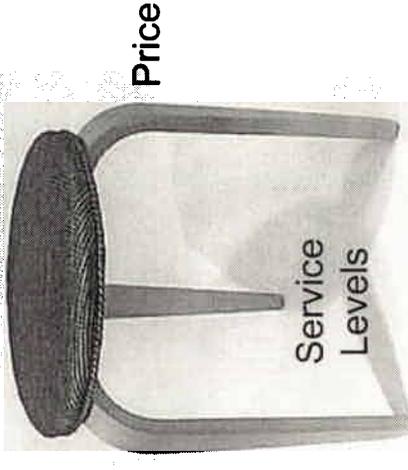
### Guiding Principles

- ... with attributes that have historically generated **successful** strategies and transactions

## Critical success factors (scope, price, SLA's)

- **Scope**
  - ▶ proper scope definition is critical to an effective long-term relationship
  - ▶ the scope definition must be based on “constitutional,” procedural-type provisions to address change
- **Service Levels**
  - ▶ customize metrics that measure what’s important to you
    - end to end
      - ◆ measure outputs, not inputs
      - ◆ don’t develop too many metrics
      - ◆ don’t rely too heavily on benchmarking
- **Price**
  - ▶ ensure a competitive process and high-level price validation
- **Control and governance**
  - ▶ involve the supplier and your project executives in the transaction structuring process

Control and Governance



Scope

Price

Service Levels

Start preparations to manage the supplier immediately; don't wait for the contract to be signed.

To identify all important issues and keep track of the negotiations

- Describes all of your important requirements (technical, financial, legal and business) for the arrangement
- Send a copy to short list of suppliers with instructions to respond to each separate requirement in writing:
  - ▶ Do allow simple “Agreed” or “Not Agreed” responses
  - ▶ Seek substantive comment on each issue
- Compare the responses:
  - ▶ Negotiate in parallel the areas of non-agreement
  - ▶ Keep track of the results of those negotiations
- Develop the final negotiated terms with the selected supplier(s) and put them into the contract(s)

Base your supplier selection decision on an analysis of all relevant factors

## Client challenges

- **Limitations facing clients**
  - ▶ failure to understand the “product”
  - ▶ chaotic process
  - ▶ inability to evaluate price
  - ▶ time consuming decision making
  - ▶ piecemeal negotiation; the issue “du jour”
  - ▶ conflicting time demands; need to perform the “day job”
- **Risks in the process**
  - ▶ top-down selling by suppliers
  - ▶ imposing unnecessary secrecy
  - ▶ failing to follow a disciplined process
  - ▶ setting unrealistic goals
  - ▶ ignoring all aspects of the relationship
    - ◆ inadequate scope definition
    - ◆ evaluating and negotiating piecemeal
    - ◆ delaying due diligence
  - ▶ lack of comprehensive information about current operations
  - ▶ not understanding pricing

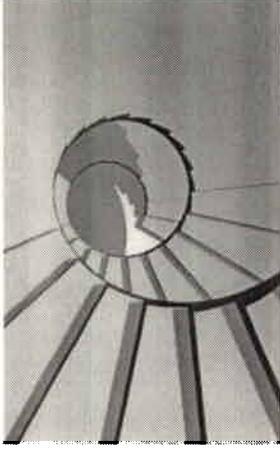
## “Lessons Learned” • Key elements

- **Acquiring services is all about shifting risks from client to supplier**
  - ▶ Performance/delivery risks
  - ▶ Pricing risks
  - ▶ Business risks
- **An understandable product**
  - ▶ Comprehensive scope descriptions
  - ▶ Meaningful service level commitments
  - ▶ Simple but variable pricing
- **Flexible terms and conditions**
- **Commitment to client success and customer’s success**
- **Demonstrable supplier capabilities**
  - ▶ Corporate track record
  - ▶ Management; especially project management skills
  - ▶ A willingness to “partner”
  - ▶ IT capabilities and experience
  - ▶ Where relevant, global extent
  - ▶ Bench strength; not just more people
  - ▶ “Consulting” capabilities; a mechanism to efficiently deliver value
- ▶ **A governance structure that is:**
  - ◆ Understandable
  - ◆ Relates to the client’s organization
  - ◆ Produces results within the supplier organization

- **E**ffective use of competition creates the optimum environment to select from each supplier’s best offering to yield the best value package
- **E**mphasize value in the selection process, not just price
- **V**arious suppliers have the capacity to meet your needs
- **T**ime driven processes may not yield the best value
- **S**tart with an appropriate supplier-base; down select when there is sufficient information to differentiate the top two competitors
- **E**mphasize early and frequent communications with suppliers; bring them in regularly for updates and to ensure they are responding at the best of their ability
- **K**ick-off the process as soon as scope is reasonably defined; conduct a supplier meeting to review scope and process and set the calendar
- **M**anage to the announced calendar

- Select a supplier with the values and rapport needed to maintain and enhance an effective relationship over time
- These deals are about technology and delivery capability and capacity
- Prepare, circulate and gain acceptance of the goals and objectives desired by the business; align the transaction with those goals and objectives
- Focus on the supplier’s technical/commercial solution (how does the supplier intend to deliver the services?); document that solution and not some generic view of the services
- Identify the small handful of key metrics that characterize good service and use those as the core for service level agreements
- Keep the pricing simple; ensure that the pricing algorithms properly align your objectives and the supplier’s incentives

- As much as possible, the individual who will manage delivery for you should be involved in the negotiations
- Improperly crafted control and governance model implemented
- Insufficient, unempowered and improperly trained management of the supplier by the customer
- Unwillingness to hold the supplier accountable to the provisions of the agreement
- Lack of alignment between the supplier and customer goals and objectives
  - ▶ “Too good” a deal on either side
- Customer inability to maintain surrogates for competition post implementation



## *Producing the milestone transactions in the outsourcing industry*

1988	<b>FIRST</b> Large-Scale ITO First City Bank		
1991	<b>FIRST</b> Multi-Billion Dollar ITO Continental Airlines		
1994	<b>FIRST</b> Networking Joint Venture and ITO Air Canada		
1995	<b>FIRST</b> Whole-of-Government ITO State of South Australia		
1996	<b>WATERSHED</b> Alliance-Based ITO J.P. Morgan (Pinnacle Alliance)		
1998	<b>LANDMARK</b> Sale of Outsourcing Business to IBM GE Capital		
1999	<b>FIRST</b> Large-Scale Procurement BPO ANZ Bank		
1999	<b>LARGEST</b> Networking and ITO (\$12B) MCI		
1999	<b>FIRST</b> Global HR BPO Exult (BP Amoco)		
2000	<b>LARGEST</b> Public Sector Outsourcing Program Commonwealth of Australia		
2001	<b>LARGEST</b> Managed Services Network Equant		
2002	<b>TWO LARGEST</b> Financial Services "Utility-Type" ITO American Express (\$4B) / JPMorgan Chase (\$5B)		
2003		<b>LARGEST</b> European Policy Administration BPO Royal & Sun Alliance	
2003		<b>FIRST</b> ValueChain-based Large-Scale ITO Toronto-Dominion Bank	
2004		<b>LARGEST</b> European "Second Generation" Outsourcing Inland Revenue (UK)	

# Global Sourcing



*The most experienced firm  
in the business –  
architecting the largest  
outsourcing projects and  
strategic alliances*

*Over 500 transactions  
across a premier customer  
base*

*20 years' experience in  
complex sourcing  
transactions*

*More than US\$400 billion  
in completed transactions*

# Global Sourcing

## Financial Services

American Express  
 ANZ Bank  
 Capital One  
 Citibank  
 CNA Insurance  
 Continental Bank  
 Deutsche Bank  
 Dun & Bradstreet  
 Equifax  
 Fannie Mae  
 Fireman's Fund Insurance  
 GE Capital  
 HSBC  
 JPMorgan Chase  
 Key Corporation  
 Lloyds TSB  
 Merrill Lynch  
 Morgan Stanley  
 Old Mutual Life Insurance  
 Royal and Sun Alliance  
 Toronto-Dominion Bank  
 UBS

## Transportation / Hospitality

Amtrak  
 Air Canada  
 Continental Airlines  
 CSX Transportation  
 Delta Airlines  
 ITT Sheraton  
 Marriott International  
 Norwegian Cruise Lines  
 Starwood Hotels & Resorts

## Retail / Distribution

Ann Taylor  
 Canadian Tire  
 Federated Department Stores  
 Gap  
 Goodyear Tire & Rubber  
 J.Crew  
 Nike  
 Pathmark Stores  
 SUPERVALU  
 Thrifty Drug Stores

## Health & Life Sciences

AstraZeneca  
 Aventis Pharmaceuticals  
 BlueCross & BlueShield of MD.  
 BlueCross & BlueShield of MA.  
 Bristol-Myers Squibb  
 Children's Hospital of L.A.  
 Eli Lilly  
 Faulding  
 Georgetown Univ. Medical Ctr.  
 GlaxoSmithKline  
 Howard Hughes Medical Center  
 NASCO  
 Northwestern Memorial  
 Oshner Health Plan  
 Oxford Health Plan  
 Tufts Health Plan  
 WellChoice

## Energy / Utilities

Exelon  
 NiSource  
 Florida Power & Light  
 PEPCO  
 Pacific Gas & Electric

## Manufacturing

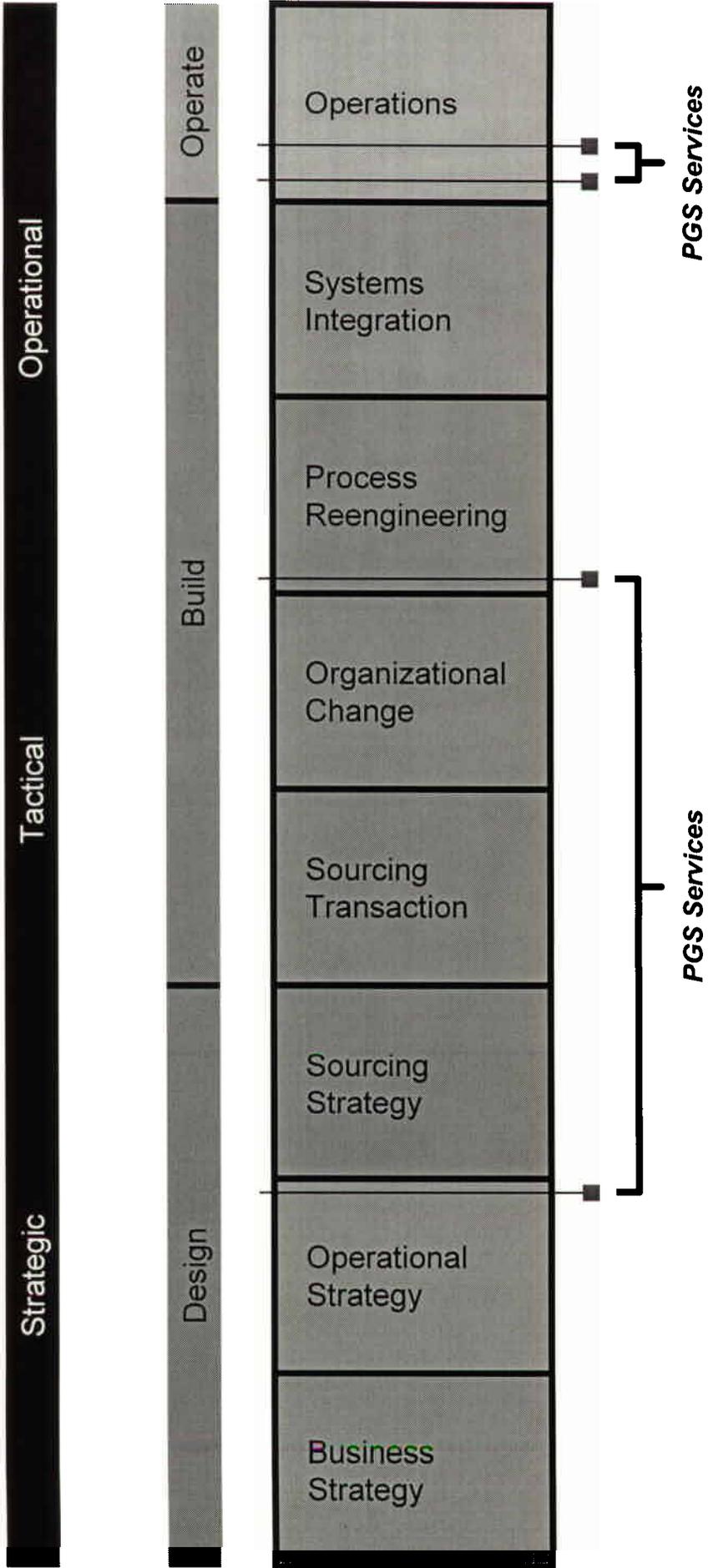
Apple Computer  
 BASF  
 Bethlehem Steel  
 BHP Billiton  
 Borden Foods  
 BorgWarner  
 Eastman Kodak  
 Ford Motor Company  
 General Electric  
 Great Lakes Corporation  
 Iomega  
 Kubota Tractor  
 LTV Steel Company  
 Owens-Corning  
 Philips Electronics  
 Polaroid Corporation  
 Sollectron  
 Xerox

