

ACQUISITION ADVISORY PANEL

Meeting Minutes

March 30, 2005

The Auditorium, General Services Administration
Washington, D.C.

The Acquisition Advisory Panel (AAP) convened its third meeting on March 30, 2005 in the Auditorium at the General Services Administration, Washington D.C. Ms. Marcia Madsen, Chair of the Acquisition Advisory Panel, opened the meeting at approximately 09:10 a.m.

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

Mr. Frank J. Anderson, Jr.
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. Deidre A. Lee
Mr. Thomas Luedtke
Ms. Marcia G. Madsen
Ms. Melanie Sabelhaus
Mr. Joshua I. Schwartz
Mr. Roger Waldron

The following Panel member was not in attendance:

Mr. Louis Addeo

The Chair described the meeting as the third formal meeting of the AAP, and the second substantive meeting. She explained that at the February 28th AAP meeting, the first set of Working Groups had been established: Commercial Practices, Interagency Contracting, Performance-Based Contracting, and two cross-cutting groups, Small Business and Federal Workforce. In the intervening weeks since the last AAP meeting, each Working Group identified preliminary issues. The Chair stated that the success of the Working Groups' efforts would be apparent during each group's briefing to the Panel later in the morning.

The Chair stated that she expected that the Working Groups will have largely completed defining the scope of their efforts by the end of June. She stated that the

goal is to have the initial draft of the report completed in September. This will provide the Panel until the end of the year to refine and complete its final report. Ms. Madsen requested that the staff prepare a tentative timeline of activity to be presented at the April AAP meeting. She noted that Working Groups should begin drafting background sections of their portions of the Panel's report and that some issues lend themselves to an earlier draft than others. The Chair suggested that Working Groups also begin their drafts on applicable laws, regulations and policies.

The Chair stated that it is the intent of the Panel to hold two public meetings outside of the Washington D.C. area to hear oral comments. Two tentative locations are the Fort Worth/Dallas, TX area, and San Diego, CA. The Chair noted that the staff is in the process of making these arrangements.

The Chair stated that Working Groups have begun collecting data; for example, the Commercial Practices Working Group developed an extensive list of questions to be posted shortly to the AAP website. She invited interested parties to review the questions and provide written comment. Ms. Madsen announced that the day's AAP meeting would include two presentations from industry on commercial approaches to services, Mr. Robert Miller from Procter & Gamble's Global Business Services and Mr. Todd Furniss from the Everest Group; however, the AAP was not accepting public oral comments from the floor at this meeting. As previously stated, Ms. Madsen expects that there will be several meetings where public oral comments would be accepted and that the topics and locations would be announced in the Federal Register.

Each of the Working Group Chairs submitted a briefing and reported on its progress to date identifying issues and its anticipated path forward. The briefing charts closely reflect the oral presentations and are posted on the AAP website, www.acqnet.gov/aap, under "Meeting Materials." The presentations and presenters were as follows:

Small Business	Ms. Sabelhaus	(Attachment 1)
Interagency Contracting	Mr. Etherton	(Attachment 2)
Performance-Based Contracting	Mr. DeMaio & Mr. Burman	(Attachment 3)
Federal Workforce	Mr. Schwartz & Mr. DeMaio	(Attachment 4)
Commercial Practices	Mr. Hughes	(Attachment 5)

At the conclusion of the Working Group presentations, the Chair stated that the Working Groups had identified many compelling issues. She indicated that accomplishing such an ambitious set of issues in the one year allotted by the Panel's charter would be a challenge. At approximately 10:45 a.m., the Chair called for a short break.

At 11:00 a.m., Ms. Auletta, DFO, announced that she would be sitting in for the Chair who would return at 1:00 p.m. The DFO introduced the first of two Industry speakers, Mr. Robert Miller, General Counsel for Global Business Services, Procter & Gamble Corporation (P&G). Mr. Miller thanked the DFO for the opportunity to speak to the Panel. Mr. Miller provided a disclaimer stating that the views expressed today were his own and did not necessarily represent the views of the Procter & Gamble Corporation. For approximately one hour, Mr. Miller discussed his firm's approach to outsourcing to include consideration of when to outsource, the competitive process, length of contractual arrangements, contract structure, contract terms and conditions, post-award management, strategies for introducing new technologies, quality considerations, and issues relating to termination. At the conclusion of his presentation, Mr. Miller opened up the floor for questions from Panel members.

Panel member Ms. Deidre Lee asked several questions related to ensuring supplier diversity, proper pricing of contract vehicles and handling contracts that go off track. Mr. Miller stated that in terms of supplier diversity, the company does not use its normal supplier diversity program, because there are no vendors in business right now who meet the diversity program requirements. He stressed, however, that his company has a very active and aggressive small business program for other types of purchases. In terms of pricing, the company originally set up, in advance, an aggressive declining cost for these programs. If the supplier beats the target price through its own innovation, then that is additional profit. If the supplier beats the cost with P&G's help, the cost savings are shared. In terms of pricing of IT services, P&G keeps the cost side firm and competes the assets to allow for a level playing field. In terms of monitoring, Mr. Miller stated it's an educational function to ensure both sides understand the terms of the agreement.

Panel member Dr. Allan Burman asked a question regarding contract management and oversight. Specifically, is there a special group designated for contract management and if so, what type of training do they receive? Mr. Miller responded that one size doesn't fit all; however, there is a governance mechanism for the contract. It is usually made up of a project executive and several experts in the field where contract management is the largest part of their jobs. Much of it is dependent on the complexity and length of the agreement.

Panel member Mr. Marshall Doke asked questions on fees and services. Specifically, how did the company set targets for shared savings with declining costs? Were they based on a learning curve, and if so, what are these other formulas for shared savings? Mr. Miller said yes, the declining cost targets are based largely on what we could achieve if we kept the services in-house and what we were committing the company to providing in these declining services. The

savings fit into two areas, vendor-driven synergy where the vendor retained the savings and the shared savings which resulted through joint efforts.

Panel member Mr. Carl DeMaio asked how many terminations P&G has had and its use of cure notices. Mr. Miller said none. He expounded by stating that what generally happens is one of two things: either the business is moved elsewhere or the contract is renegotiated. It is largely dependent on the facts and circumstances.

Panel member Mr. Ty Hughes asked questions about the cost of maintaining the hardware, software and connectivity. Specifically, is the cost built into the fee-for-service or is it a pass-through cost? Mr. Miller replied that this is a hot subject of the negotiation of these agreements, but usually maintenance costs are already included in the fees, unless it is revolutionary. If so, then these types are usually considered new services and subject to either pass-through or negotiation.

Panel member Professor Joshua Schwartz asked where in the organization all of the tasks that enter into outsourcing these services are performed. Specifically, what kinds of people are doing it, where are they organizationally and what are their qualifications? Mr. Miller stated that as it relates to contract management, generally, a team of people (technical) who are doing the work are the ones who are actually responsible for contract administration, but that transactional and contract negotiation expertise is useful for cutting deals. Panel member Professor Joshua Schwartz followed up with a question on the role of the attorney. Mr. Miller stated there are two roles, one of which is to support these types of transactions - P&G uses both inside and outside lawyers who are experts in the industry to help negotiate these agreements. The second role is to perform the normal legal functions, for example drafting the agreement and managing the process.

Panel member Mr. Frank Anderson asked Mr. Miller to comment on the detailed statement of work, specifically how it is prepared. Mr. Miller stated that what needs to be detailed is the outcome of the work, that is, the specifications for what the outcome should be. He added the "how" part of meeting the outcome is normally left to the trade experts.

Panel member Dr. Allan Burman asked who conducts the market research. Is it hired out or is P&G performing it internally? Mr. Miller stated that P&G only goes to outside industry experts as needed, and that P&G has a great deal of in-house expertise in many areas.

Panel member Mr. Jonathan Etherton asked if P&G's global processing centers are able to use contracts other than those that are in place with the corporation. Mr. Miller stated that for these services, they do require the centers to use the larger contracts to get the benefits of scale, quality control and reliability. In other areas

within P&G, people can choose between vendors, such as various insurance providers. Panel member Mr. Jonathan Etherton asked a follow-up question on the types of procedures that the company has in place to govern those cases where there is a choice of vendors. Mr. Miller indicated there were procedures in place for these types of arrangements.

The DFO, Ms. Laura Auletta, asked several questions for Panel members who were not present regarding yearly reviews to determine if pricing is comparable and if this is the primary tool for getting most favored customer pricing. Mr. Miller replied affirmatively to the first question and indicated P&G uses a release clause if it obtains lower prices in the marketplace. Ms. Auletta also asked about the frequency of use of time and material contracts and if there are any written policies on the limitations for their use. Mr. Miller stated that the company does use them; however, they are not usually a time and materials buyer of most commodities and that he was not aware of any written policies on the use of time and material contracts. Mr. Miller stated his company relies on the competitive process because competition usually results in the best outcome.

Panel member Mr. Marshall Doke asked a question regarding the outsourcing of employees and if a condition of the transaction is to require the supplier to employ at least a large part of P&G employees? Mr. Miller stated it was in their transactions, but it is not a broad practice across the industry.

(Mr. Miller's presentation slides are attached (Attachment 6) and available on the AAP website under "Meeting Materials".)

At approximately 12:00 p.m., the DFO called a one hour lunch recess.

At 1:00 p.m. the Chair, Ms. Madsen, introduced the second Industry speaker, Mr. Todd Furniss, Chief Operating Officer of the Everest Group. He discussed his firm's role in assisting clients in determining whether to outsource a requirement and if so, helping them manage the outsourcing transaction. He presented governing principles and associated implications driving best practices and noted that traditional approaches to procurement may be less effective for complex service acquisition. Following his presentation, Mr. Furniss responded to questions from Panel members.

Panel member Mr. Ty Hughes asked Mr. Furniss to explain the use of value analysis, in terms of quantifying cost-savings for a business case. Mr. Furniss indicated his firm spends a great deal of time talking to people in developing their value analysis as well as doing significant quantitative analysis to understand where the value and costs are located.

Panel member Mr. Carl DeMaio thanked Mr. Furniss for his presentation and asked him to address two areas: best value and statement of objectives - specifically, weighing costs versus performance and identifying the outcome the company wants to achieve in using a statement of objective. Mr. Furniss stated that it is not that his firm does not look at cost, but it is only one of the many criteria used to evaluate proposals. It also depends, he added, on the strategic objectives of the firm they are assisting. In terms of statement of objectives, Mr. Furniss responded that they perform both quantitative and qualitative analyses of each business case and conduct preliminary work by talking with suppliers in the industry to enhance their understanding of financials and business objectives.

Panel member Mr. Frank Anderson asked a question regarding solution development and how it can be used by the government. Mr. Furniss responded that the majority of Everest clients are not bound by the policy interests embedded in the Federal Acquisition Regulation (FAR). He suggested that there are no reasons why the government cannot augment those writings in conversations that are open and transparent. Mr. Furniss stressed that the open exchange of information is vital to a proper sourcing activity.

Panel member Mr. Marshall Doke asked a follow-up question on performance-based contracting as it relates to developing outcomes on specifications or statements of work. Mr. Furniss stated that Everest is trying to describe business outcomes, determine if the proposals demonstrate an understanding of the desired outcomes and if a process is laid out to accomplish them. The solution has to be fortified by describing some of the processes, credentials and the specializations used to deliver those business outcomes.

Panel member Dr. Allan Burman asked about life cycle costs and if Everest anticipates the type of additional expenditures needed to obtain transformational results. Mr. Furniss stated yes, they do anticipate these types of migration costs on virtually every transaction. The questions usually are when and who is going to pay for them. Mr. Furniss also stated there are different operational implications which need to be considered when transforming an organization because services will fundamentally be delivered in a different way.

Panel member Mr. Ty Hughes asked if there are other areas where commercial practices diverge significantly from the government's approach to outsourcing. Mr. Furniss answered yes, and offered several examples including different Requests for Proposal (RFPs) for each supplier to ensure the resultant bids reflect the suppliers' strengths and weaknesses. Mr. Furniss concluded that Everest's obligation as advisor is to do what it can to ensure every supplier provides its best solution to the buyer's problem.

