Show me the money

by Michael Asner

The City of Kamloops, located in the BC interior, about 250 miles from Vancouver, is a great place. And it is home to a procurement manager who has done some innovative thinking. In the fall 2002, the city, like many others across Canada, was looking for additional sources of revenue and thought a preferred supplier program might generate some cash. A preferred supplier becomes the exclusive provider of certain commodities, such as appliances, office supplies, computers or rental cars.

This type of program presents some legal and moral issues for procurement people. You can't simply approach a supplier and say, "give me $10,000 and you can become our preferred supplier of office products." In the good old days this was called a kickback – and still is!

As the procurement manager for the City of Kamloops, it was Errol Wild's responsibility to implement a preferred supplier program that would work, and still be legal. How could he select a preferred supplier, get some additional revenue, reduce costs and still have "fair and open" competition?

He began with the concept of a Standing Offer – a price agreement between a government and a supplier where the supplier agrees to provide, on demand, specified goods and services under specified terms during a fixed period at a defined price. He then developed a policy based on the following principles:

- They would issue a Request for Proposal (RFP) to select preferred suppliers.
- They would only select one preferred supplier for each category, such as office supplies, or computers.
- The contract to be the exclusive supplier of specified goods and services would be for three years with no extensions permitted.
- The evaluation criteria would include the amount paid up front by the supplier to secure the contract. This amount would not be more than 10 percent of the points.
- The entire RFP process, including the winning proposal and related contract, would be subject to public scrutiny.

Once they had an approved policy, Kamloops started issuing RFPs for commodities such as wireless communications, building supplies, stationery and car rental services. The RFPs typically identified the following evaluation factors:

- price (65 percent),
- up-front payment by the supplier (10 percent), and
- corporate characteristics (25 percent).

To date, they've issued nine RFPs. The contract values have been low with up-front payments usually under $10,000.

The program is new, and the city is still learning. However, it has developed some rules for awarding the 10 points for the up-front payment and answered some of the questions initially faced.

1. **Does a supplier have to give you money to submit a proposal or to win the competition?**
   Suppliers can decide to submit proposals but not participate in the sponsorship program. These suppliers will get zero points for this factor, however, they could still win the competition since 90 points are awarded for price and other considerations.
2. **How are the preferred supplier points awarded?**
   The city has an "anticipated" amount in mind – usually between 10 and 15 percent of the contract value. The firm offering the most money in this range receives 10 points. The other firms receive proportional amounts. For example, if the contract value is about $40,000, the suppliers bidding are anticipated to offer between $4,000 and $6,000. If the highest offer is $5,000 it gets 10 points. If the next offer is $3,000 it gets 3/5 or 6 points. If the maximum amount offered is less than anticipated, then a lower limit is set on the maximum number of points. So, if the maximum offer was $1,000 and $5,000 was anticipated, then only 2 or 3 points might be awarded. In this case, the effect of the up-front payment is minimal.

So far, no suppliers have won without offering an up-front payment, but the program is young. Several national chains have a policy that prohibits their participation in this type of program, but it is expected that if they did respond to the city's RFPs, they could win some since they are very competitive in terms of price and other factors.

Under this process, the city obtains competitive pricing and a dedicated supplier. The process can survive public scrutiny and the test of "fair and open" competition. Vendors get exclusive access to the city and often to its employees. As part of their value-added service, some preferred suppliers offer city employees the same pricing and services as the city receives at no cost to the city.

Some vendors strongly disagree with this approach, arguing that a policy that permits a vendor to get extra evaluation points for giving a city money is bad public policy. They believe it is not appropriate in a "fair and open" competition.

The use of preferred supplier programs is growing. Many large entities such as provinces, major cities and federal departments have similar schemes. The up-front payment holds appeal for politicians, and the procurement department has fewer vendors and contracts to administer. Plus the preferred supplier reaps the benefits of not having to compete each separate purchase.

In my opinion, Errol Wild did it right. He didn't rush out and chase suppliers to get quick money – he put the policy framework in place first. Then he tested the approach to ensure that it worked to his satisfaction and achieved the desired result.

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