Sempra Energy  
 South Australian Water  
 Southern Company Services  
 Unocal  
 Xcel Energy

**Advisor to many of the world's leading companies**

# Global Sourcing

← *Spectrum of Professional Services* →



---

GLOBAL SOURCING

Pillsbury Global Sourcing  

*Presentation to the  
Federal Acquisition Advisory Panel:  
Commercial Practices Used in Acquiring  
IT and Business Process Services*

April 19, 2005

Robert Zahler, Partner  
Pillsbury Winthrop Shaw Pittman LLP  
2300 N Street, N.W.  
Washington, DC 20037  
tel: 202.663.8130  
e-mail: robert.zahler@pillsburylaw.com

*mosaic*

- Sourcing evolved: approaches for creating value
- Increasing the probability of success
  - ▶ Focus on objectives
  - ▶ Critical success factors
  - ▶ Term sheet process
- Lessons learned
- Background information about Pillsbury Global Sourcing

- Under pressure to implement change, organizations often equate sourcing success with the execution of a contractual agreement
- When pursuing **value creation** through sourcing, an organization **must**

---

Establish an operating model that enables setting priorities and manipulating the levers of change at the macro level

---

Architect a supplier's "scope" to contain those factors of production necessary for the stated objectives to be achieved

---

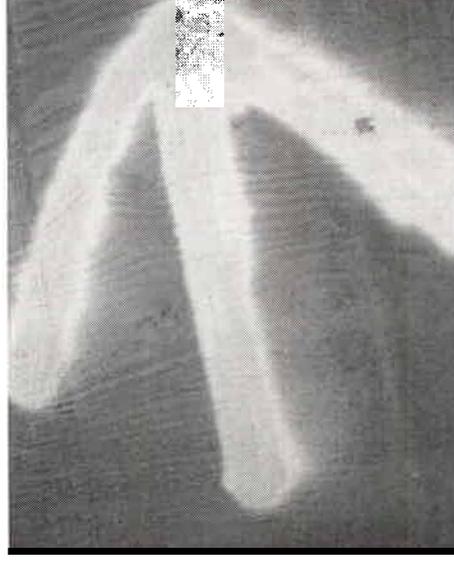
Contract for supplier services in a manner which communicates the objectives clearly, without unduly constraining a supplier's opportunity to innovate

---

Perform the change management activities necessary to successfully implement the new operating model across all of the relevant internal and external actors

---

Build a strong, vibrant and enduring relationship between the organization and its delivery actors



# Sourcing evolved

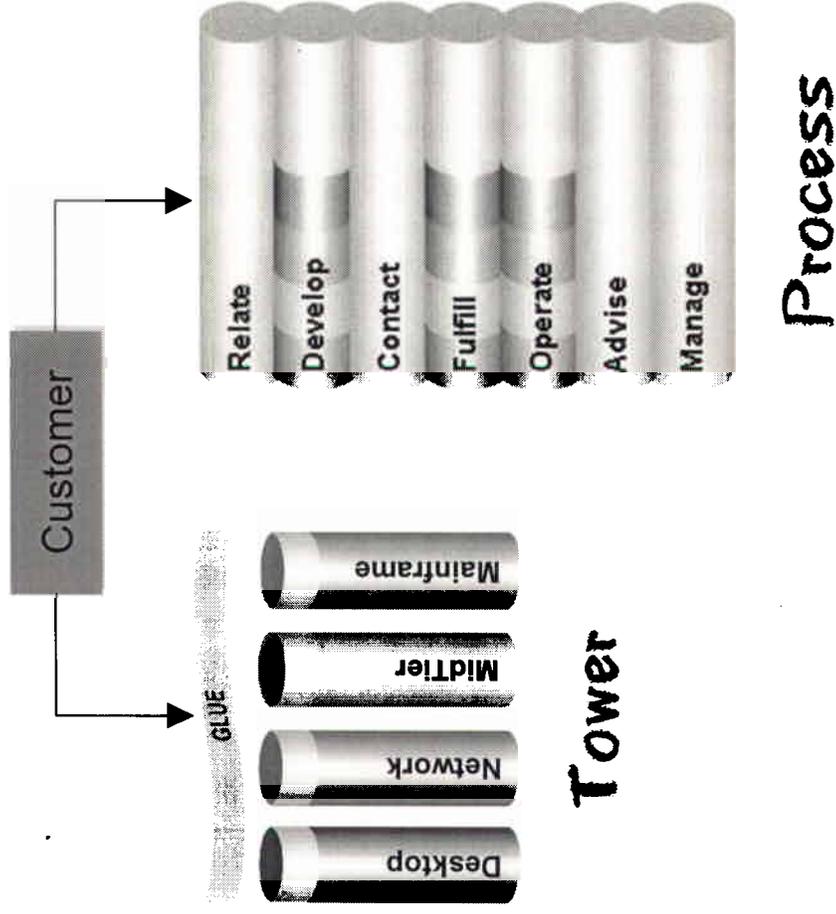
- We recommend **radically shifting** the approach to a diverse set of sourcing functions, to enable the creation of operational **value**

	Classic Approach	Next Generation Approach
<b>Sourcing Answer</b>	Outsource!	Strategy Driven
<b>Expected Benefits</b>	Cost Reduction	Value Creation
<b>Sourcing Perspective</b>	Towers	Processes
<b>Statement of Work</b>	Supplier-directed	In Context
<b>Supplier Solution</b>	Prescribed	Requested
<b>Customer Change</b>	Minimal	Change Management Program
<b>Performance Measurement</b>	Point-specific	End-to-End; Coverage-based
<b>Customer/Supplier Alignment</b>	Governance	Defined Interfaces

- To identify and **capture the value**, you should...

# Sourcing evolved

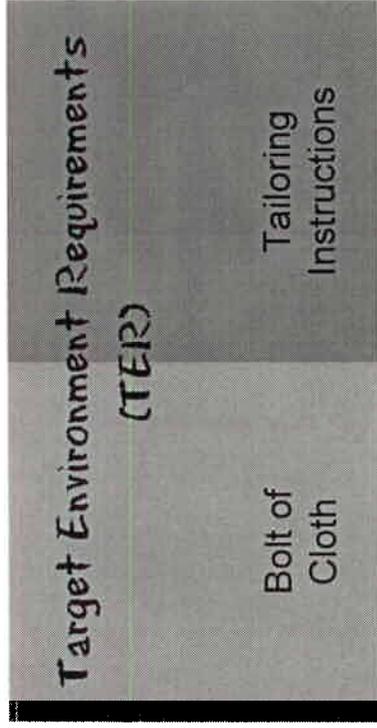
- ... shift to **sourcing by processes** rather than towers to promote the optimal state of **end-to-end design**...



≈	Provides an integrated, seamless view to operation and its customers
∫	Places the integration responsibility with the party most qualified for the role
=	Addresses internal (customer) actors in the same manner as external actors
+/-	Allows the alignment of service measures with customer expectations

- ... create mechanisms from which a **diversity of solutions** can be obtained **within the designated boundaries...**

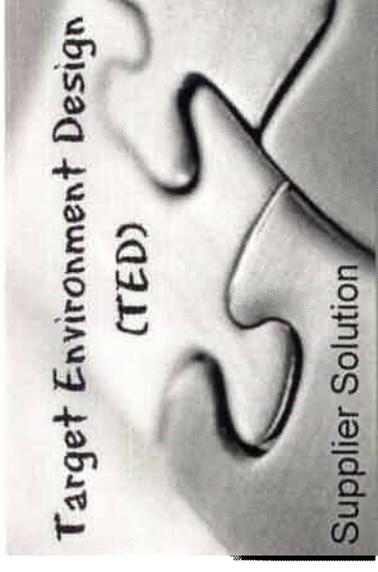
## What



- Scope model
- Process definitions
- Element definitions
- Vision
- Objectives
- Constraints
- Interactions
- Implementation



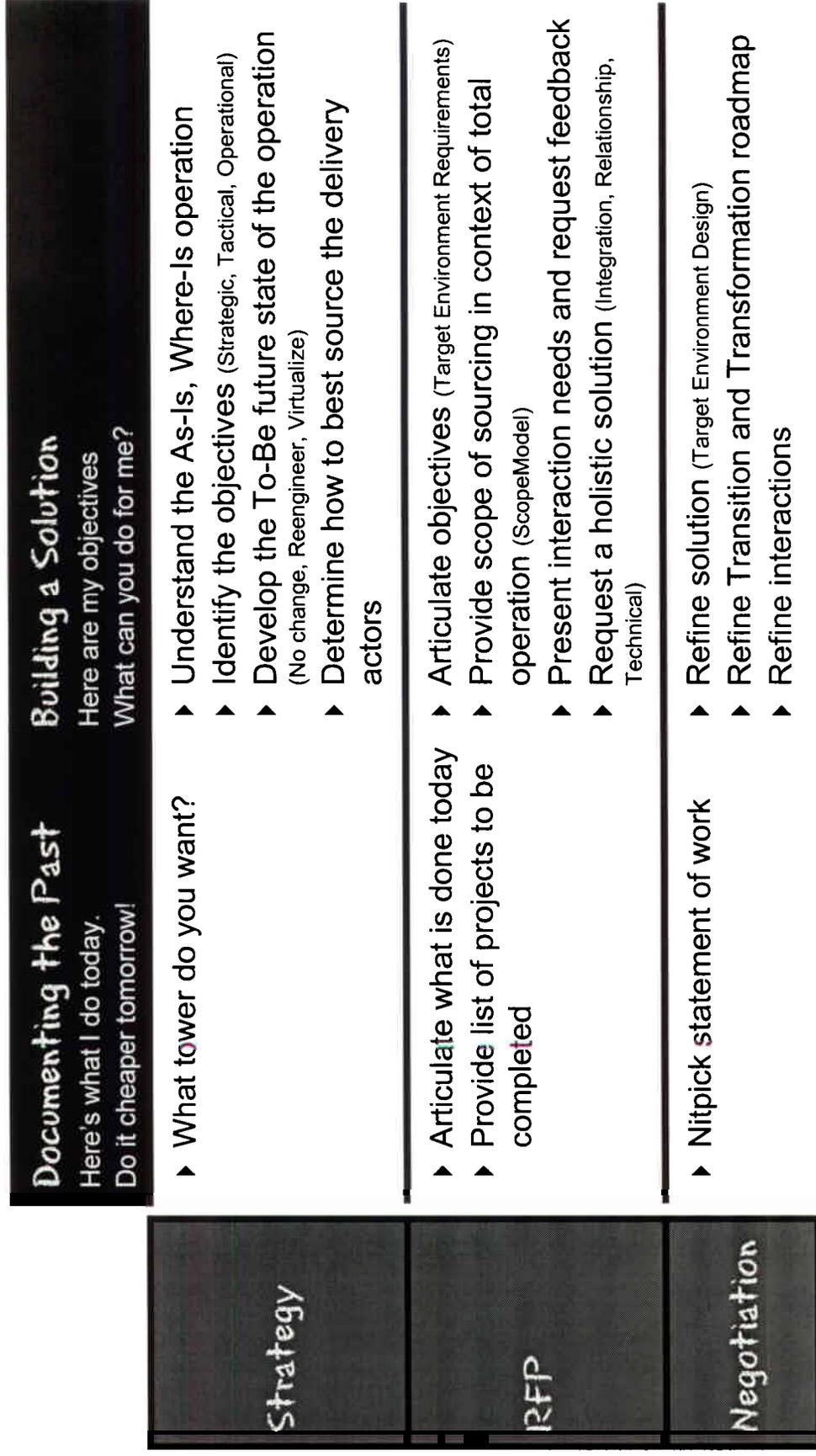
## How



- Technical solution
- Implementation plan
- Interaction models
- Performance model
- Pricing