Panel member Ms. Deidre Lee asked a question about supplier diversity and why there has been a decline since the 1980s and 1990s. Mr. Furniss stated he is unsure why this is occurring and had not explored the issue.

Panel Chair Ms. Marcia Madsen asked what kind of competitive process occurs once the numbers of suppliers have been reduced; is there still head-to-head competition? Mr. Furniss said yes, but emphasized they are not only competing on price, but actively investigating and examining the solutions. Mr. Furniss added that Everest looks at a number of areas such as labor arbitrage, process disciplines, critical mass and scale to evaluate the process. He added that vendors are happy to share this information and they share a fair amount of the specifics. Ms. Madsen asked about the type of agreements the companies enter into to protect that information. Mr. Furniss responded that Everest utilizes standard nondisclosure agreements with virtually every player.

Panel member Mr. Frank Anderson asked Mr. Furniss about the trust model and what suggestions he could provide that would enable the government to achieve this model. Mr. Furniss stressed the importance of being open and transparent with a free exchange of information. He stated that it comes down to a more humanistic level and stressed the importance of active listening and building personal long-term relationships.

Panel Chair Ms. Marcia Madsen asked about the process and time used in the exchange of information. Mr. Furniss stated that the time required is dependent on the complexity of the project, but that it is not uncommon to finish the value creation in six to eight weeks; however, occasionally the time required can expand to as long as twelve weeks for complex activity. It is not uncommon for the solution development and evaluation to take between five to nine months depending on how rapidly the organization is moving, how well the project is being managed, the extent to which it has executive oversight and the level of participation.

Panel Chair Ms. Marcia Madsen thanked Mr. Furniss for coming. Mr. Furniss responded that he appreciated the opportunity to visit with the Panel and offered further assistance to the Panel if needed.

(Mr. Furniss's presentation slides are attached (Attachment 7) and available on the AAP website under "Meeting Materials.")

The Chair announced that the next AAP meeting was scheduled for April 19, 2005 at the Federal Deposit Insurance Corporation (FDIC) at 801 17th Street NW, Washington, DC, and that further information on the meeting would be posted to the AAP website, accessible through the Acqnet link.

ADJOURNMENT

The DFO adjourned the third Acquisition Advisory Panel meeting at approximately 2:15 PM.

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

A handwritten signature in black ink, appearing to read "Marcia Madsen", with a long, sweeping underline.

Ms. Marcia Madsen
Chair
Acquisition Advisory Panel

ADAKHNEVT

SARA Panel

Cross cutting issues

Small Business Working Group

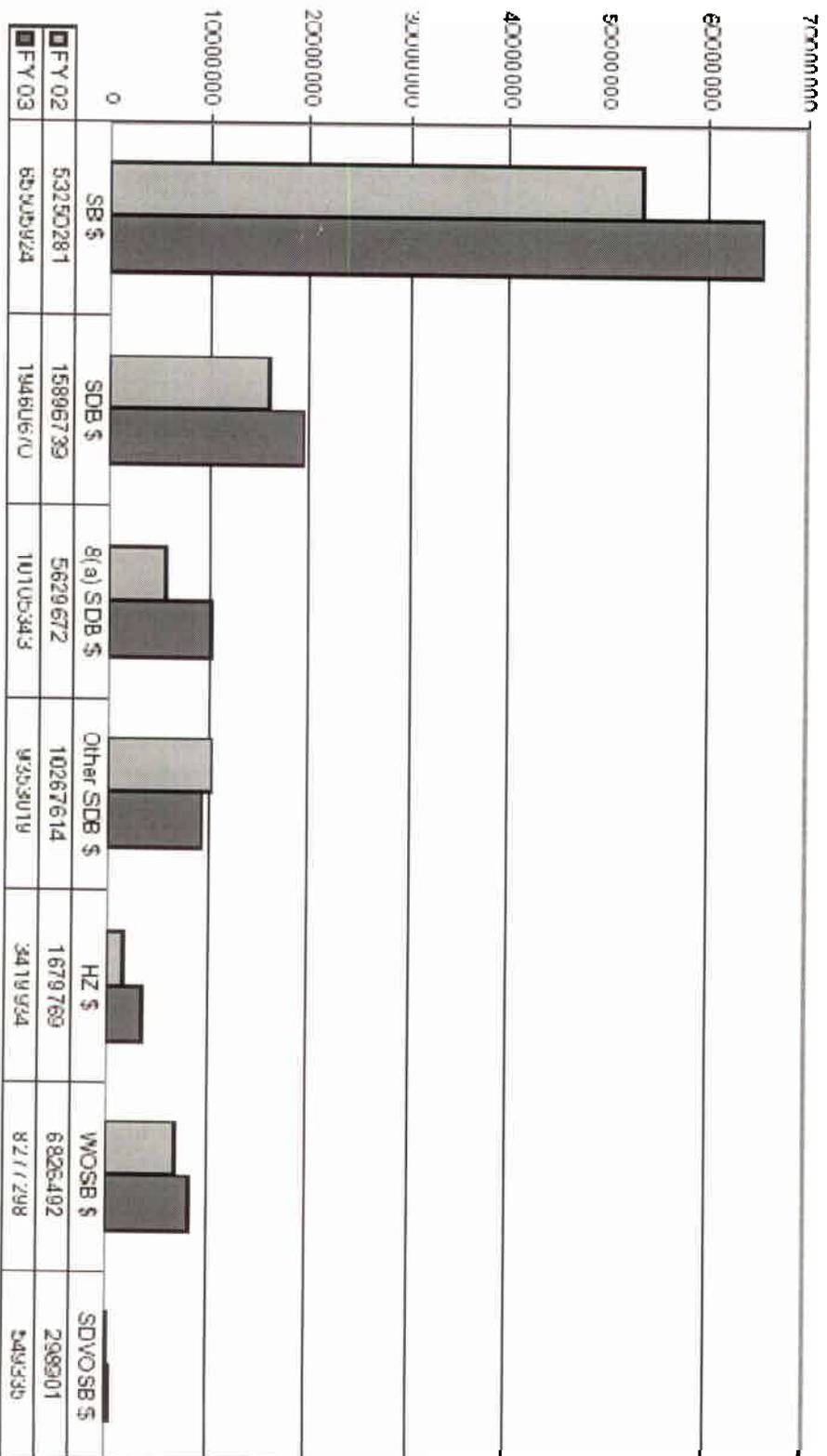
March 30, 2005

Panel Members on Small Business Working Group

- Melanie Sabelhaus, Chair
 - Deputy Administrator, Small Business Administration
- Deidre Lee
 - Director for Defense Procurement and Acquisition Policy, DoD
- Louis Addeo
 - President, AT&T Solutions
- Roger Waldron
 - Director, Acquisition Management Center, GSA

Landscape of Small Business Contracting

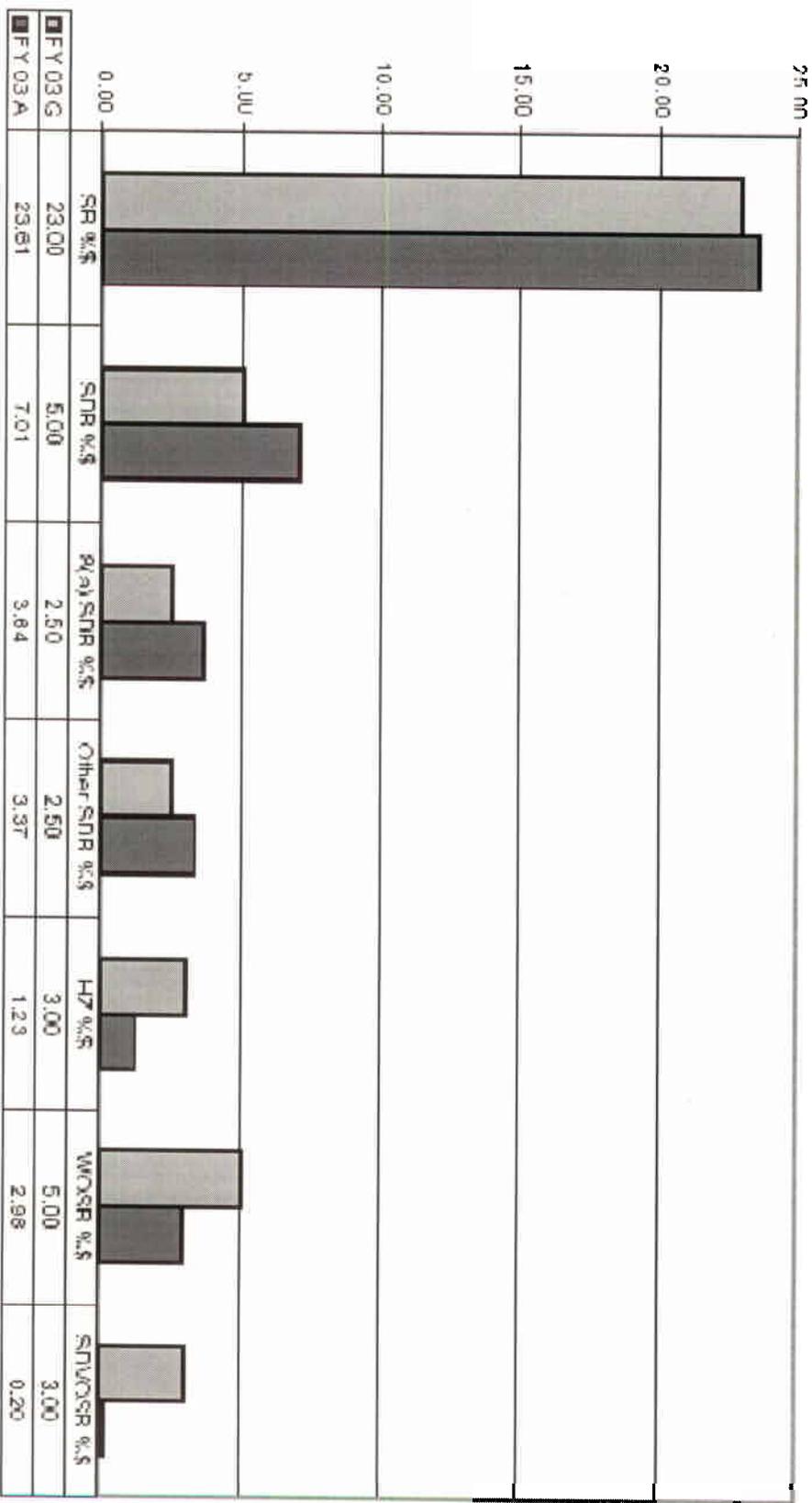
Government-Wide Small Business Achievements FY 02-03



F-1 (PERSONAL INFORMATION) and (SMA 9610) are now WAFB 01 & do not apply

Both Sources: EPPIC Annual Reports

Government-Wide Small Business Goals & Achievements FY 03 (%\$)