- \* **Produces a diversity of sourcing solutions – based on a common scope of operations**
- \* **Leverages supplier know-how, strengths and best practices**
- \* **Reduces supplier delivery impediments**

- ... change the **focus** of the major sourcing **processes**...



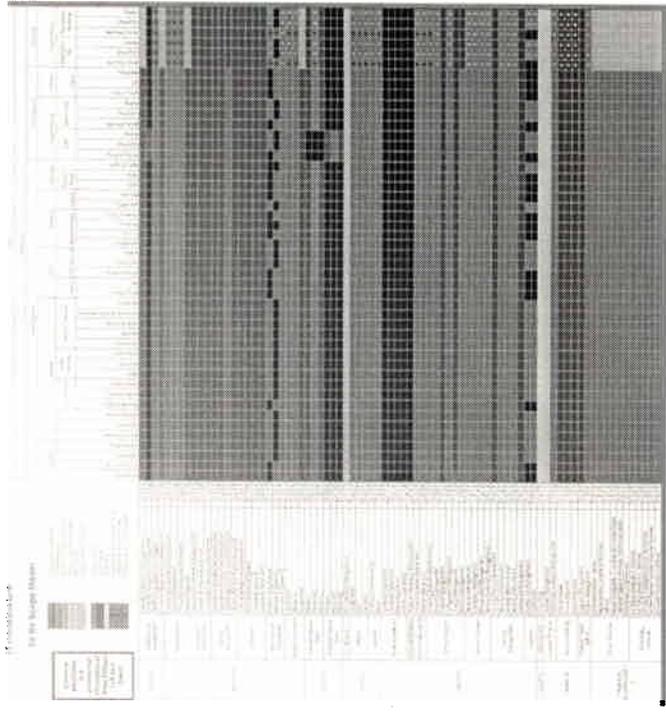
- ... deploy **straight through processing** techniques to minimize documentation re-work from **strategy to contract and beyond**...

- ▶ Supplier Proposal Presentation ▶ Down-Select (N : 2)
- ▶ Proposal Review ▶ Discussion / Negotiations
- ▶ Q&A ▶ Supplier Due Diligence
- ▶ Customer Due Diligence ▶ Down-Select (2 : 1)

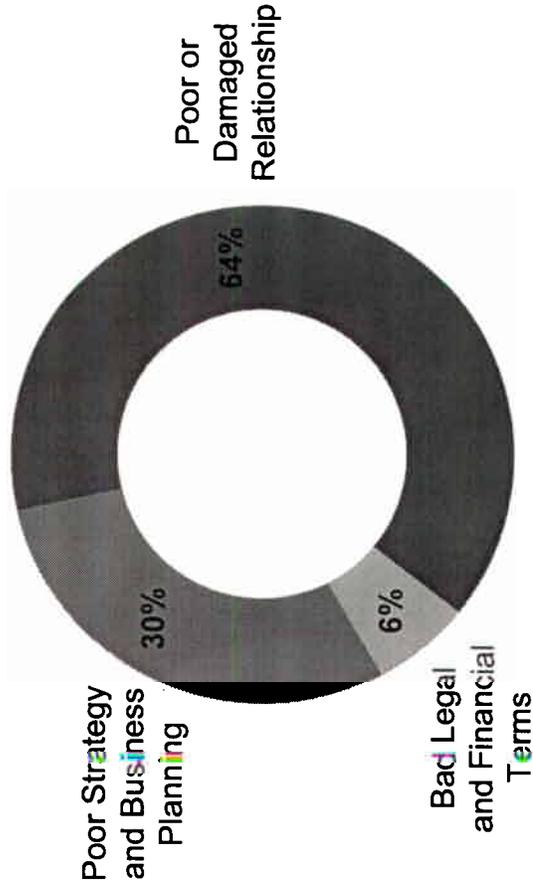
	Term Sheet	Yes, No + Comments	Terms and Conditions
Scope Model	Scope Model	Yes, Recommendations	Statement of Work
TER (high level)	TER (detailed)	TED	Statement of Work
Performance Model	Service Measure Model	Yes, No + Comments	Service Measures / Levels
Business Case	Pricing Instructions	Pricing	Pricing
Operating Model	Interaction Models	Yes, No, Recommendations	Statement of Work
Data Models	Due Diligence Data	Due Diligence Requirements	Miscellaneous Schedules
	Questions	Answers	
Sourcing Strategy	Requirements Package	Supplier Response	Contract Documents

- ... and implement the ability to work visually – **VisualSourcing**
  - ▶ Vastly **improved paradigm** for architecting deal structures and implementing commercial arrangements
  - ▶ Applicable to any fee-for-service arrangement where the elements serviced already exist or can be readily defined
  - ▶ Based on applicable **best practices**

Operationally Focused	<ul style="list-style-type: none"> <li>▶ Developed for and with operational delivery actors</li> <li>▶ Reflects the current and desired future states</li> <li>▶ Accurate reference during service delivery</li> </ul>
Accurate	<ul style="list-style-type: none"> <li>▶ Highly detailed and non-ambiguous</li> <li>▶ Consistent description of processes</li> </ul>
Leveraged	<ul style="list-style-type: none"> <li>▶ Straight through processing</li> <li>▶ Culminates in a VisualContract</li> </ul>



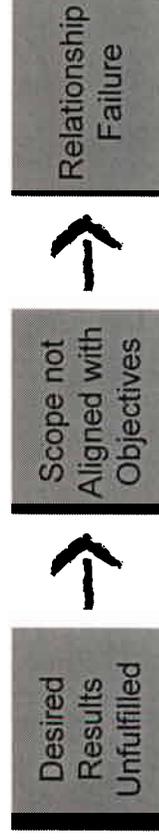
## Foremost Causes of Partnership Failure



Source – Vantage Partners

## What Does this Mean?

- ▶ “We’re still waiting for the transformation to occur”
- ▶ “We’re spending all of our time dealing with disputes”
- ▶ “Our service levels are being met, but we don’t like the service”
- ▶ “Our integration responsibilities are more than we bargained for”
- ▶ “We have a poor relationship with the supplier”



***i.e., scope and objectives must be aligned***

# Increase the probability of success

**O**bjectives:

Strategic

Tactical

Operational

**C**onstraints:

Operational  
Legal / Regulatory

Financial  
Cultural

Audit  
Geographic

**P**inciples:

Strategy

Transaction

**S**ourcing:

Processes

Responsibility	Clear understanding of who does what
Interactions	Exchanges between customer and supplier
Measures	What to measure; what levels are required

# Increase the probability of success

- Before scope can be defined, a wide range of **objectives** need to be identified...

A. Strategic Relationship Expectations	B. Tactical Sourcing Expectations	C. Operational Delivery Expectations
<ul style="list-style-type: none"> <li>▶ Leverage tolerance</li> <li>▶ Integration capabilities</li> <li>▶ Operational involvement</li> </ul>	<ul style="list-style-type: none"> <li>▶ Enable an acceleration in the pace of change</li> <li>▶ Identify solutions to achieve lower costs</li> <li>▶ Provide continuous access to leading edge processes, products, services, etc.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improve capacity management of CPUs and storage</li> <li>▶ Reduce expense and/or need for software licenses</li> <li>▶ Improve performance levels on client-facing activities</li> <li>▶ Bring best practices to the operation</li> <li>▶ Simplify and strengthen the security perimeters</li> </ul>

## Examples

- ... as well as the **constraints**

etc.

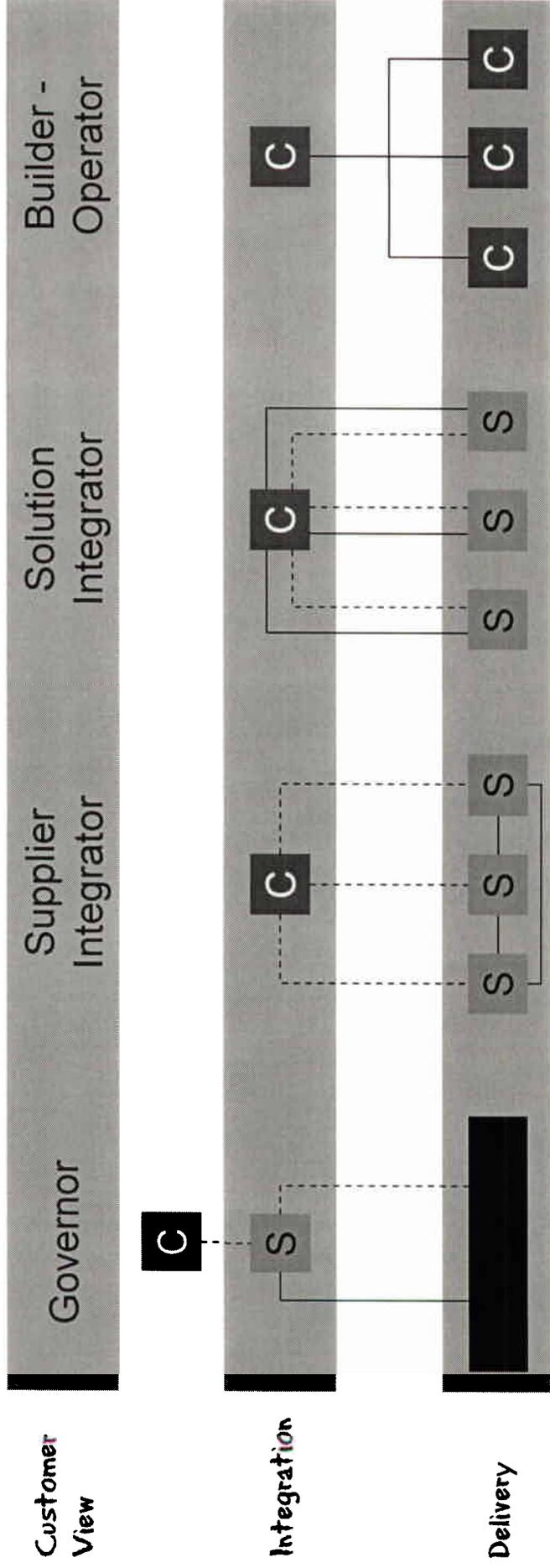
Operational  
Legal / Regulatory

Financial  
Cultural

Audit  
Geographic

# Increase the probability of success

- Identify the appropriate **sourcing management structure** to help determine the
  - ▶ Sourcing strategy to achieve the desired outcome
  - ▶ Change management activities
  - ▶ Procurement and contract documents



## Increase the probability of success

- Apply best practice **guiding principles** to temper or filter sourcing options...

Strategy	Transaction
<ul style="list-style-type: none"> <li>▶ Any required change initiative must be of manageable size and capable of being completed within an acceptable time frame</li> <li>▶ Services provided must be aligned with the ultimate users' needs</li> <li>▶ Operational risk of change initiatives must be acceptable (end-to-end)</li> <li>▶ Benefit stream must outweigh the cost of change and the level of risk</li> </ul>	<ul style="list-style-type: none"> <li>▶ Services must be commercially available</li> <li>▶ Services must be negotiable in a competitive process</li> <li>▶ Sufficient scope must be provided for service delivery success</li> <li>▶ Scope of service must be designed to reduce the "sole source" effect</li> <li>▶ Price performance must be acceptable</li> </ul>

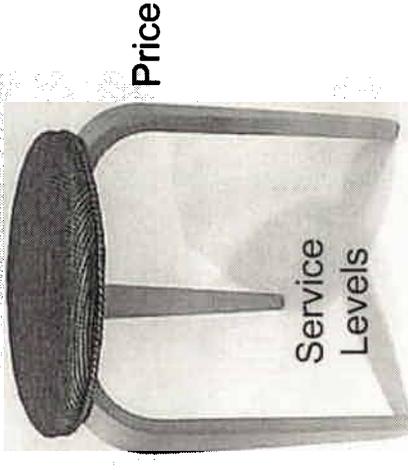
### Guiding Principles

- ... with attributes that have historically generated **successful** strategies and transactions

## Critical success factors (scope, price, SLA's)

- **Scope**
  - ▶ proper scope definition is critical to an effective long-term relationship
  - ▶ the scope definition must be based on “constitutional,” procedural-type provisions to address change
- **Service Levels**
  - ▶ customize metrics that measure what’s important to you
    - end to end
      - ◆ measure outputs, not inputs
      - ◆ don’t develop too many metrics
      - ◆ don’t rely too heavily on benchmarking
- **Price**
  - ▶ ensure a competitive process and high-level price validation
- **Control and governance**
  - ▶ involve the supplier and your project executives in the transaction structuring process

Control and Governance



Scope

Price

Service Levels

Start preparations to manage the supplier immediately; don't wait for the contract to be signed.

To identify all important issues and keep track of the negotiations

- Describes all of your important requirements (technical, financial, legal and business) for the arrangement
- Send a copy to short list of suppliers with instructions to respond to each separate requirement in writing:
  - ▶ Do allow simple “Agreed” or “Not Agreed” responses
  - ▶ Seek substantive comment on each issue
- Compare the responses:
  - ▶ Negotiate in parallel the areas of non-agreement
  - ▶ Keep track of the results of those negotiations
- Develop the final negotiated terms with the selected supplier(s) and put them into the contract(s)

Base your supplier selection decision on an analysis of all relevant factors

# Client challenges

- **Limitations facing clients**
  - ▶ failure to understand the “product”
  - ▶ chaotic process
  - ▶ inability to evaluate price
  - ▶ time consuming decision making
  - ▶ piecemeal negotiation; the issue “du jour”
  - ▶ conflicting time demands; need to perform the “day job”
- **Risks in the process**
  - ▶ top-down selling by suppliers
  - ▶ imposing unnecessary secrecy
  - ▶ failing to follow a disciplined process
  - ▶ setting unrealistic goals
  - ▶ ignoring all aspects of the relationship
    - ◆ inadequate scope definition
    - ◆ evaluating and negotiating piecemeal
    - ◆ delaying due diligence
  - ▶ lack of comprehensive information about current operations
  - ▶ not understanding pricing

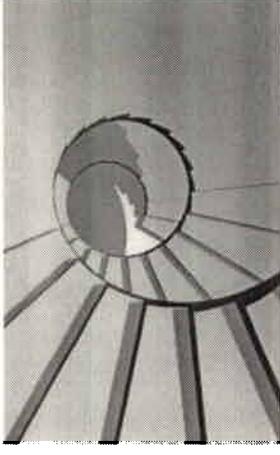
## “Lessons Learned” • Key elements

- **Acquiring services is all about shifting risks from client to supplier**
  - ▶ Performance/delivery risks
  - ▶ Pricing risks
  - ▶ Business risks
- **An understandable product**
  - ▶ Comprehensive scope descriptions
  - ▶ Meaningful service level commitments
  - ▶ Simple but variable pricing
- **Flexible terms and conditions**
- **Commitment to client success and customer’s success**
- **Demonstrable supplier capabilities**
  - ▶ Corporate track record
  - ▶ Management; especially project management skills
  - ▶ A willingness to “partner”
  - ▶ IT capabilities and experience
  - ▶ Where relevant, global extent
  - ▶ Bench strength; not just more people
  - ▶ “Consulting” capabilities; a mechanism to efficiently deliver value
- ▶ **A governance structure that is:**
  - ◆ Understandable
  - ◆ Relates to the client’s organization
  - ◆ Produces results within the supplier organization

- **E**ffective use of competition creates the optimum environment to select from each supplier’s best offering to yield the best value package
- **E**mphasize value in the selection process, not just price
- **V**arious suppliers have the capacity to meet your needs
- **T**ime driven processes may not yield the best value
- **S**tart with an appropriate supplier-base; down select when there is sufficient information to differentiate the top two competitors
- **E**mphasize early and frequent communications with suppliers; bring them in regularly for updates and to ensure they are responding at the best of their ability
- **K**ick-off the process as soon as scope is reasonably defined; conduct a supplier meeting to review scope and process and set the calendar
- **M**anage to the announced calendar

- Select a supplier with the values and rapport needed to maintain and enhance an effective relationship over time
- These deals are about technology and delivery capability and capacity
- Prepare, circulate and gain acceptance of the goals and objectives desired by the business; align the transaction with those goals and objectives
- Focus on the supplier’s technical/commercial solution (how does the supplier intend to deliver the services?); document that solution and not some generic view of the services
- Identify the small handful of key metrics that characterize good service and use those as the core for service level agreements
- Keep the pricing simple; ensure that the pricing algorithms properly align your objectives and the supplier’s incentives

- As much as possible, the individual who will manage delivery for you should be involved in the negotiations
- Improperly crafted control and governance model implemented
- Insufficient, unempowered and improperly trained management of the supplier by the customer
- Unwillingness to hold the supplier accountable to the provisions of the agreement
- Lack of alignment between the supplier and customer goals and objectives
  - ▶ “Too good” a deal on either side
- Customer inability to maintain surrogates for competition post implementation



## *Producing the milestone transactions in the outsourcing industry*

1988	<b>FIRST</b> Large-Scale ITO First City Bank		
1991	<b>FIRST</b> Multi-Billion Dollar ITO Continental Airlines		
1994	<b>FIRST</b> Networking Joint Venture and ITO Air Canada		
1995	<b>FIRST</b> Whole-of-Government ITO State of South Australia		
1996	<b>WATERSHED</b> Alliance-Based ITO J.P. Morgan (Pinnacle Alliance)		
1998	<b>LANDMARK</b> Sale of Outsourcing Business to IBM GE Capital		
1999	<b>FIRST</b> Large-Scale Procurement BPO ANZ Bank		
1999	<b>LARGEST</b> Networking and ITO (\$12B) MCI		
1999	<b>FIRST</b> Global HR BPO Exult (BP Amoco)		
2000	<b>LARGEST</b> Public Sector Outsourcing Program Commonwealth of Australia		
2001	<b>LARGEST</b> Managed Services Network Equant		
2002	<b>TWO LARGEST</b> Financial Services "Utility-Type" ITO American Express (\$4B) / JPMorgan Chase (\$5B)		
2003		<b>LARGEST</b> European Policy Administration BPO Royal & Sun Alliance	
2003		<b>FIRST</b> ValueChain-based Large-Scale ITO Toronto-Dominion Bank	
2004		<b>LARGEST</b> European "Second Generation" Outsourcing Inland Revenue (UK)	

# Global Sourcing



*The most experienced firm  
in the business –  
architecting the largest  
outsourcing projects and  
strategic alliances*

*Over 500 transactions  
across a premier customer  
base*

*20 years' experience in  
complex sourcing  
transactions*

*More than US\$400 billion  
in completed transactions*

# Global Sourcing

## Financial Services

American Express  
 ANZ Bank  
 Capital One  
 Citibank  
 CNA Insurance  
 Continental Bank  
 Deutsche Bank  
 Dun & Bradstreet  
 Equifax  
 Fannie Mae  
 Fireman's Fund Insurance  
 GE Capital  
 HSBC  
 JPMorgan Chase  
 Key Corporation  
 Lloyds TSB  
 Merrill Lynch  
 Morgan Stanley  
 Old Mutual Life Insurance  
 Royal and Sun Alliance  
 Toronto-Dominion Bank  
 UBS

## Transportation / Hospitality

Amtrak  
 Air Canada  
 Continental Airlines  
 CSX Transportation  
 Delta Airlines  
 ITT Sheraton  
 Marriott International  
 Norwegian Cruise Lines  
 Starwood Hotels & Resorts

## Retail / Distribution

Ann Taylor  
 Canadian Tire  
 Federated Department Stores  
 Gap  
 Goodyear Tire & Rubber  
 J.Crew  
 Nike  
 Pathmark Stores  
 SUPERVALU  
 Thrifty Drug Stores

## Health & Life Sciences

AstraZeneca  
 Aventis Pharmaceuticals  
 BlueCross & BlueShield of MD.  
 BlueCross & BlueShield of MA.  
 Bristol-Myers Squibb  
 Children's Hospital of L.A.  
 Eli Lilly  
 Faulding  
 Georgetown Univ. Medical Ctr.  
 GlaxoSmithKline  
 Howard Hughes Medical Center  
 NASCO  
 Northwestern Memorial  
 Oshner Health Plan  
 Oxford Health Plan  
 Tufts Health Plan  
 WellChoice