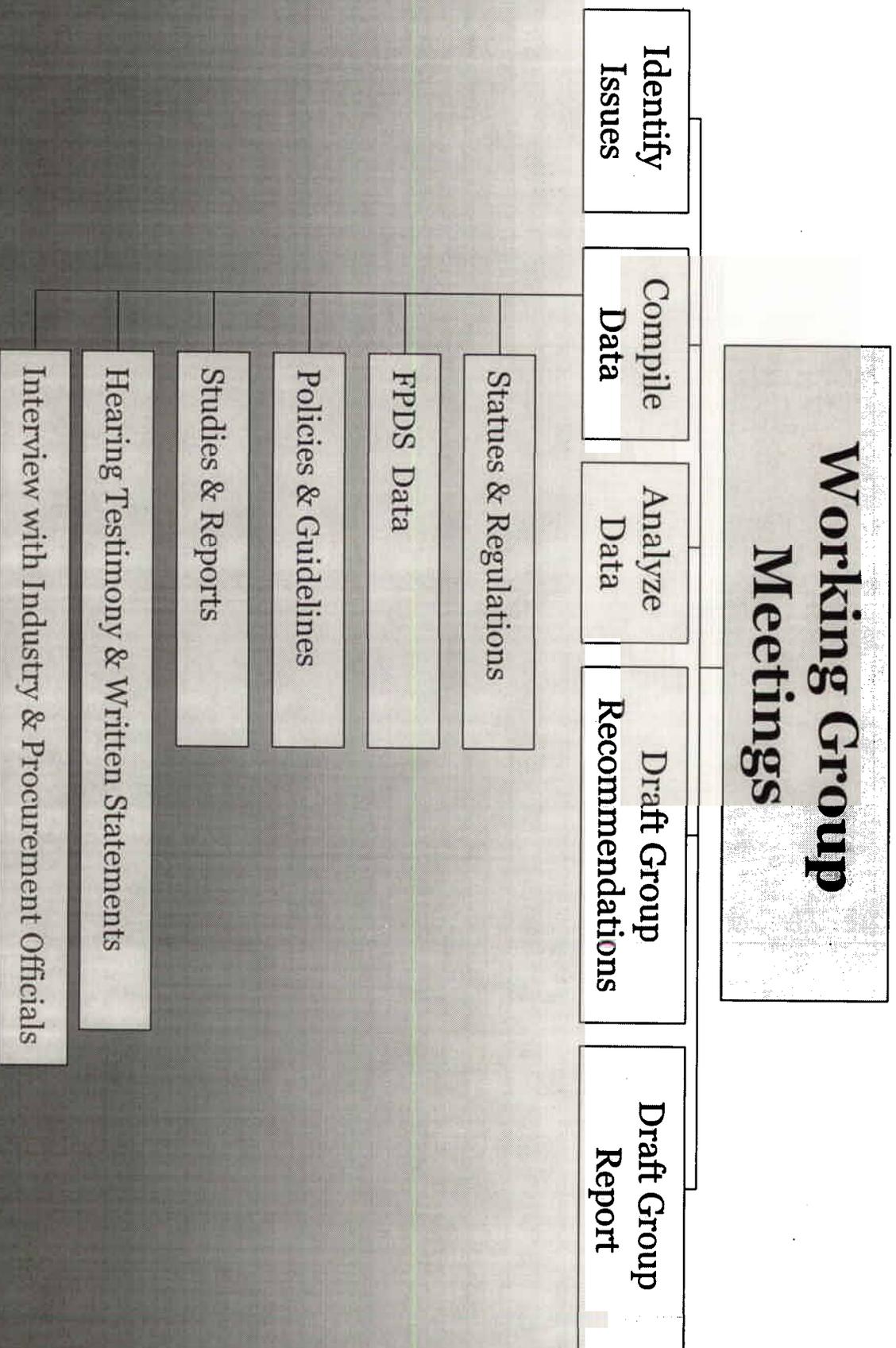


Goals & Achievement – FY 03

By Agency

AGENCY	SB %\$ Actual	SB %\$ Goal
EOP	62.56	50.00
HUD	54.03	30.00
DOC	53.34	35.00
USDA	51.31	43.00
STATE	48.18	40.00
SBA	48.08	60.00
DOI	47.52	58.00
GSA	45.72	40.00
DOT	43.66	50.00
DHS	40.68	23.00
SSA	40.61	32.00
DOJ	32.68	30.00
EPA	31.85	23.50
FEMA	31.26	23.00
HHS	30.08	30.00
VA	30.02	30.00
DOL	28.26	24.00
TRES	27.28	28.00
AID	26.27	28.00
DOD	22.35	23.00
DOED	16.75	23.00
OPM	15.33	17.00
NASA	13.86	17.00
DOE	4.08	3.70

Overview of Working Group Methodology



Primary Areas of Focus

- Accountability for structuring procurements that afford small business participation.
- Access to fair competition for procurements.
- Integrity of procurement awards.

Accountability

- Are Acquisition Officials:
 - Structuring procurements to maximize small business opportunities?
 - Properly trained in applying small business contracting programs and requirements?
 - Avoiding unnecessary and unjustified contract bundling?
 - Effectively coordinating acquisition strategies with Small Business Specialist, OSDBUGs and PCRSs?

Competition for Awards

- **Do small businesses:**
 - Receive a fair opportunity to compete for task and delivery orders?
 - Have a fair opportunity to compete in cascading procurements?
 - Have adequate procedural protections in competitive range determinations?
 - Have fair access to awards under “other transaction authority?”

Integrity of Awards

- What is the responsibility of agencies in ensuring that large prime contractors:
 - Comply with small business subcontracting plans?
 - Promptly pay small business subcontractors?

Next Steps

- **Establish working group milestones**
- **Identify and meet with public and private sector officials**
- **Collect and analyze data**
- **Finalize and prioritize issues**
- **Begin developing recommendations for Panel**

ATTACHMENT 2

1423
Panel

SECTION 1423 ACQUISITION ADVISORY PANEL

**Government-wide Contracts and
Interagency Contract Vehicles
Working Group**

**Government – Wide Contracts and
Interagency Contract Vehicles**

**1423
Panel**

Jonathan Etherton (Co-Chair)

Frank Anderson (Co-Chair)

Deidre Lee

Thomas Luedtke

Melanie Sabelhaus

Roger Waldron

Planned Outcomes

1423

Panel

- **Briefings**
- **Written Reports**
- **Recommendations**
 - **Start**
 - **Stop**
 - **Improve**
 - **Maintain**

Legal Authority

1423

Panel

31 U.S.C. 1535 (Economy Act)

41 U.S.C. 259 (b)(3) (Schedule program authority)

P.L. 103-355 (Federal Acquisition Streamlining Act)

sec. 1074 - Use of Multiple Agency Contracts

sec. 1074(b) – Economy Act requirements

sec. 1503 – DOD delegation authority

sec. 1552 – Civilian agency delegation authority

P.L. 103-356 (Government Management Reform Act)

sec. 403 - Franchise fund authority

P.L. 104-106 (Clinger-Cohen Act)

sec. 5112 - GWAC authority

sec. 5122 - Capital planning

sec. 5124(a)(2) - multi-agency IT acquisitions

P.L. 106-65 (FY 2000 NDAA)

sec. 804 - Guidance on GWACs

P.L. 107-107 (FY 2002 NDAA)

sec. 803 – Competition requirements for multiple award contracts

P.L. 108-375 (FY 2005 NDAA)

sec. 802 – Controls for DoD use of FTS

sec. 854 – DoD contracts with other agencies

Regulatory Guidance

1423

Panel

FAR 2.101 (Definitions)

FAR 5.6 (Publicizing Multi-Agency Use Contracts)

FAR 6.1 (Full and Open Competition)

FAR 6.2 (Full and Open Competition After Exclusion of Sources)

FAR 6.3 (Other Than Full and Open Competition)

FAR 7.1 (Acquisition Plans)

FAR 8.001 (Capital Planning Requirements)

FAR 8.4 (Federal Supply Schedules)

FAR 16.5 (Indefinite Delivery Contracts)

FAR 17.5 (Interagency Acquisitions Under the Economy Act)

FAR 38 (Federal Supply Schedule Contracting)

Administrative and Policy Guidance

1423

Panel

- OMB

Memorandum 97-07 (Multi-agency contracts under the Information Technology Management Reform Act of 1996).

Memorandum M-03-01 (Business rules for intergovernmental transactions).

Memorandum M-04-08 (Maximizing the use of SmartBuy and avoiding duplication of agency activities with the President's 24 E-Gov initiatives)

1423 GWAGS Working Group

1423 Panel

83%

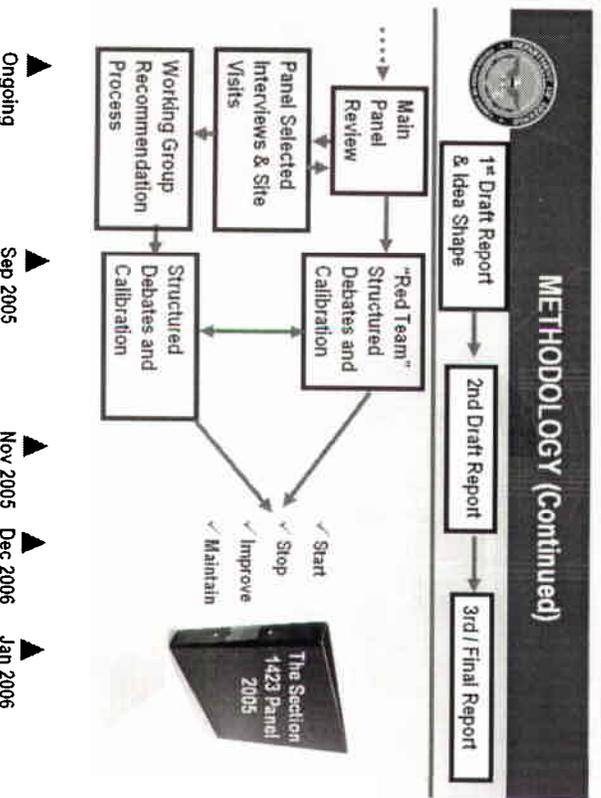
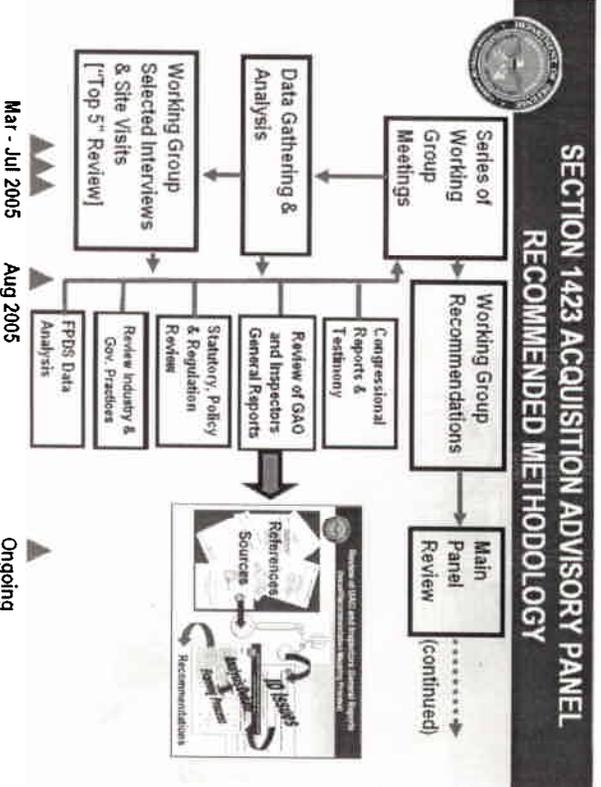
Feb 2005

July

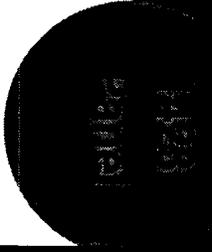
September

November

Feb 2006



Resource, Develop, Deploy



Series of Working Group Meetings

Working Group Recommendations

Main Panel Review

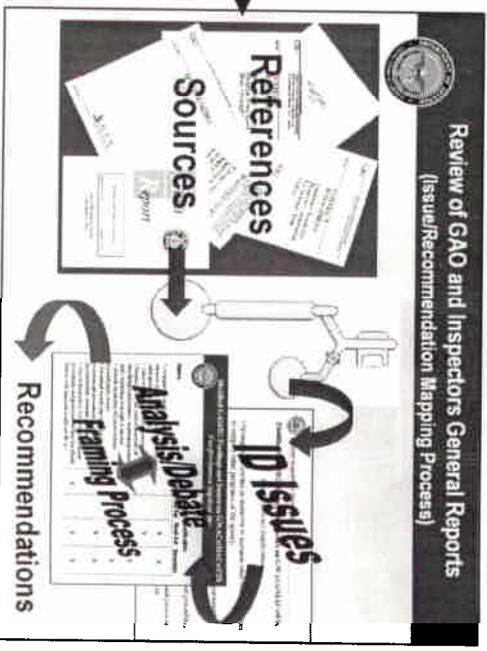
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Data Gathering, ID Issues & Analysis

Working Group Selected Interviews & Site Visits ["Top 5" Review]

- Comprehensive Review of Findings
- Review of ID Issues
- Review of ID Sources

Working Group Recommendations



Mar - Jul 2005

Aug 2005

Ongoing

Benefits of government-wide contracts and multi-agency contract vehicles affected by issues in the following categories:

- **Socio-economic programs.**
- **Structures/Constructs of contract vehicles and schedules programs.**
- **Pricing and cost.**
- **Implementation of vehicles including scope and competition issues.**
- **Oversight, surveillance and accountability.**
- **Training.**
- **Government organizations (GSAD/DOD): Strategic approaches to structure and processes.**
- **Workforce.**

- **Broaden source search.**
- **Examine private sector testimony for best practices.**
- **Analyze data from the Federal Procurement Data System.**
- **Continue source review.**
- **Establish working group milestones.**
- **Refine and prioritize identified issues.**
- **Begin developing recommendations for the Panel.**

**Performance-Based
Acquisition
Working Group**

*An Update on Issues
Identified and Next Steps*

Six Issues Identified

Government-Wide Policy Issues

1. Defining Performance-Based Contracting/Service Acquisition
2. Monitoring and Reporting Use of PBSA
3. Evaluating Cost Savings and Performance Improvements from PBSA

Agency Implementation Challenges

4. Defining Performance Standards and Baseline Costs in Individual Acquisitions
5. Making Past Performance and Best Value Determinations
6. Collecting Data and Managing Contract Performance

Issue 1.

**Defining Performance-
Based Contracting/Service
Acquisition**

Basic Elements of What Makes a Contract “Performance-Based”

- Solicits bids on the basis of what RESULTS you want achieved rather than what ACTIVITIES you want conducted
- Defines clear performance expectations and measures (baseline vs. expected results)
- Maximizes competition among bidders as the best means of achieving desired outcomes
- Provides incentives for performance
- Grants flexibility in exchange for accountability for results
- Is monitored to ensure performance is being achieved

The Importance of Defining PBC

- Major inconsistencies in how to define PBC and when to use PBC (GAO 2002 Report)
 - Inconsistencies “raise concern as to whether agencies have a good understanding of performance-based contracting and how to take full advantage of it.”
- Most existing PBC contracts are lacking one or more of the existing FAR criteria for PBC
 - Only 9 of 25 contracts studied by GAO reflected all FAR criteria

Proposed Revision to FAR Provisions on PBC

- Effort underway to revise FAR definition of PBC by Civilian and Defense FAR Councils
 - Use of SOOs *in addition to* SOWs
 - Allows objective or subjective measures
 - Incentive payments are discretionary, not mandatory
- Quality Assurance Surveillance Plans related to dollar risk, using commercial practices

NEXT STEPS

- Review and Comment on the “Revision to the Revision”

Issue 2.

Monitoring and Reporting Use of PBSA

Current Guidelines

- Government-wide goal of 40% (down from 50%)
- Designate contracts as PBSAs where more than 50% of requirements are performance-based (vs. 80%)
- Source of data: FPDS or individual agency reports

Types of Contracts vs. Services/Functions Contracted

Contract Types

- Firm Fixed Price
- CPIF or CPAF
- CPFF or Time & Materials
- Indefinite Quantity Contract (IQC)

Services/Functions

- Information Technology
- Finance
- Human Resources
- Logistics
- Research/Science
- Etc.

NEXT STEPS

- Identify what **CURRENT** data is available on contract type and function (FPDS)
- Propose refinements in government-wide reporting for improved accountability and analysis in the future

Issue 3.

**Evaluating Cost Savings and
Performance Improvements
from PBSA**

A Myriad of Benefits Identified

- Increased likelihood of meeting mission needs
- Focus on intended results, not process
- Better value and enhanced performance
- Less performance risk
- No detailed specification or process description needed
- Contractor flexibility in proposing solution
- Better competition: not just contractors, but solutions
- Contractor buy-in and shared interests
- Shared incentives permit innovation and cost effectiveness
- Less likelihood of a successful protest
- Surveillance: less frequent, more meaningful
- Results documented for Government Performance and Results Act reporting, as by-product of acquisition
- Variety of solutions from which to choose

1998 OFPP Study

- 26 Contracts from 15 Agencies
- \$585 Million in net award value (range from \$100,000 to \$325m)
- Contract Price Impact: 15% cost savings
- Customer Satisfaction: 18% increase (3.3 to 3.9 on 5 pt. scale)
- Contracting Efficiencies
 - Reduced 38 days of procurement lead time (237 vs 275)
 - Increased number of offers (from 5.3 to 7.3)
 - Decreased contract audits by 93%

NEXT STEPS

- Affirm existing evidence-based and anecdotal data on PBSA benefits
- Review OFPP “Center of Excellence” role in promoting tracking of successes and failures of PBSA (by contract and function type)

Issue 4.

**Defining Performance
Standards and Baseline Costs
in Individual Acquisitions**

Performance Measure Criteria

“Think SMART”

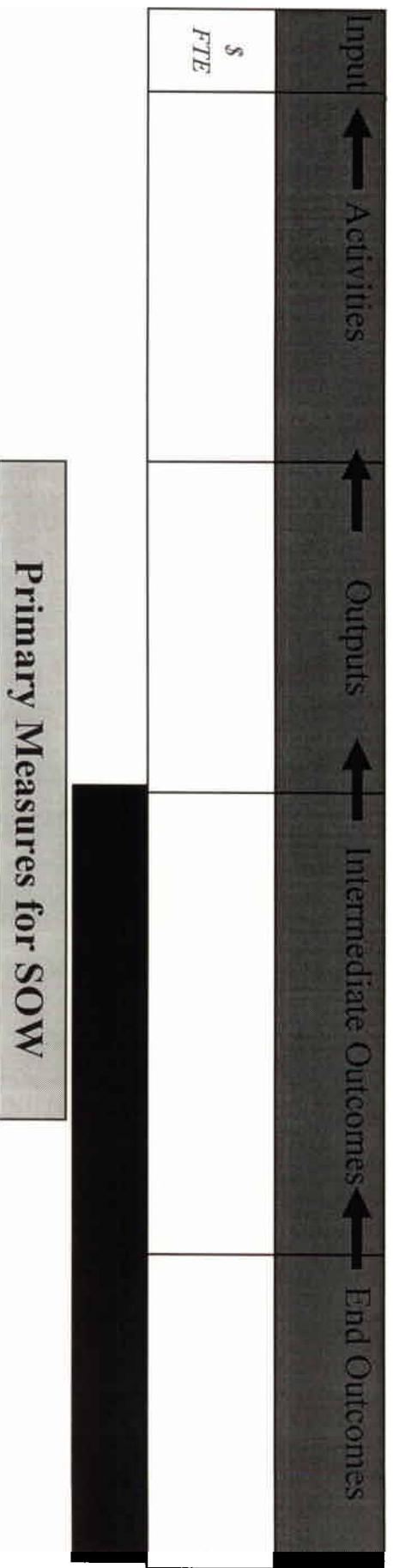
- SPECIFIC
- MEASURABLE
- ACCOUNTABLE
- RESULTS-ORIENTED (#1)
- TIME-BOUND

Issues to Consider When Selecting Performance Measures

- Role of Acquisition Staff vs. Program Staff in Defining Requirements
- SOW vs. SOO Approach to Identifying Measures
- Establishing a Baseline on Performance and Costs
- Using Industry Standards/Benchmarks
- Subjective vs. Objective: When and How to Use
- Avoiding Too Many Measures
- Maintaining “Wiggle Room” for Measure Revision
- Fair Allocation of Risk
- Overcoming Cultural Resistance to Outcome-Focus

Building a Performance-Based Contract

Seven Steps Using the Logic Model



- **Step 1: Establish the Contracting Team**
- **Step 2: Identify Scope and Anticipated End Outcomes**
- **Step 3: Examine Private-Sector and Public Sector Solutions**
- **Step 4: Select Performance Measures (Intermediate Outcomes, Outputs and Work Processes)**
- **Step 5: Develop a PWS or SOO**
- **Step 6: Select Contractor**
- **Step 7: Monitor and Manage Performance**

NEXT STEPS

- Solicit private sector and government testimony on ways to select performance and cost measures
- Consider affirmation of seven-steps or similar process

Issue 5.

Making Past Performance and Best Value Determinations

Past Performance Evaluations

- A huge (untapped) aspect to PBSA
- If past performance data is not available, a) there's risk or b) perhaps PBC measures are off
- PPE may present barrier to PBSA if too rigidly implemented (barrier for small businesses, start-ups, incompatible comparisons, etc.)
- Alternatives to consider: expanded definition of what constitutes “past performance” (criteria-based); government-wide certification or standards on broad capabilities; review of bidders' experience in performance/quality management; past performance as a risk assessment as opposed to a weighted, scored factor, particularly in a best value procurement

Best Value Comparisons

- Development of “best value” criteria in PBSSA is a challenge

NEXT STEPS

- Solicit private sector and government testimony on use of past performance and best value
- Explore alternatives outlined to absolute past performance reviews
- Possibly refine criteria for “best value” in PPSA

Issue 6.

Collecting Data and
Managing Contract
Performance

Monitoring and Managing

- PBSA is more performance management in addition to performance measurement
- Managing Performance Data
 - Data collection imposes costs on vendors
 - Data analysis and tracking tasks for agency require new capacities
- Incentives for Performance
 - Financial vs. non-financial (when and how)
- Correcting Poor Performance
 - Early warning systems
 - Flexibilities vs. managing government risk
- Learning and Leveraging
 - Revising performance targets and measures based on experience

NEXT STEPS

- Solicit private sector and government testimony on ways to monitor and manage contract performance
- Examine infrastructure issues in agencies to manage data and monitor contracts

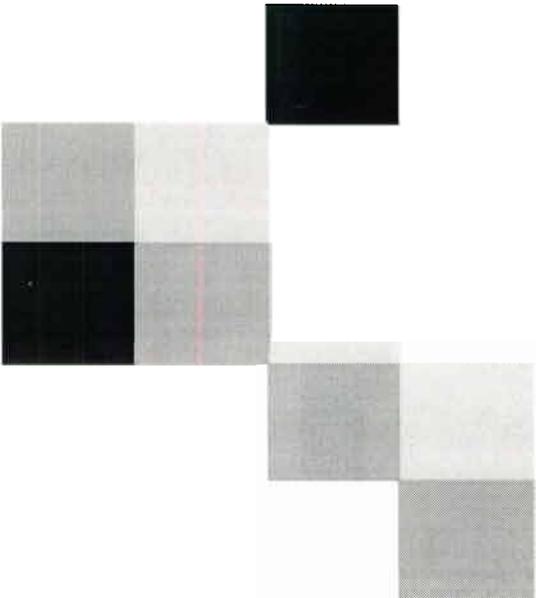
Six Issues Identified

Government-Wide Policy Issues

1. Defining Performance-Based Contracting/Service Acquisition
2. Monitoring and Reporting Use of PBSA
3. Evaluating Cost Savings and Performance Improvements from PBSA

Agency Implementation Challenges

4. Defining Performance Standards and Baseline Costs in Individual Acquisitions
5. Making Past Performance and Best Value Determinations
6. Collecting Data and Managing Contract Performance



Acquisition Workforce Working Group

For Discussion Purposes Only



Working Group Objectives:

- To explore whether the federal acquisition workforce possesses the skills necessary for successful service acquisition in the areas being addressed by the Section 1423 Panel



Working Group Objectives

- To ensure that agencies plan successfully for human capital needs so as to meet the demands that will be placed on the acquisition workforce in the future



Overview of the Acquisition

Workforce Working Group's Study:

4 Components



1. The Definition

- What Constitutes the Acquisition
Workforce?



2. The Roles

- What tasks are we asking our Acquisition Workforce to carry out?



3. The Competencies

- What skill sets are required for acquisition personnel successfully to carry out the roles that we demand of our acquisition workforce?
- What information do we possess regarding the inventory of skills and capabilities available within the existing acquisition workforce?