## Energy / Utilities

Exelon  
 NiSource  
 Florida Power & Light  
 PEPCO  
 Pacific Gas & Electric

## Manufacturing

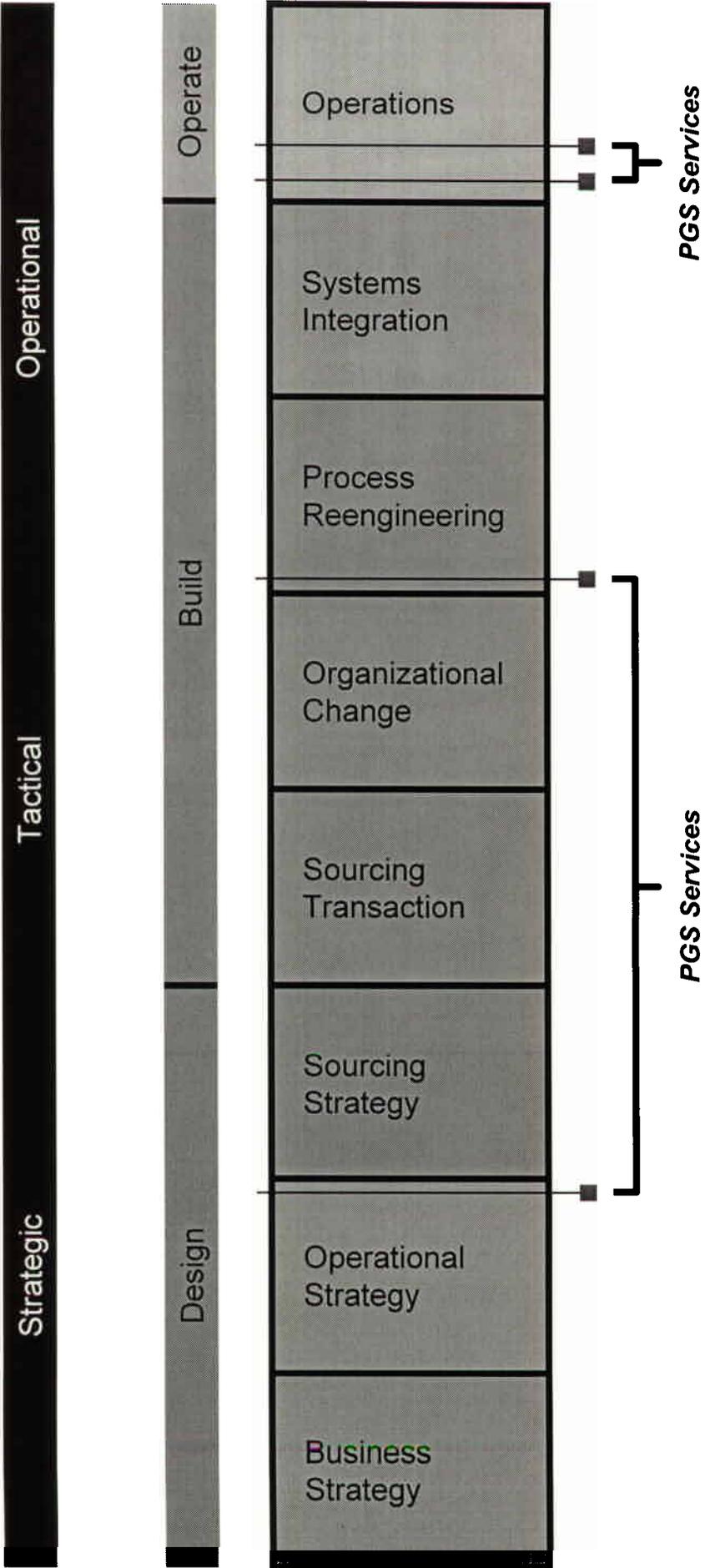
Apple Computer  
 BASF  
 Bethlehem Steel  
 BHP Billiton  
 Borden Foods  
 BorgWarner  
 Eastman Kodak  
 Ford Motor Company  
 General Electric  
 Great Lakes Corporation  
 Iomega  
 Kubota Tractor  
 LTV Steel Company  
 Owens-Corning  
 Philips Electronics  
 Polaroid Corporation  
 Sollectron  
 Xerox

Sempra Energy  
 South Australian Water  
 Southern Company Services  
 Unocal  
 Xcel Energy

**Advisor to many of the world's leading companies**

# Global Sourcing

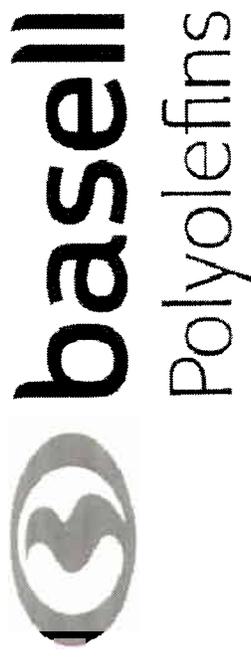
← *Spectrum of Professional Services* →



# **Basell Polyolefins Federal Acquisition Advisory Panel**

**David Sides - Senior Vice President / CIO**

**Sam Slovak - Vice President, North America Procurement**



***Our polyolefin materials and technologies  
enhance the quality of life and create  
convenience for people around the world.***



# About Basell

Created in October 2000 by combining the polyolefin interests of BASF and Shell

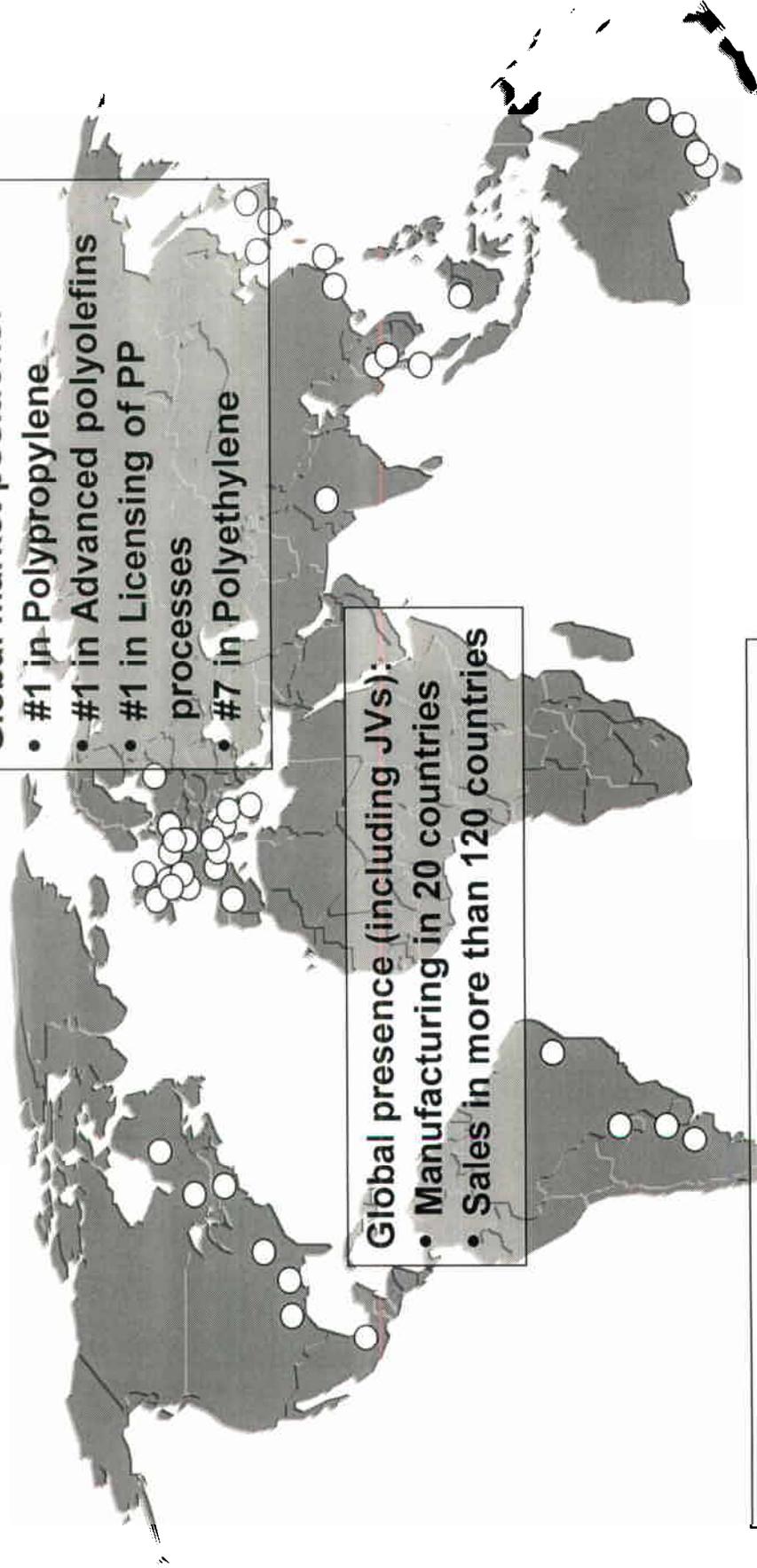
## Global market positions:

- #1 in Polypropylene
- #1 in Advanced polyolefins
- #1 in Licensing of PP processes
- #7 in Polyethylene

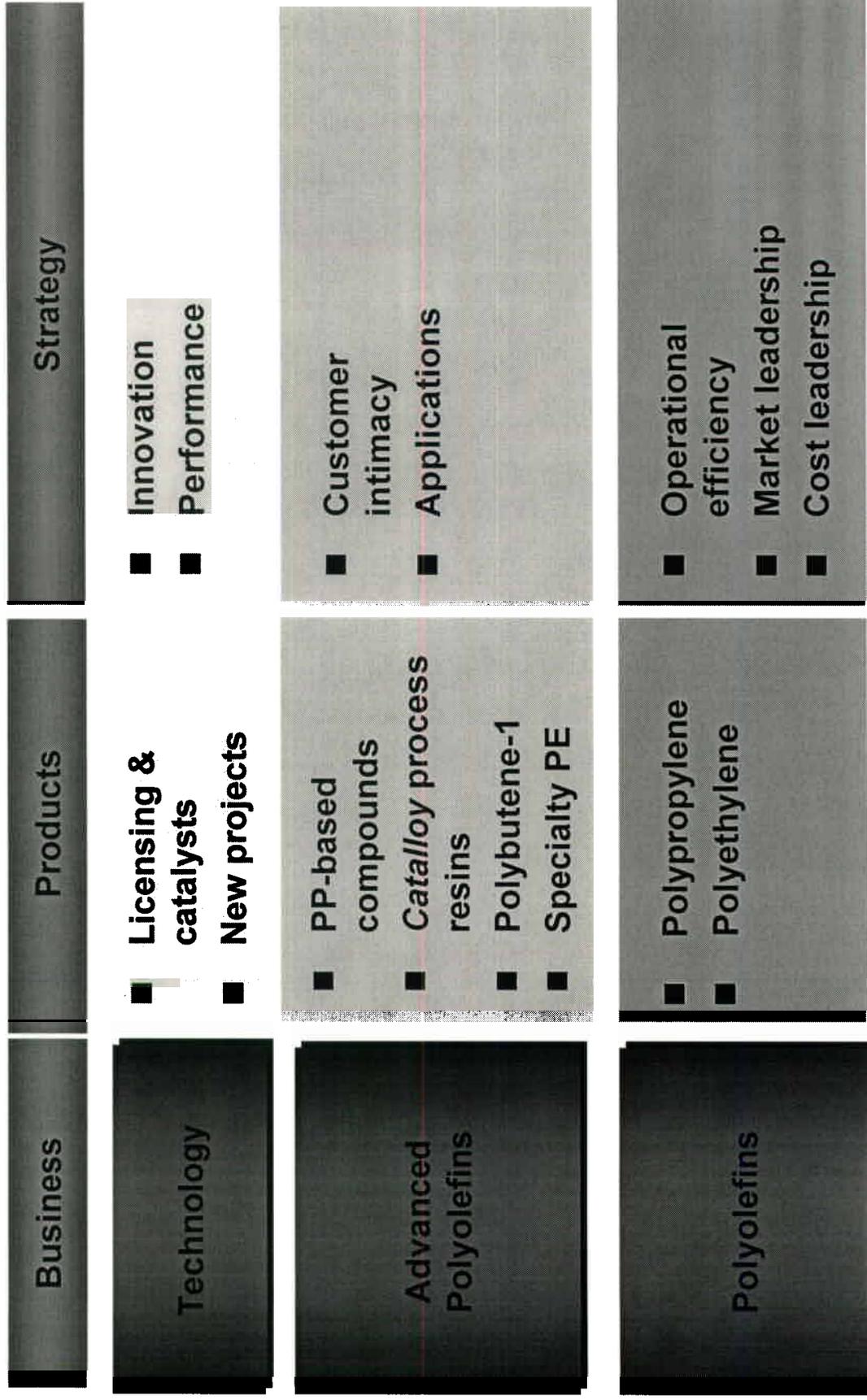
## Global presence (including JVs):