4. Standards

- What ethical constraints should govern the acquisition workforce in securing services through government-wide and interagency contracts, performance-based acquisition, and use of commercial practices?



What We Know and What We Need to Know



1. Defining the Acquisition Workforce

- There is no agreed-upon government-wide definition of the acquisition workforce available today.
 - Clearly personnel in GS-1102 positions are the starting point for delineating the federal acquisition workforce
 - But this cannot be the outer limit of the acquisition workforce because it takes much too narrow a view of the acquisition process



Defining the Acquisition Workforce

- Historically, in accounting for the *civilian* acquisition workforce we have employed a much narrower definition than that which has been employed in DoD



DoD Acquisition Workforce Definition

- **The Refined Packard Model currently employed by DoD takes a broader, more functional, view of whom to include in the acquisition workforce, including traditional procurement occupational categories as well as others performing functions related to procurement**



The Data: DoD Acquisition Workforce

- Using this broad, functional definition, the Defense Acquisition, Technology and Logistics workforce totaled 132,593 civilian and military personnel on September 30, 2002



The Definition Matters

- By contrast, the Federal Acquisition Personnel Information System (FAPIS), restricted to 6 traditional procurement occupational categories, showed an acquisition workforce of only 31,000 for DoD.



The Definition Matters

- Accordingly, it makes a critical difference whether we define the acquisition workforce broadly enough to capture the true dimensions of the acquisition function today.



Work Underway

- OFPP has under way a review of Policy Letter 97-01, which has in the past provided for a relatively narrow and traditional definition of the acquisition workforce.
- This is clearly a significant opportunity to update to a more forward-looking definition of the acquisition workforce



A working objective for our panel:

- **Can we identify and recommend a consistent approach for government-wide definition of the acquisition workforce?**



2. The Roles



2. The Roles

- The Roles that the acquisition workforce is asked to fulfill have changed dramatically as a result of procurement reforms of the last decade or more



Impact of Procurement Reform

- One aspect of this is the shift to best value procurement in the place of an approach that focused exclusively on lowest price

Impact of Procurement Reform

- Intertwined with this shift has been the desire to allow government to avail itself of the best solutions that the commercial marketplace could provide



Impact of Procurement Reform

- Procurement reform has simplified the acquisition process for a host of smaller and commercial item procurements, but the bulk of taxpayer dollars are still spent through much more complex procurement processes



Multiplicity of Objectives

- The Acquisition Workforce is challenged by the need to consider multiple objectives that may be in competition in particular situations.



Multiplicity of Objectives

- As summarized in the Federal Acquisition Regulation, these include:
 - Achieving best Value for the government customer
 - Minimizing the administrative cost of procurement
 - Conducting business with integrity, fairness and openness, and
 - Fulfilling relevant public policy objectives



Multiplicity of Objectives

- Precisely because acquisition must pursue these multiple competing interests, the task of the acquisition workforce is an inherently difficult one.



Functional aspects of the acquisition workload

- The acquisition workforce confronts a myriad of discrete tasks. But the basic functions that the workforce must fulfill can be summarized as four items:



Functional roles in the acquisition workload

- Business advisor
- Facilitator
- Supply chain manager
- Strategic Advisor



DOD Acquisition Mission and Resource Challenges

- It is appropriate to pay special attention to the special challenges facing the Defense Department that affect the acquisition mission.
- These include:
 - The need to modernize the DOD force structure including expensive and technologically demanding projects
 - The need to maintain the existing inventory of equipment that is both aging, and subject to very heavy use because of the high intensity of military operations under current world conditions.



DOD Mission and Resource Challenges

- Competing budgetary priorities and budgetary resource constraints that place a great premium on efficient use of available resources
- The prevalence of high technology purchases that add complexity to the acquisition workload
- DoD has also experienced a striking shrinkage of the acquisition workforce and aging of the remaining workforce



3. The Competencies



A Dynamic Challenge

- The problem of matching the acquisition workforce to the demands of federal acquisition is far from a static one.



A Dynamic Challenge:

- Most obviously, the dollar volume of federal contracting for services has been rapidly expanding



A Dynamic Challenge:

- Second, we have had a substantial contraction in the traditionally defined acquisition workforce over the last decade or so.
- And recent projections continue to show a high proportion of the remaining workforce will be eligible to retire relatively soon.



A Dynamic Challenge

- The problem is not just quantitative, a problem of growing workload and shrinking workforce, however.
- Rather, as a result of the procurement reforms of the last decade there has been a substantial qualitative change in the demands made on the acquisition workforce

Qualitative change in procurement work

- GAO has observed:
 - Procurement reforms have placed unprecedented demands on the acquisition workforce. For example, contracting specialists are required to have a greater knowledge of market conditions, industry trends, and the technical details of the commodities and services that they procure.
- (GAO-03-443, at page 20)



Workload Trends

- The trends affecting the acquisition workload appear to be complex and somewhat subtle.
- While the purchase card program has reduced the number of smaller contracting actions GAO reports that the number of larger contracting actions has grown dramatically



Areas of focused growth

- More specifically, the kinds of services acquisition that are of interest to this panel have been focal areas for contracting growth:



Areas of focused growth:

- GAO has reported dramatic growth in:
 - Use of government-wide and interagency contracting vehicles
 - And use of streamlined procedures for acquisition of commercial items



Problem Area

- In addition the targets for Performance-Based Services Acquisition established by OMB continue to ramp up
- At the same time, however, GAO studies suggest that many government agencies have had difficulty meeting targets for PBSA.



Workforce Implications re: PBSA

- On the basis of these disappointing findings, GAO has questioned “whether agencies have a good understanding of performance-based contracting and how to take full advantage of it.”
(GAO-02-1049, at 8)



Workforce Implications

- This plainly suggests that the existing workforce should be examined to ensure that it offers the capabilities that will be needed to make good on the promise of procurement reform



Inventory of Necessary Skills

- The Federal Acquisition Institute has undertaken several useful studies to try to inventory the kinds of skills that will be demanded of the civilian acquisition workforce for the future.



DoD Acquisition Workforce Planning

- DoD has also made efforts through its Acquisition 2005 Task Force to assess and define the capabilities needed for the DoD acquisition workforce of the future.



Agency Human Capital Planning

- The task of gauging the workload demand for these competencies has thus far been left to individual agencies, as part of their human capital planning process.
- The same is true of efforts to assess the degree to which the existing procurement workforce actually possess the required capabilities identified in studies like DoD and FAI's.



The Status of Agency Human Capital Planning

- Within the last few years GAO has examined the status of human capital planning efforts for the acquisition workforce both at DoD and at selected civilian agencies.

At DoD:

- **At DoD, GAO found that human capital planning efforts to address the needs for a an acquisition workforce to meet the challenges of the future were underway, but it was too early to assess their ultimate effectiveness.**



On the Civilian Side:

- GAO found more variation among the civilian agencies that it surveyed as to the state of progress of human capital planning for the acquisition workforce.



Need for better data

- However, as of the end of 2002, GAO concluded that civilian agencies lacked reliable, consistent and complete data on their acquisition workforces, including data on the knowledge and skill base of the existing workforce



More working goals:

- **To assess the state of efforts to improve data collection on the composition and skills of the acquisition workforce.**
- **To assess the state of agency human capital planning for the acquisition workforce needs of the future**



4. Ethics and Standards

4. Ethics and Standards

Oversight Relating to Expanding Commercial Practices and Performance-based Contracting in Government

- Do expanding PBSA and commercial practices for services raise a special red flag or warrant special consideration from an ethics/oversight view?
- Is there anything unique in the formation or evaluation of a PBSA contract that raises any special issues?
- Conversely, does PBSA offer a way to enhance oversight and promote ethics?



Some Initial Observations...

- Ethics and Oversight in government acquisition are understandably high on minds of policymakers and the public
- You cannot manage by “exception;” you must manage by the “rule”
- Ethical violations are exceptions—an you can never build a system that will prevent bad decisions or fraudulent behavior in all respects
- There is a concern that the lapses of a few will lead to over-regulation of the acquisition system—imposing burden and costs on the taxpayer
- You CAN build a system that maximizes flexibility within clear ethical standards

Issues to Consider

- **PBSA**: As a way to enhance focus on performance, accountability and transparency in government contracting
 - Provides hard data on cost and performance achievement of acquisition decisions
 - Investing time and energy here will be of greater benefit to taxpayers than other inquiries
- **Performance Standards**:
 - How do we evaluate “best value” and “past performance reviews” on bids received?
 - Should government REVISE definition of PBSA to mandate standards for how certain activities would be conducted (i.e. applying government ethics standards for government activities to contractor activities on behalf of government?)



**Directions for the Future for the
Acquisition Workforce Working
Group**



Directions for the Future

- To identify and recommend a consistent approach for government-wide definition of the acquisition workforce
- To assess the state of efforts to improve data collection on the composition and skills of the acquisition workforce
- To assess the state of agency human capital planning for the acquisition workforce needs of the future



Directions for the Future

- To evaluate whether expanding use of PBSA, commercial practices and government-wide and interagency contracts raises any distinctive issues warranting concern from an ethics/oversight point of view

Commercial Practices Working Group Report

Ty Hughes
David Drabkin
Marshall Doke
Roger Waldron

March 30, 2005

Information Sought from Contractors and Commercial Organizations

Commercial practices

-  e.g., types of contracts used, how awarded, pricing, terms and conditions, and corporate policies on use

Obstacles to competition

Variances from commercial practices when selling commercial items to the government

-  e.g., pricing, government market segmentation, and contract terms & conditions
-

Information Sought from Selected Government Buying Agencies

- ✍ Data on 50 “best value” solicitations values over \$100,000
 - ✍ Evaluation factors, responsibility determinations and time elapsed from requirement to solicitation
 - ✍ Overall workload and staffing for contracting
 - ✍ Determinations of price reasonableness
-

Information Sought from both Government and Industry

- ✍ Obstacles to using commercial practices
 - ✍ Impediments to full and open competition
 - ✍ Recommendations for improving the acquisition of commercial goods and services
 - ✍ Training of employees
-

Other Issues

- ✍ Does the definition of “commercial item” at FAR 2.101 needs to be clarified
 - ✍ Modifications of commercial items
 - ✍ Customarily used by the general public or by non-governmental entities
 - ✍ Determination of commercial items under a subcontract
 - ✍ Application of section 1443 of the FY2004 National Defense Authorization Act
-

Action Items

- ✍ Complete review existing statutes and regulations addressing commercial items
 - ✍ Obtain information from selected government buying activities
 - ✍ Obtain information from government contractors and commercial services
 - ✍ On both commercial services and items
 - ✍ Input from multiple industries
 - ✍ Compile working group recommendations
-

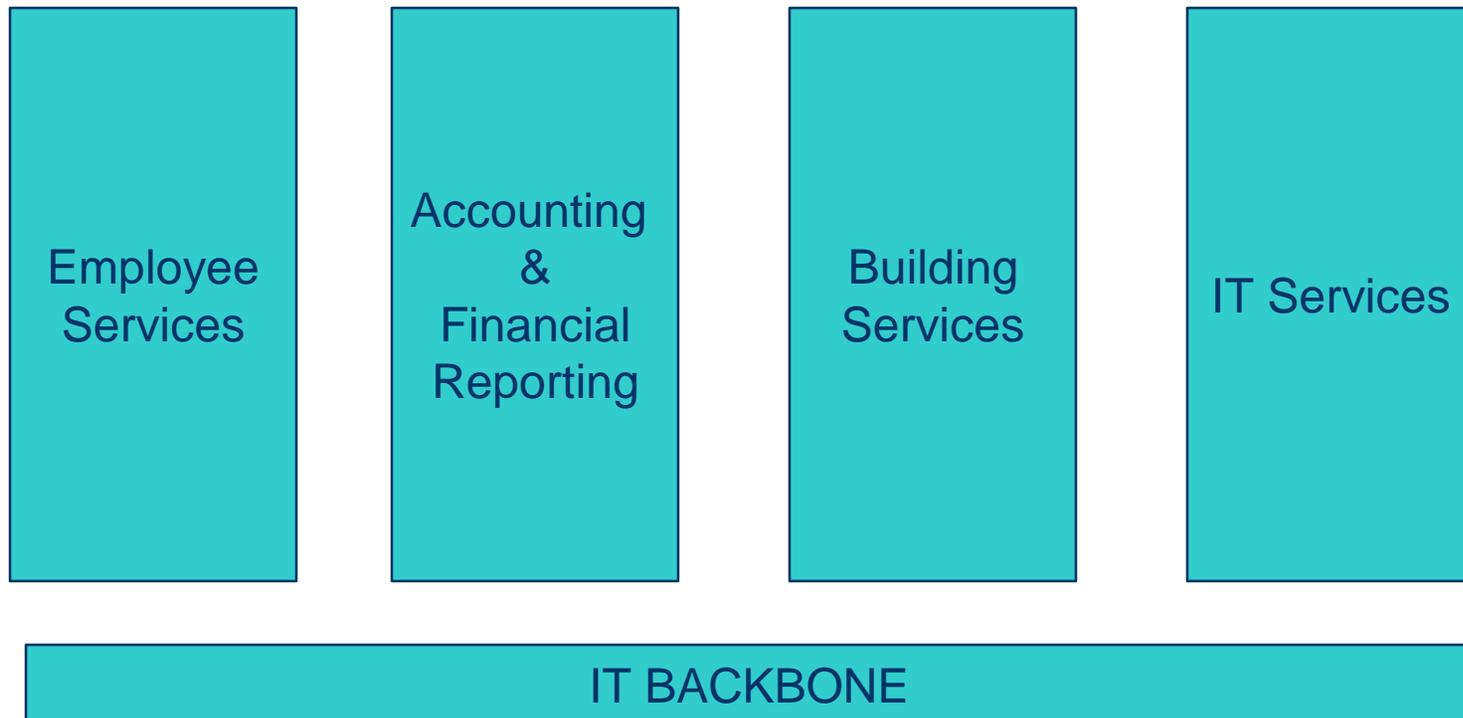


GBS (Global Business Services)

Shared Services Group

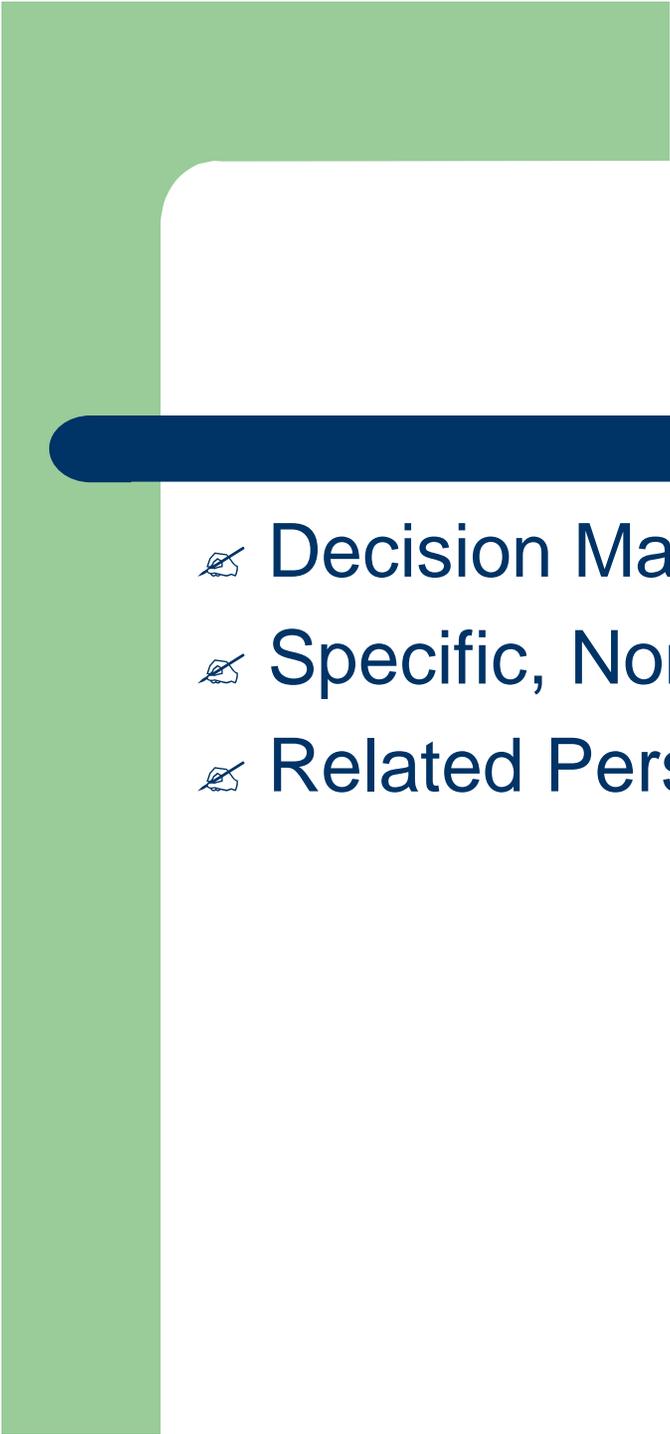


Four Bundles or Towers



Three Global Services Centers

- ✍ San Juan, Costa Rica
- ✍ Manila, Philippines
- ✍ New Castle, UK

- 
- 
- ✍ Decision Made to Outsource
 - ✍ Specific, Non-strategic Tasks/Services
 - ✍ Related Personnel

Several Reasons to Outsource

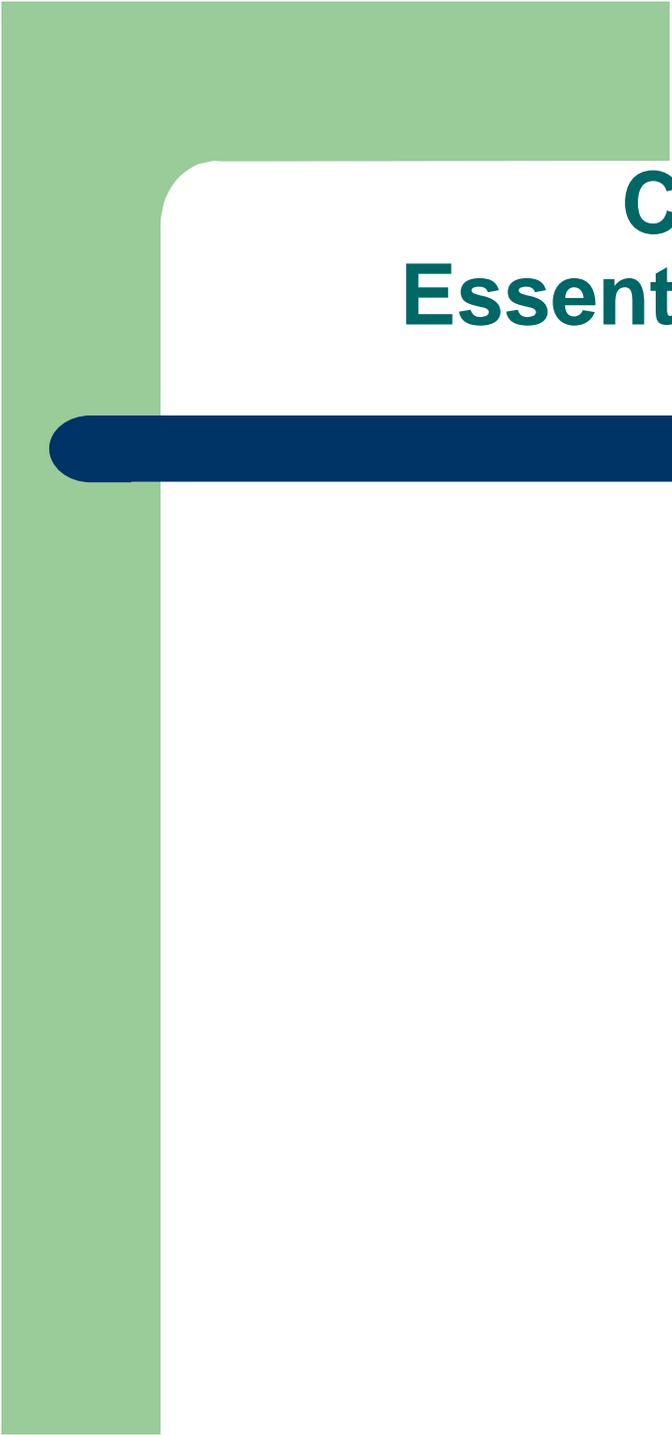
- ✍ Savings
- ✍ Redeploy Capital
- ✍ No competitive advantage
- ✍ Experience

Went Through Several Iterations

- ✍ One Macro Vendor
- ✍ Several Vendors

Common Approach Used “Competitive Process”

- ✍ Diligence on Vendors – Diligence on us
- ✍ Can they do the work? – Reliability
- ✍ Deliver Services/Costs
- ✍ People
- ✍ Contract Terms – Up-to-date Technology



Competitive Interplay
Essential to obtaining best price
and terms



- 
- 
- ✍ Originally Sought 10 Year Agreement
 - ✍ Market Conditions Tightened -- Ended up with 5-7 year deals

Generally IT Outsourcing Deals

- ✍ Provide Statements of Work
- ✍ Service Levels
- ✍ Fee For Services (Often built in Savings)
 - Shared Savings formulas
- ✍ ARC/RCC



Time and materials/Cost Plus have been used

Rare in IT

We did for Facilities Management

Contract Structure

- ✍ In structuring a commercial outsourcing contract, customers endeavor to:
 - Memorialize the business terms, i.e., the allocation of legal, financial and operational responsibility and risk
 - Address known and foreseeable issues
 - Provide a framework to address future changes and resolve disputes

Purpose of Contract Terms and Conditions

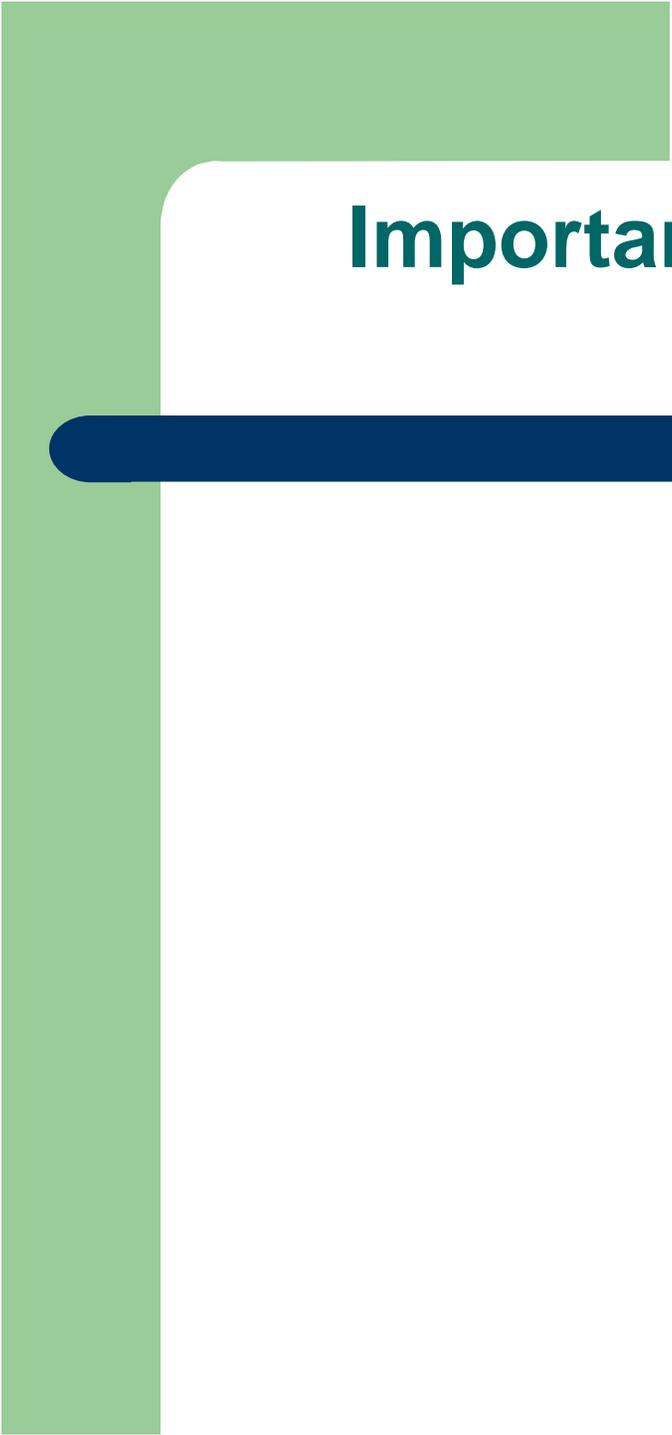
- ✍ Retain leverage and manage change
- ✍ Manage in-scope and new services
- ✍ Manage service quality
- ✍ Provide price protection
- ✍ Deliver promised cost savings