- Manufacturing in 20 countries
- Sales in more than 120 countries

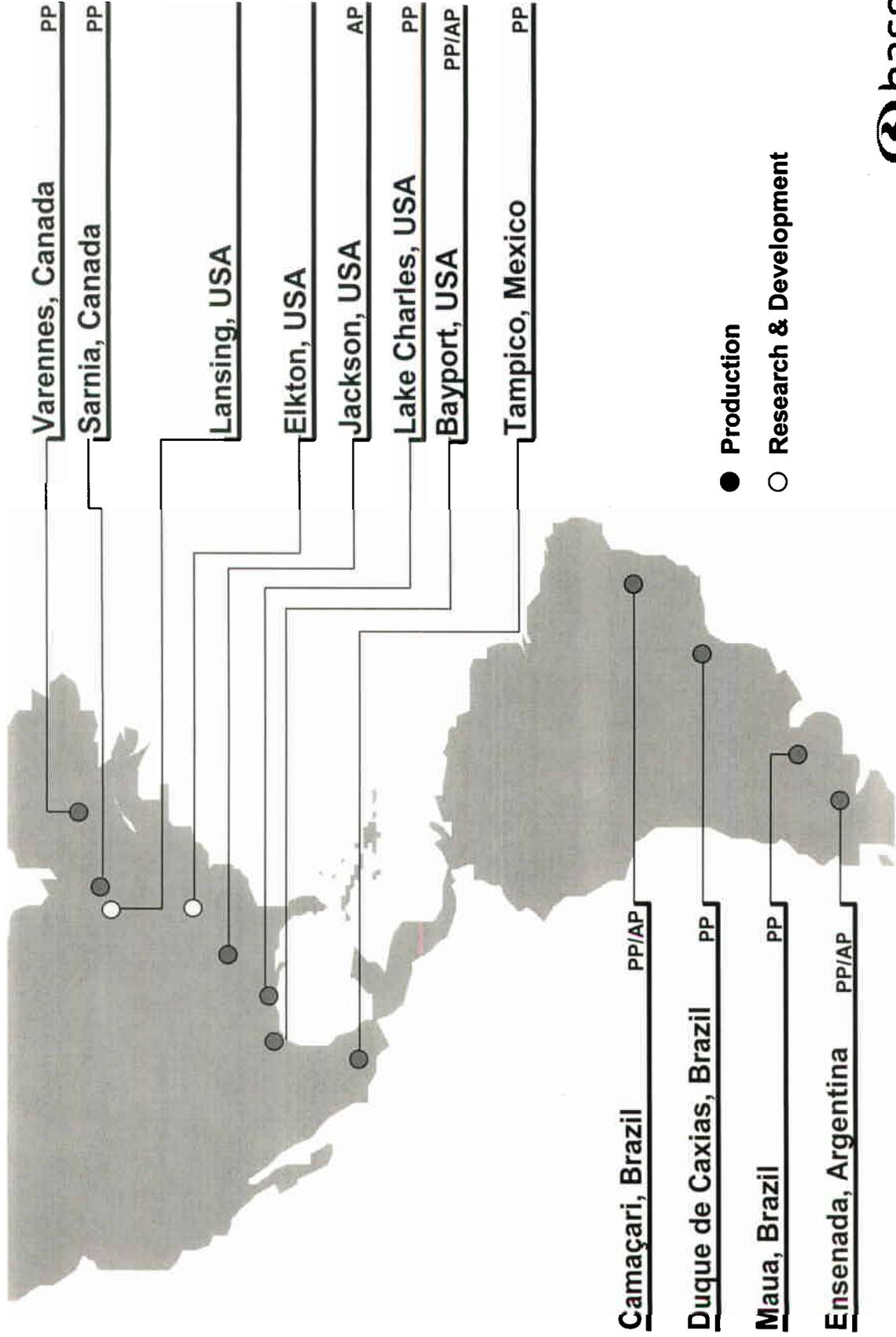
- A technology leader with a strong innovation pipeline and a distinguished heritage
- 6,600 employees, annual sales of \$8.6 billion



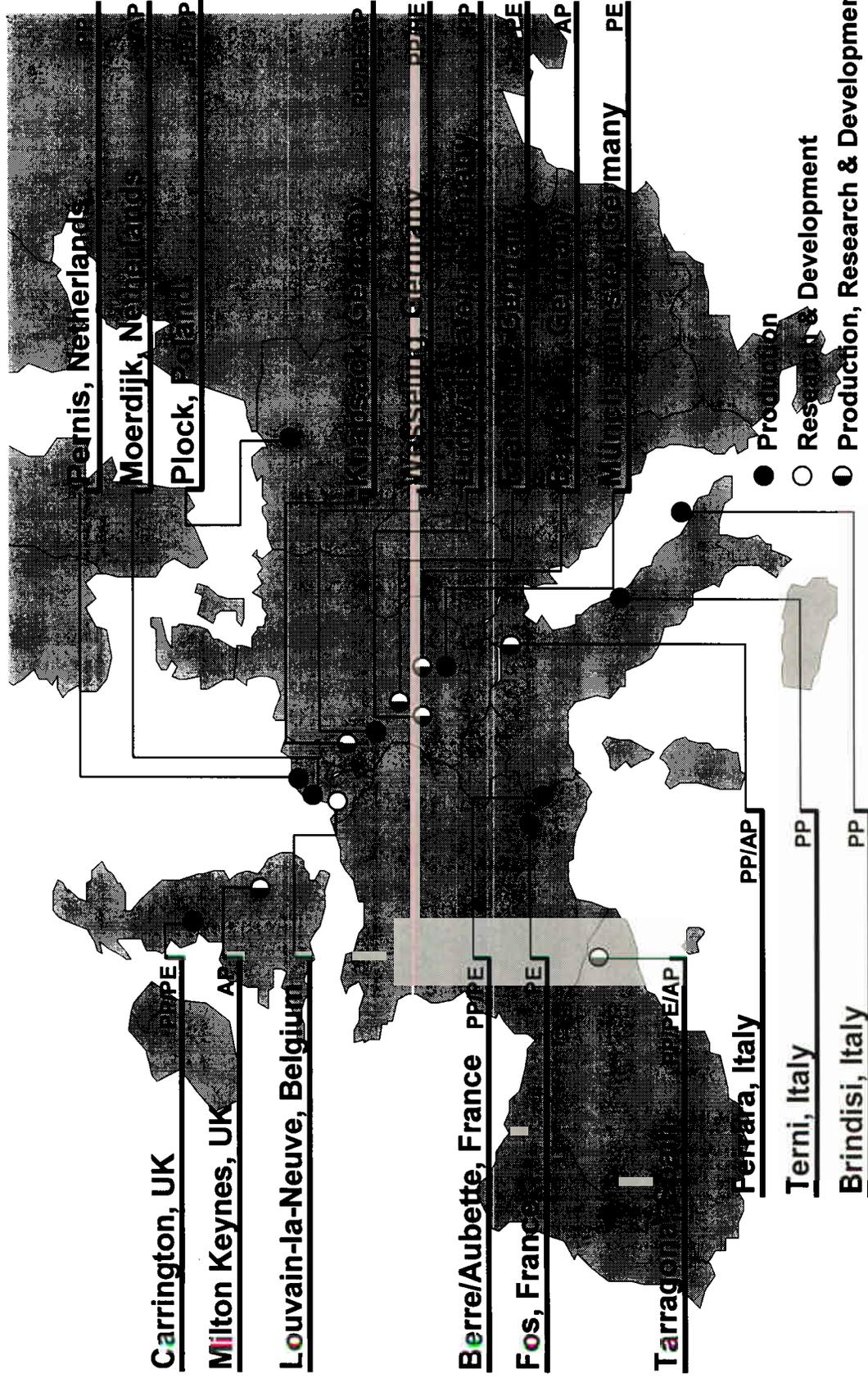
# 3 Core Businesses



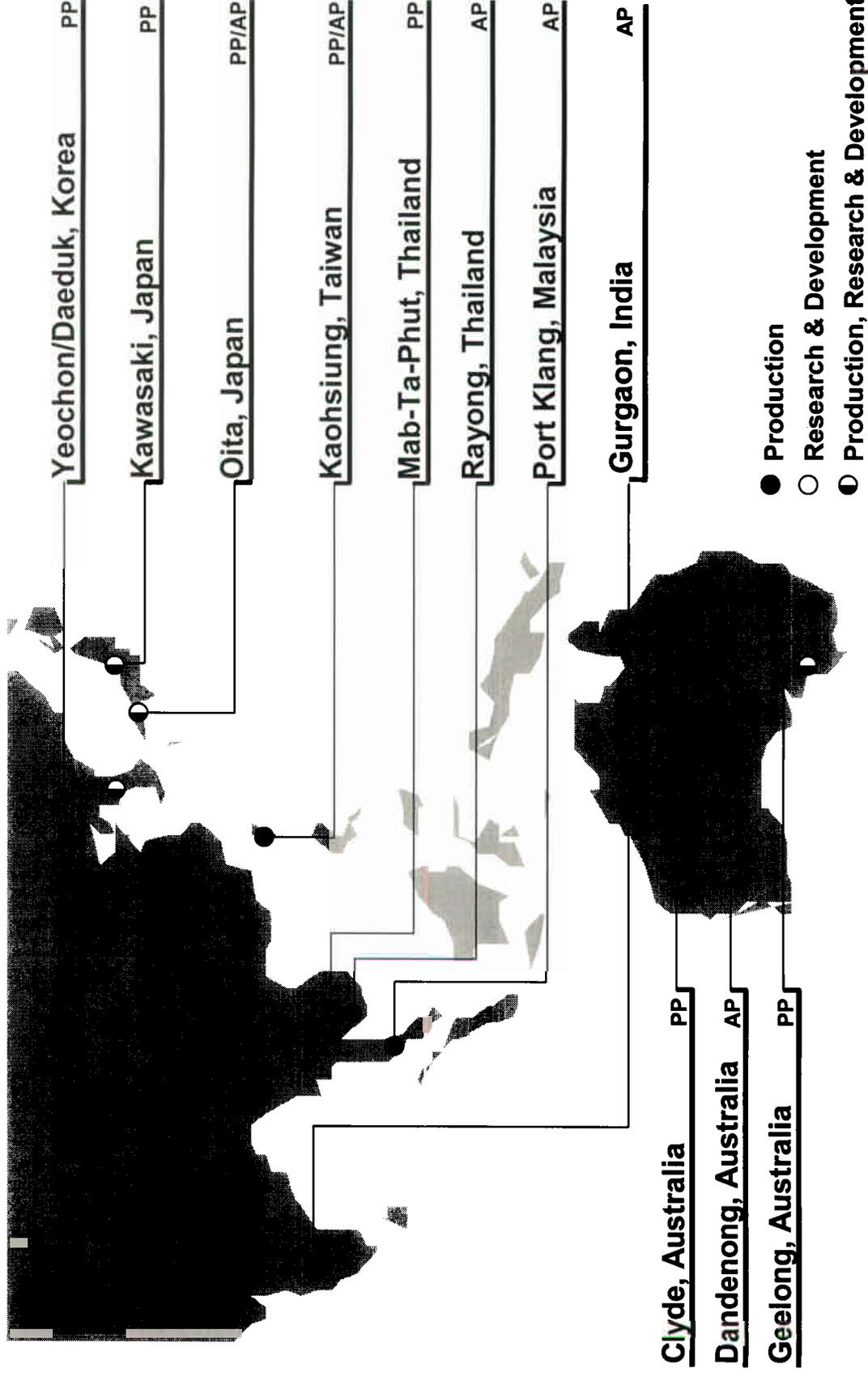
# Production and R&D Americas



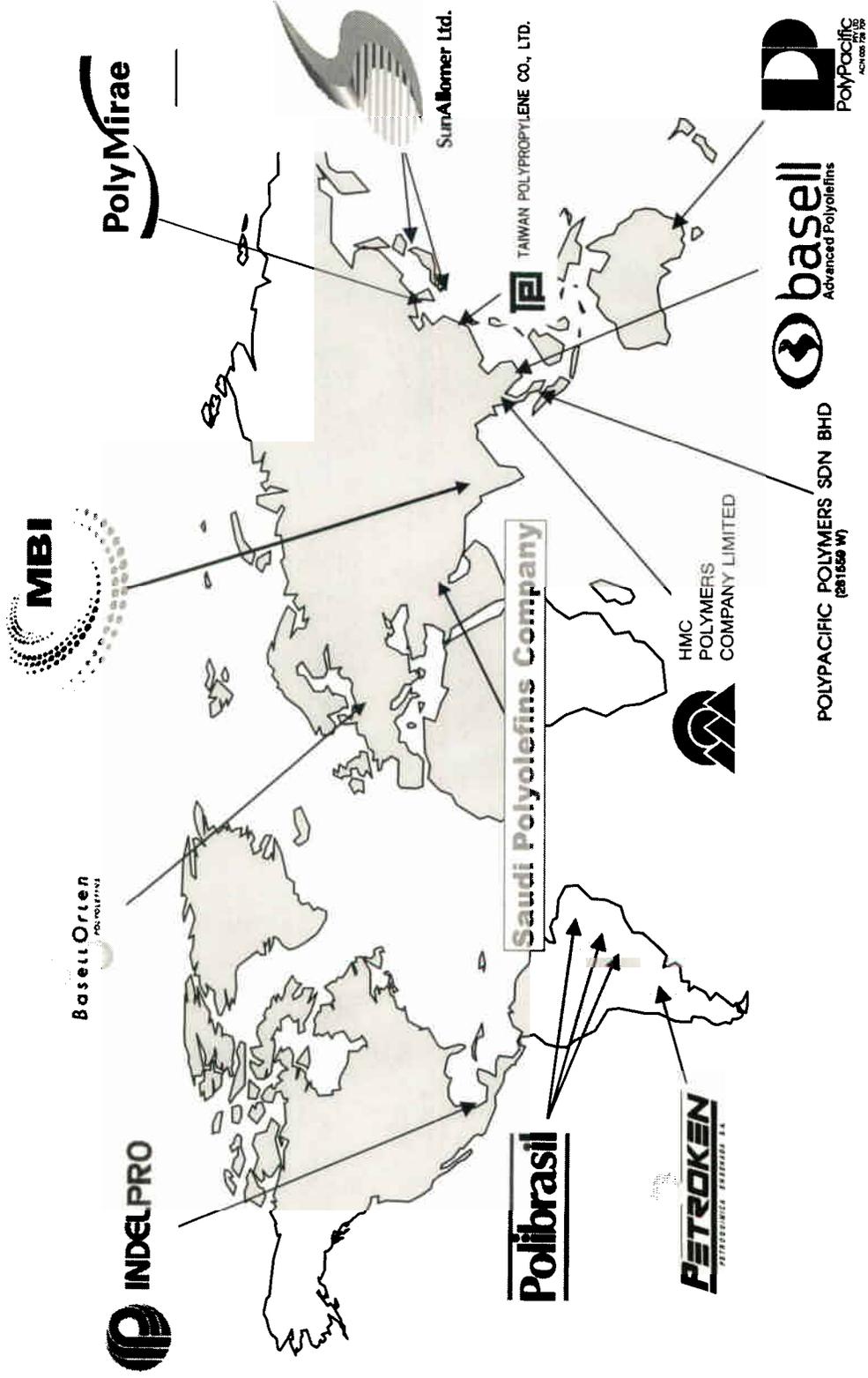
# Production and R&D Europe



# Production and R&D Asia Pacific



# Basell Network of Joint Ventures



# Polypropylene Overview

**Polypropylene (PP)** -- a thermoplastic resin made from the polymerization of propylene; PP has a broad range of properties, and is used to make packaging, household goods, textiles and film, as well as applications in the automotive and electrical industries

There are three main types of PP:

- **Homopolymers** have high heat resistance and good rigidity, making them suitable for use in a vast range of applications
- **Heterophasic copolymers**, made by incorporating different co-monomers, are highly resilient materials which appear to be opaque
- **Random copolymers**, made by introducing ethylene links into the polymer chain, tend to have improved optical properties, making them ideal for use in applications such as packaging, where transparency is required

# Polyethylene Overview

**Polyethylene (PE)** -- a thermoplastic resin made from the polymerization of ethylene; PE forms the largest single class of plastics, and is used in an enormous range of applications

There are three main types of PE:

- **High density PE (HDPE)**, characterized by a linear polymer chain, is dense, strong and stiff; used for blow-molded tanks and containers, pressure pipes and injection-molded bottle caps, closures and crates
- **Low density PE (LDPE)**, characterized by a branching polymer chain, is highly flexible; principal uses are in packaging film, trash and grocery bags, agricultural mulch, squeeze bottles, closures and houseware
- **Linear low density PE (LLDPE)** is similar to LDPE and has similar markets, but is made with an admixture of copolymer

## Basell Advanced Polyolefins

---

- Basell's innovative family of specialty advanced polyolefins can be custom made with a wide spectrum of properties for a range of applications
- Advanced Polyolefins portfolio:
  - PP-based compounds
  - *Catalloy* process resins
  - Polybutene-1
  - Specialty PE products

# Polyolefin Technologies Licensed by Basell

## **Spheripol process and services**

- For the production of homopolymer, random copolymer and heterophasic copolymer polypropylene

## **Spherizone process and services**

- New polypropylene manufacturing technology that significantly and uniquely expands the property envelope of PP resins while offering decreased costs

## **Hostalen process and services**

- Low-pressure slurry process for the production of unimodal and bimodal HDPE

## **Spherilene process and services**

- Swing gas-phase process for the production of LLDPE and HDPE

## **Lupotech G process and services**

- Fluidized bed gas-phase process for the production of MDPE and HDPE

## **Lupotech T process and services**

- High-pressure tubular reactor process for the production of LDPE homopolymers and EVA copolymers

# Basell's Catalysts Product Range

## **Avant ZN catalysts**

- High yield/high stereo specificity and titanium-based multi-site Ziegler-Natta catalysts for polypropylene production

## **Avant Z catalysts**

- High yield titanium Ziegler catalysts for narrow and broad molecular weight distribution in linear low and high density polyethylene production

## **Avant C catalysts**

- Chromium catalysts for medium and high density polyethylene production

## **Avant M catalysts**

- Zirconium-based single-site metallocene catalysts for polypropylene & polyethylene production

## Basell Procurement Overview

- Corporate governance
  - Purchasing policies, procedures and guidelines
  - Delegations of authority
  - Quality Management guidelines
  - Preferred supplier guidelines
- Typical practices
  - Central contracts leveraged by multiple business units and locations
  - Competitive bidding

# Basell Procurement

---

- Types / terms of services procured (examples only)
  - Transportation
  - Information technology
  - Contractors / consultants (with standard agreement)
  - Travel management
  - Payroll
  - Fixed price and T&M

# Basell Information Technology Services

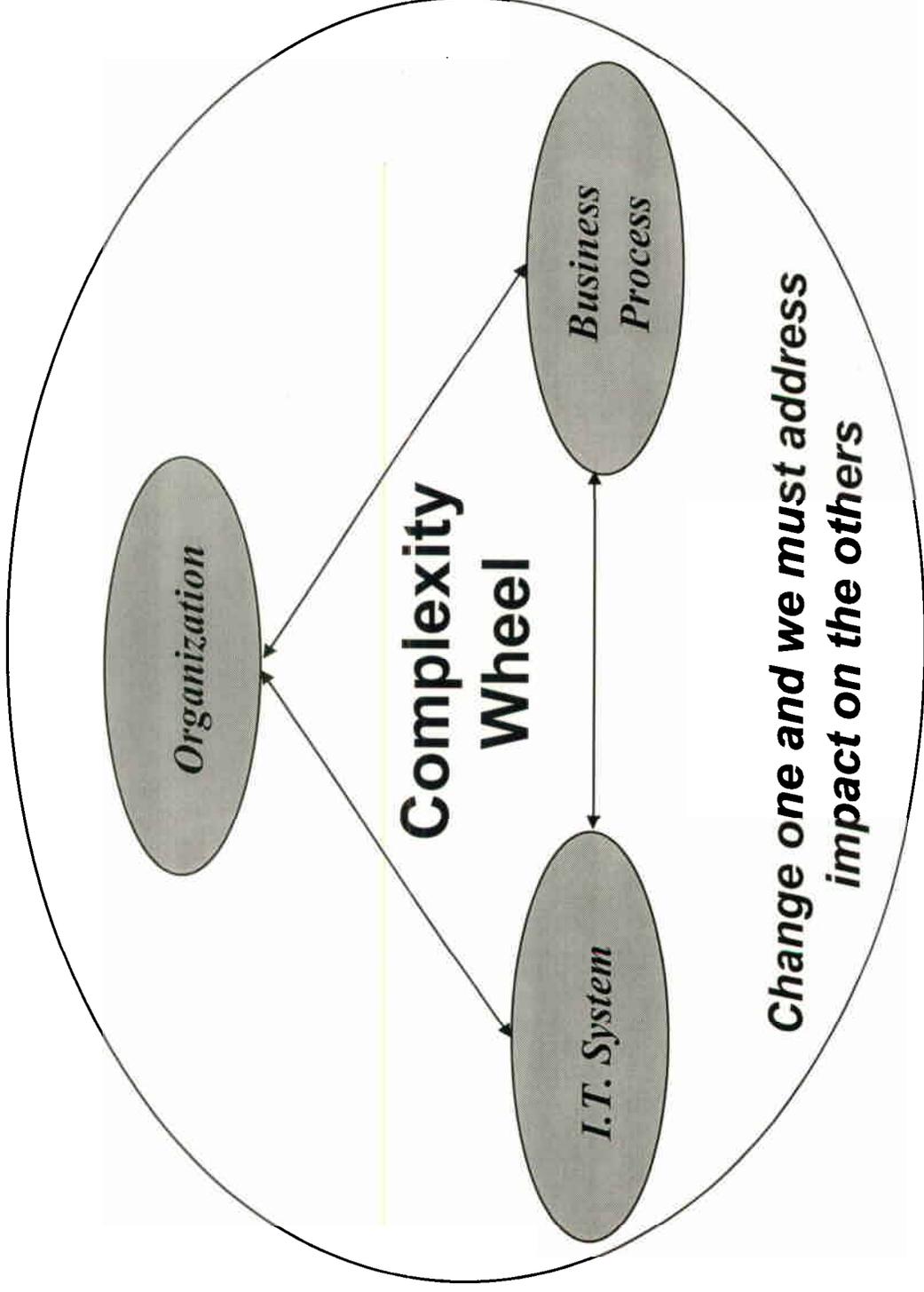
---

## One size does not fit all

- Commodity services: Price and service-level driven
  - Infrastructure
  - Back office programming, e.g. SAP ABAP
- Value-added services: Price / individual expertise / location
  - Projects contractors and consultants
  - Business process
- Innovation services: Strategic vision, knowledge, price
  - Competitive advantage initiatives

# IT Service Acquisition – The Challenge

Business Engagement Equals Business Projects



# **Basell IT – Commodity Services**

---

## **Global infrastructure service contract**

- **Objectives**
  - Reduce IT operating costs for services through rationalization of service providers and contracts
  - Implement global IT services and support model, enabling maximum Basell productivity
  - Implement a world class IT services contract based on forward pricing to ensure service provider efficiency for the planning cycle
  - Ensure maximum flexibility for Basell in the relationship to enable continuing business restructuring without retaining fixed IT cost

## **Basell IT – Commodity Services**

---

### **Global infrastructure service contract**

- **Process**
  - Competitive bid, limited number of suppliers due to scope of services required
  - External expertise (TPI and Mayer, Brown, Rowe & Maw) to ensure best practice contract
  - Single contract globally
  - Objectives achieved

## **Basell IT – Commodity Services**

---

### **Global infrastructure service contract**

- Key terms (examples only)
  - Forward priced for annual efficiency improvement
  - Benchmarking (with rights)
  - Performance Metrics
  - Governance
  - Compensation for Failures; Rewards for Success

## Basell IT – Value-Added Services

---

- Driven by combination of price, knowledge / expertise, methodology, key personnel and reference
- Competitively bid
- Both fixed price and T&M
- Focus on limited number of strategic (preferred) suppliers

## **Basell IT – Innovation Services**

---

- Driven by combination of price, creative alignment and vision, key personnel
- Competitively bid
- Close collaboration with business sponsors

# Trademarks in This Presentation

---

- *Catalloy, Moplen, Pro-fax, Metocene, Adstif, Clyrell, Pro-fax Ultra, Purell, Lupolen, Lupolex, Luflexen, Lucalen, Hostalen, Adflex, Adsyl, Hifax, Hostacom, Hostalen PP, Hostalen ACP, Softell, Spheripol, Lupotech T, Lupotech G, Spherilene, Spherizone and Avant* are trademarks owned or used by Basell.
- *Moplen, Pro-fax, Adstif, Clyrell, Lupolen, Luflexen, Lucalen, Lupotech, Hostalen, Adflex, Adsyl, Hifax, and Hostacom* are registered in the U.S. Patent and Trademark Office.