Common Contract Management Problems

- ✍ Too often, customers fail to manage to the contract that has been so painstakingly negotiated
- ✍ Victims of the vendor-promoted and customer-accepted position that the contract should be put on the shelf and forgotten
- ✍ Or, lack of contract knowledge

Common Contract Management Problems

- ✍ Too often, departures from the contract terms are not recognized
- ✍ Contract modifications are not documented
- ✍ Proven contract management tools that have been painstakingly inserted in the contract are overlooked



Important Provisions/Levers for Service Buyers



Benchmarking

- ✍ Beginning 12 months after Effective Date, Vendor has right to engage an independent third party to conduct a market comparison of price and Service Levels of any component of the Services
- ✍ If prices not in most favorable 25%, Supplier must adjust the charges to eliminate the unfavorable variance or provide acceptable alternate resolution

Architecture, Standards and IT Planning

- ✍ We retain ultimate authority to promulgate architectures, standards and IT plans and grant waivers

New Technologies

- ✍ Supplier to provide Services using current best technologies to take advantage of technological advancements and maintain our competitiveness

Right to In-source or Use Third Parties

- ✍ Right to in-source or use third parties for New Services and replacement services

New Services Proposals

- ✍ Proposed pricing must be reasonable, no less favorable than existing pricing and labor rates for comparable services and take into account existing and future volume of business

New Technologies

- ✍ Supplier is obligated to identify and propose the implementation of any technology or process that is likely to
 - Improve the efficiency/effectiveness of the Services
 - Result in cost savings or revenue increase
 - Enhance ability to conduct business or serve customers
 - Achieve objectives set out in Agreement more efficiently

Compliance with Laws

- ✍ Supplier will comply with all applicable Laws and all changes in such Laws
- ✍ Supplier will comply with privacy policy
- ✍ Supplier will be responsible for any fines or penalties imposed resulting from any failure of Supplier to comply with applicable Laws

Quality Assurance

- ✍ Supplier to maintain an internal audit function to monitor the processes and Systems used to provide the Services
 - Supplier will develop and execute an annual risk assessment process
- ✍ Supplier to obtain an SAS 70 or equivalent audit and an ISO 9001, or similar quality standard, within 18 months after the Commencement Date

Methods of Termination

✍ Termination

- Termination for Cause
- Termination for Convenience
- Termination for Insolvency, Change of Control or Significant Impact

Termination for Cause

- ✍ The right to terminate in whole or part for cause on following grounds:
 - Supplier's failure to complete Transition Services by period set;
 - Supplier commits material breach of the Agreement and does not cure it within 30 days of notice of breach;
 - Supplier commits a material breach that is not capable of being cured within 30 days of notice of breach;
 - Supplier commits numerous breaches that collectively constitute a material breach;
 - Supplier commits a material Security breach.
- ✍ Termination for cause incurs no Termination Charge.

Termination for Convenience

- ✍ The right to terminate for convenience, in its sole discretion. Termination Charges may apply
- ✍ Must give Supplier 120 days written notice of effective date of termination of entire Agreement or 30 days written notice of effective date of termination of specific Services

Other Methods of Termination

- ✍ Can terminate Agreement if Supplier becomes insolvent
- ✍ Can terminate Agreement if Control of Supplier changes
 - Supplier is not entitled to any termination fees in termination occurs on this basis
- ✍ Can terminate Agreement if Supplier commits a material breach that has a significant impact on conduct of business and Supplier is unable to cure within 48 hours

Rights Upon Expiration or Termination

- ✍ Unless otherwise agreed, broad license to Supplier Owned Materials used to provide the Services (with right to sublicense to third party contractors), subject to exceptions set forth in Agreement

Dispute Resolution

- ✍ Informal dispute resolution process
 - Contract Manager and Supplier Project Executive will attempt in good faith to resolve all disputes
 - If no resolution can be reached, the dispute may be referred to the senior corporate executives (escalation)
- ✍ Continued performance during pendency of dispute
- ✍ Governing law

AFK 4/20/07 7



Federal Acquisition Advisory Panel:

Presentation concerning commercial practices used in acquiring IT and business process services

Todd Furniss, COO Everest Group Presentation

March 30, 2005

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Everest Group Overview

Everest Perspective and Bias

Principles and Implications driving Commercial Best Practices

Commercial Best Practices

- Everest perspective
- Answers to panel questions



Everest's mission is to enhance the quality and result of client efforts to investigate and implement sourcing options



Everest helps clients determine if outsourcing is appropriate

- Develop the business case to determine how value can be created
- Help educate stakeholders on the possibilities and risks

If clients choose to outsource, Everest assists clients with the transaction

- Help clients manage the complex aspects of outsourcing transactions
- Apply proven approaches to engaging and evaluating the supplier market
- Incorporate appropriate incentives into the outsourcing agreement
- Establish governance models to create and sustain long-term relationships

Experience with IT and Business Process functions incorporating delivery options ranging from joint ventures to shared services and outsourcing

Everest has been involved with over 500 outsourcing transactions making us one of the most experienced enterprise advisors in the market



Founded in 1991
 Offices in U.S., Canada, India, and Australia
 Focused exclusively on sourcing advisory services
 Independent advice – not affiliated with any supplier
 Recognized for our insight and focus in complex situations

Healthcare	Manufacturing Distribution Retail	Financial Services	Other
ASCENSION HEALTH STANFORD HOSPITAL & CLINICS UNIVERSITY OF PENNSYLVANIA HEALTH SYSTEM SCHERING NOVARTIS	DIAL UNILEVER ERICSSON CITY FUJITSU CORNING McDermott Douglas	TD CIBC SALLIE MAE HMO LINCOLN FINANCIAL GROUP JOHN HANCOCK	ePaso SUNCOR ENERGY ENERGY SHELL

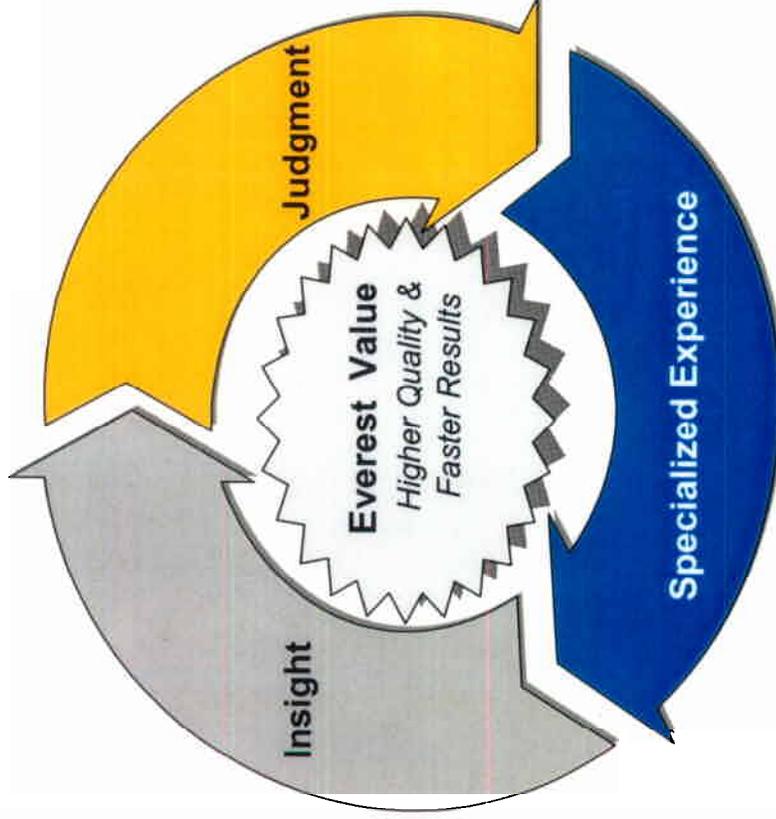
Experience with over 30 distinct business processes in IT, HR and F&A outsourcing

Recent ITO engagements & related transaction scope	Applications	Data Sec	Engineering	Voice Data	DR	Benefits	Compliance	Training & Development	IT Strategy	AP & AR	Fixed Assets	Capital Budgeting	Internal Audit	Tax
Fortune 200 Mfr.	Y	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hospital	Y	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Major Insurance Co.	Y	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fortune 200 Energy Co.	N	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Major Manufacturer	Y	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Major Manufacturer	N	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Our perspective derives from the synergy of insight, judgment, and specialized experience as applied to complex client situations...



Insight (firm level)
<p>1. Focused exclusively on outsourcing</p> <p>Dedicated to understanding and implementing best practices</p>
<p>2. Everest Research Institute</p> <p>Dedicated research arm</p> <p>Focused on industry trends & issues</p> <p>Actionable information</p>



Judgment (team level)
<p>3. Vertical industry focus</p> <p>Healthcare</p> <p>Manufacturing</p> <p>Retail/Distribution</p> <p>Financial Services</p> <p>Energy</p>
<p>4. Blended Staffing Model</p> <p>Management</p> <p>Consulting</p> <p>Outsourcing</p> <p>Background</p> <p>Functional, Domain Expertise</p>

Experience (firm level)
<p>5. Extensive frameworks and templates</p> <p>Refined over a 14 year period of time</p> <p>Based on experience gained from over 500 transactions</p>

... which could lead to a certain bias in this discussion



The majority of our clients are not bound by the policy interests embedded in the FAR

Our procurement experience is focused primarily on sourcing, ranging from internal shared services to outsourcing

Whereas we do not believe that outsourcing is appropriate for every client, we believe that the generalized value proposition of outsourcing may be compelling

Since we focus on serving clients with complex problems and goals, we tend not to focus on the procurement of commodities or the sourcing of commoditized services

As a result, what follows applies primarily to sourcing and procurement of complex functions and services

We observe certain commercial principles, the implications of which drive our procurement process



Principles

Total solution cost \neq Total potential value for buyer

Buyers have different needs and constraints

Suppliers have different strengths and constraints

Generally, there may be multiple "optimal" solutions for a given client problem

Implications driving best practice

Exclusive procurement focus on the cost of the solution misses the opportunity for additional value capture

"Standard" solutions can sometimes produce ill targeted benefits that in fact do not create value for the buyer

- The procurement process must therefore channel suppliers' focus into the objectives and outcomes that are most important to the buyer

For the procurement of complex services, intimate understanding of supplier's capabilities is more important than maximizing the quantity of suppliers that participate

A procurement process that allows for unique solutions can still result in best price

The resulting Everest approach is a significant departure from traditional procurement processes



Principles

Suppliers commercial incentive drives continuous improvement in their core business

Commercial suppliers are inevitably economically rational/motivated

Implications driving best practice

In an effective procurement process the buyer does not dictate the solution to the supplier

- The suppliers may have a better solution to offer than that asserted by the buyer
- Open communication allows the buyer to understand how the supplier's solution generates costs and creates value
- An iterative, collaborative design process allows the parties to optimize each supplier's solution