**Disclaimer:** Before using a Basell product, customers and other users should make their own independent determination that the product is suitable for the intended use. They should also ensure that they can use the Basell product safely and legally. (Material Safety Data Sheets are available from Basell at [www.basell.com](http://www.basell.com)). This document does not constitute a warranty, express or implied, including a warranty of merchantability or fitness for a particular purpose. No one is authorized to make such warranties or assume any liabilities on behalf of Basell except in writing signed by an authorized Basell employee. Unless otherwise agreed in writing, the exclusive remedy for all claims is replacement of the product or refund of the purchase price at Basell's option, and in no event shall Basell be liable for special, consequential, incidental, punitive, or exemplary damages.

# Questions and Answers

ATTACHMENT 5



---

**Presentation to the  
Acquisition Advisory Panel  
April 19, 2005**

---

**Reform Opportunities in  
Commercial Practices and  
Interagency Contracting**

---

---

# Introduction

---

- GAO and its perspective on acquisition.
- Focus today on GAO work addressing two of the panel's areas that promise opportunity for significant financial and performance improvements:
  - Commercial best practices
  - Interagency contracting
- Provide opportunity to address questions on GAO's performance-based services acquisition and workforce related work.

---

# GAO and Its Perspective on Acquisition

---

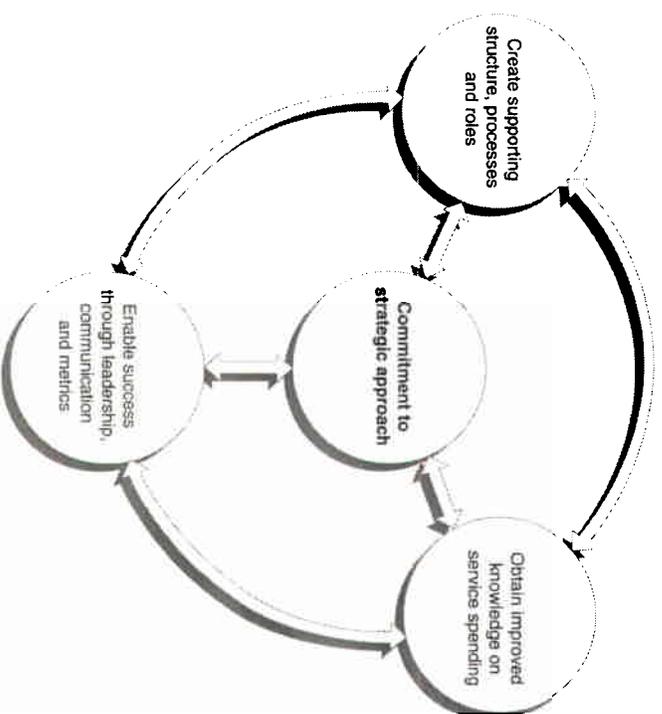
- The investigative arm of Congress, GAO issued over 400 written products (excluding testimonies) in fiscal year 2004.
- Our work makes a difference: in fiscal year 2004, \$44 billion in financial benefits and over 2,700 new recommendations.
- Guiding principles of acquisition:
  - Competition
  - Transparency
  - Accountability

## Services Acquisition in Context

---

- Decline in discretionary spending = loss of budget flexibility.
  - Workload pressures on federal acquisition workforce:
    - Number of complex and large-dollar contracts is growing
    - Change in size and composition of workforce
  - Traditional federal purchasing uses tactical, fragmented approach; little visibility or control at department level.
  - Federal agencies are not fully leveraging buying power
  - Combining spend volume for services and changing business practices leads to lower costs
-

# Best Practices Methodology – Identify Leading Commercial Practices



- Procurement trends and challenges were similar
- Fragm ented buying
  - Lack of reliable data
  - Leavi ng money on the table

# Leading Companies Take a Strategic Approach to Acquiring Services

---

- **Commitment**.. Secure up-front commitment from top leaders.
  - **Knowledge**.. Obtain improved knowledge on procurement spending.
  - **Change**.. Create supporting structure, processes, and roles.
  - **Support**.. Enable success through sustained leadership, communication, and metrics.
-

## **GAO Commercial Best Practices Work Emphasizes Need for Strategic Approach**

---

- DOD management of services acquisitions
- DOD procurement of commercial satellite services
- Leveraging of agencies' purchase card buying
- Expanding civilian agencies use of spend analysis for strategic procurement
- Department of Homeland Security sustainment of strategic sourcing program
- Postal Service supply management initiatives
- Greater GSA role in helping customers adopt strategic buying

---

## **Interagency Contracting – Why on GAO’s 2005 High Risk List**

---

- Significant reliance on interagency contracts: GSA schedules grew to \$32 billion in 2004. Treasury and NIH also sponsor contracts.
- For a fee, provides agencies benefits, such as:
  - Efficiency and timeliness through easy access to goods and services
  - Help manage acquisition workload and customer demands
- Designated as a new high-risk area because:
  - Challenges associated with contract management
  - Need to effectively implement new measures to bolster oversight and control to realize the value of interagency contracts

---

# Management Challenges Contributing to Interagency Contracting Risk

---

- GAO and IGs continue to identify examples of improper use, including:
    - Out-of-scope purchases
    - Avoiding competition procedures
  - Improper use linked to fee-for-service incentive to increase sales, increasing demands on the acquisition workforce, insufficient training, inadequate guidance
  - Lack of accountability and shared responsibility for critical management functions in interagency contracting
-

---

## **Better Management and Oversight to Reduce Interagency Contracting Risk**

---

- Develop specific and targeted management approaches to address contracting risks.
- Managing interagency contracts must be viewed as a shared responsibility between business centers/ordering agencies, requiring agencies, and contractors.
- Agencies need to implement policies and internal control processes that ensure compliance with competition, accountability, and transparency requirements while achieving customer service and sales goals.

## Wrap-up

---

- The Acquisition Advisory Panel can gain insights from private sector on ways to make acquisitions more efficient and effective—pay-off could be huge in terms of dollar savings and performance and mission improvements.
  - Expanded use and dollars spent through streamlined acquisition processes and interagency contracting demand strong oversight and accountability for sustained improvement.
  - We welcome questions on these matters and our performance-based and acquisition workforce related work.
-

## Commercial Practices

---

- **Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization** (GAO-05-179), Mar. 29, 2005 (available Apr. 28, 2005).
  - **Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement** (GAO-04-870), Sept. 16, 2004
  - **Postal Service: Progress in Implementing Supply Chain Management Initiatives** (GAO-04-540), May 17, 2004
  - **Contract Management: Agencies Can Achieve Significant Savings on Purchase Card Buys** (GAO-04-430), Mar. 12, 2004
  - **Satellite Communications: Strategic Approach Needed for DOD's Procurement of Commercial Satellite Bandwidth** (GAO-04-206), Dec. 10, 2003
-

## Commercial Practices

---

- **Contract Management: Restructuring GSA's Federal Supply Service and Federal Technology Service** (GAO-04-132T), Oct. 2, 2003
- **Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition** (GAO-03-935), Sept. 10, 2003
- **Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings** (GAO-03-661), June 9, 2003
- **Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services** (GAO-02-230), Jan. 16, 2002

## Interagency Contracting

---

- **Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts** (GAO-05-274), Mar. 17, 2005
  - **Contract Management: Opportunities to Improve Pricing of GSA Multiple Award Schedules Contracts** (GAO-05-229), Feb. 11, 2005
  - **High-Risk Series: An Update** (GAO-05-207), Jan. 2005
  - **Contract Management: Guidance Needed to Promote Competition for Defense Task Orders** (GAO-04-874), July 30, 2004
  - **Contract Management: Civilian Agency Compliance with Revised Task and Delivery Order Regulations** (GAO-03-983), Aug. 29, 2003
-

## Interagency Contracting

---

- **Contract Management: Interagency Contract Program Fees Need More Oversight** (GAO-02-734), July 25, 2002
  - **Contract Management: Not Following Procedures Undermines Best Pricing Under GSA's Schedule** (GAO-01-125), Nov. 28, 2000
  - **Contract Management: Few Competing Proposals for Large DOD Information Technology Orders** (GAO/NSIAD-00-56), Mar. 20, 2000
  - **Acquisition Reform: Multiple-award Contracting at Six Federal Organizations** (GAO/NSIAD-98-215), Sept. 30, 1998
-

# Acquisition Workforce

---

- **Federal Procurement: Spending and Workforce Trends** (GAO-03-443), Apr. 30, 2003
  - **Acquisition Management: Agencies Can Improve Training on New Initiatives** (GAO-03-281), Jan. 15, 2003
  - **Acquisition Workforce: Status of Agency Efforts to Address Future Needs** (GAO-03-55), Dec. 18, 2002
  - **Acquisition Workforce: Agencies Need to Better Define and Track the Training of Their Employees** (GAO-02-737), July 29, 2002
  - **Acquisition Workforce: Department of Defense's Plans to Address Workforce Size and Structure Challenges** (GAO-02-630), Apr. 30, 2002
-

---

# Performance-Based Contracting

---

- **Contract Management: Guidance Needed for Using Performance-Based Service Contracting** (GAO-02-1049), Sept. 23, 2002



---

# GAO Acquisition and Sourcing Management

## Contacts

---

**Bill Woods, Director**

(202) 512-4841

[woodsw@gao.gov](mailto:woodsw@gao.gov)

**Dave Cooper, Director**

(617) 788-0555

[cooperd@gao.gov](mailto:cooperd@gao.gov)

## Acquisition Advisory Panel

### Data Requests

19 April 2005

From Federal Procurement Data System (FPDS), Federal Procurement Data System – Next Generation (FPDS-NG), Other Sources (covering several years of data where possible)

- Dollars and % by Product and Service Code, NAICS, and Agency
  - All Indefinite Delivery Vehicles (IDV) Available for multi-agency use
  - By Type of IDV (BOA, BPA, Schedule, GWAC, Other)
  - Competed, Not Competed, Not Available for Competition & Why
  - Pricing Structure (fixed price, T&M, LH, LOE)
  - Top 10 Contractors
- Small Business Awards, Other than Small, and Bundled Awards
- Performance-Based Awards
- What is Not Available
- Working Group and Panel Considerations – More Data Needed?