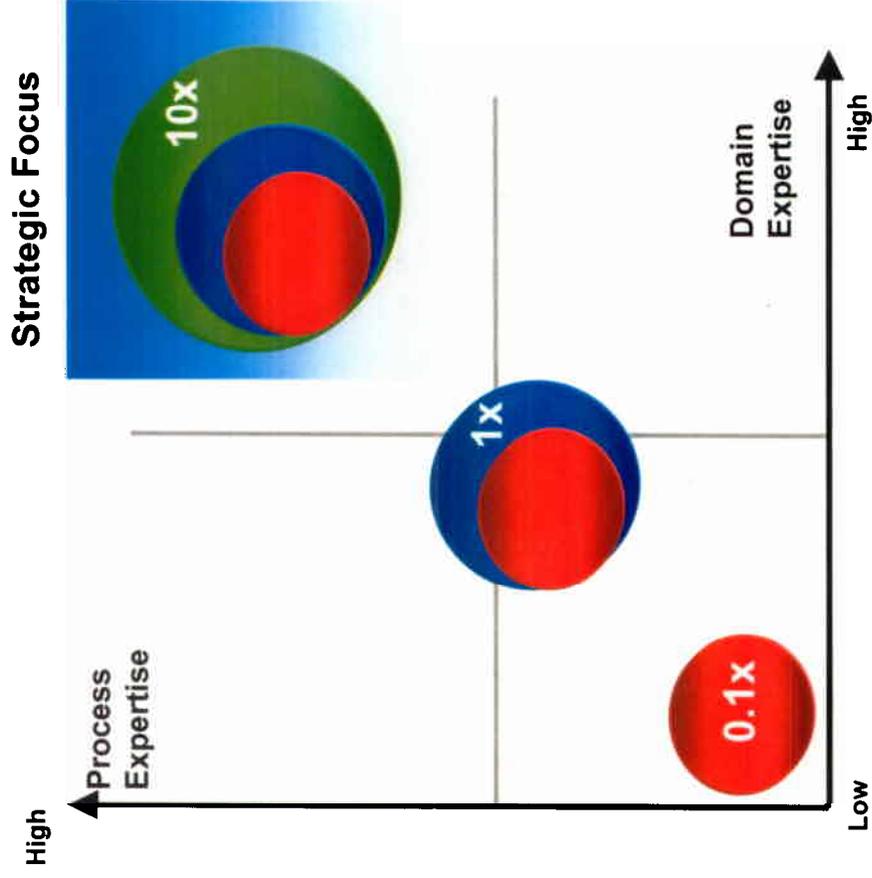
In recognizing that the supplier's commercial interest is inevitable, the best practice is to channel the supplier's economic incentives to the supplier and buyer's mutual benefit

- Knowing how suppliers realize value is critical to creating options with a full understanding and fair management of the balance between buyer and supplier interests

We describe the additional potential value for the buyer (beyond solution cost) in our Total Value Equation™

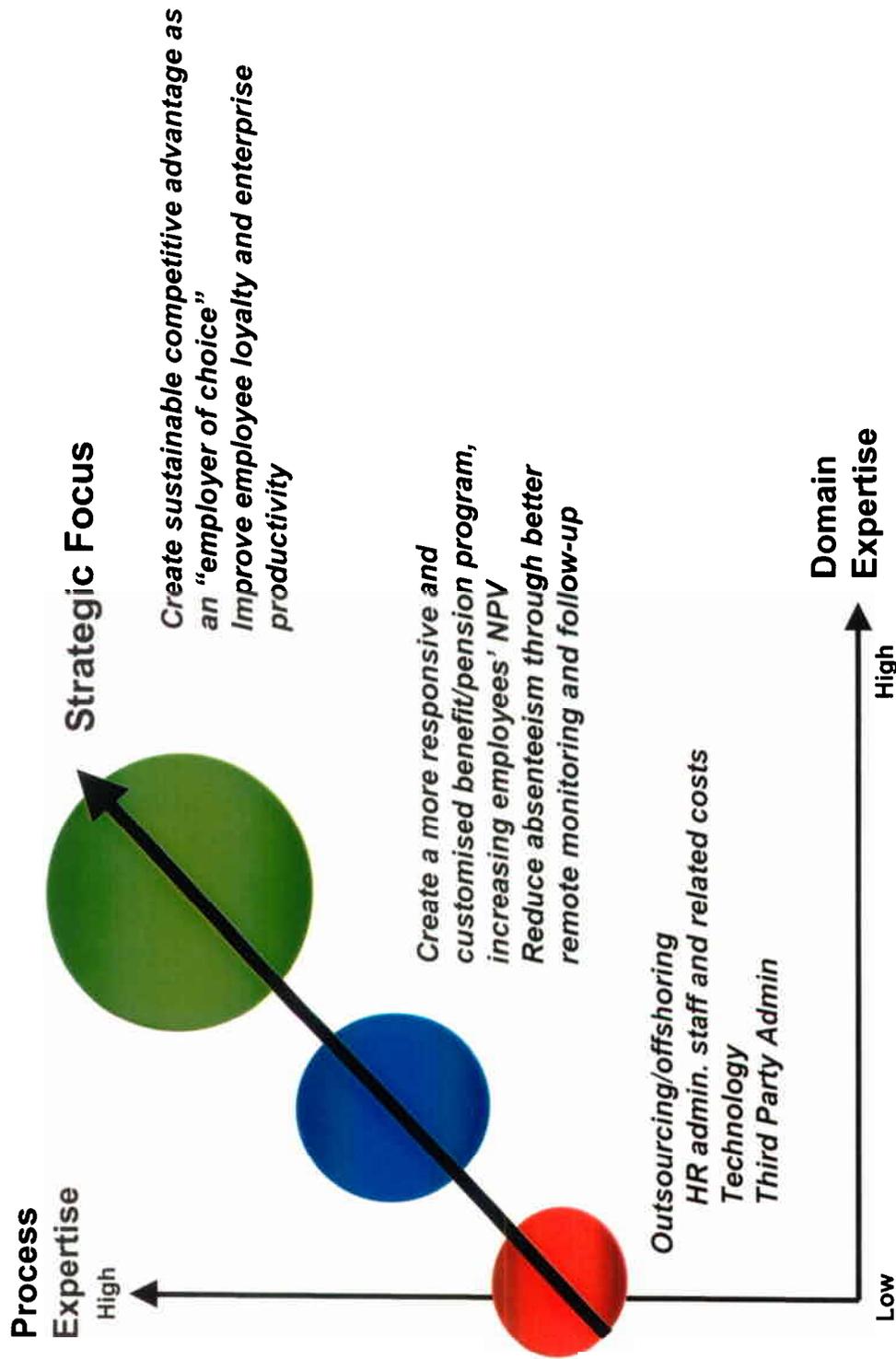


- Impact on cost of process
- Impact on efficiency or effectiveness of process
- Impact on value proposition to market





As an example, buyers of HR services can realize tangible benefits on the enterprise level



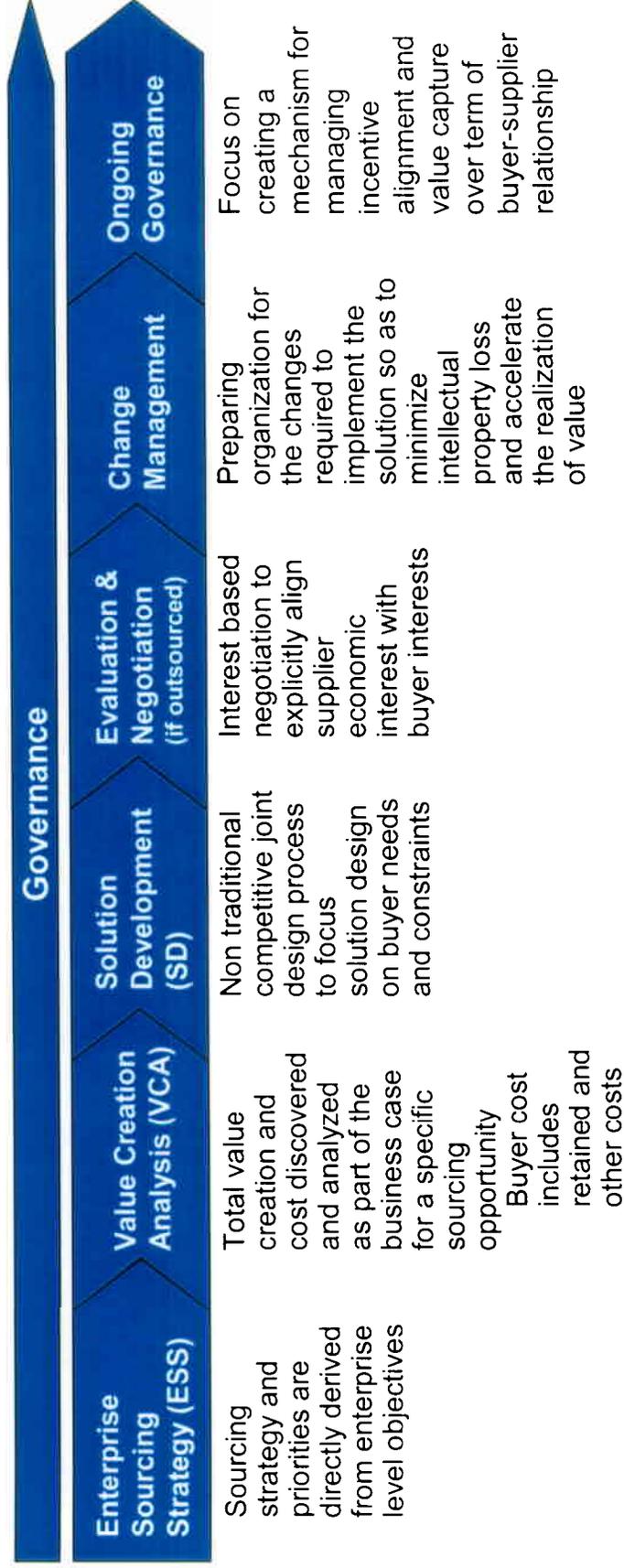
Source: Everest HRO Market Analysis April 2003

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In developing our methodology, we found that traditional sourcing approaches may be suboptimal in procuring complex services



We observed, captured and implemented practices anchored in commercial principles required to successfully procure complex services



Which in turn drive our answers to the questions from this panel



What is the commercial practice with respect to use of head-to-head competition for services contracts, task orders, etc.?

What is commercial practice regarding use of firm-fixed price contracts for services?

What are the terms of the contracts, and what provisions are made for reopening competition?

How frequently are time and materials contracts used, and under what circumstances?

Are share-in-savings (or gain savings) contracts used, and under what circumstances?

What types of performances incentives are normally used, and how is performance tracked?

Source: Federal Acquisition Advisory Panel Invitation Letter to Todd Furniss, Everest Group

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Federal Acquisition Advisory Panel:

Appendix

Todd Furniss, COO Everest Group Presentation

March 30, 2005

Todd Furniss Biography



Todd Furniss is widely known for his deep insight into managing organizational and people dynamics, as well as his ability to create momentum to achieve organizational vision. As COO at Everest Group, he manages through all firm activities, overseeing consulting projects in all major industries and heading a consultants who advise Fortune 500 clients worldwide.

Industry/equity analysts and institutional investors often consult Mr. Furniss on current outsourcing developments, and he is frequently sought as a presenter at industry conferences and corporate management events. Prior to joining Everest, he served as Director, Corporate Business Development, at EDS, where he was responsible for developing and executing all growth strategies in the Asia Pacific region. His extensive work in large-scale initiatives for many years in the Asian, North American and European regions gives him broad insight into identification of international approaches to growth markets and execution of business alliances and solution development.

Mr. Furniss currently is deeply involved in assessing trends and developments in the offshore outsourcing market, assessing key success factors and developing best-practice approaches to the use of low cost labor pools, HR outsourcing, IT outsourcing and a range of other business process outsourcing activities.

Mr. Furniss has a BA (Political Science) from Old Dominion University and a J.D. from George Mason University School of Law.