

Defining "best value"... or trying to



This time around we're taking a slightly different tack in The Chatroom. Our by-line says we'll also include chat from other sources, so along with chat from participants, Syl Parry from Manitoba procurement and George Butts from PWGSC, I've included bits of an interesting online article by Stan Soloway, ex-Clinton adviser. (See Soloway bio, right.)

My "surfing" findings on best value included the Queensland, Australia government site www.qgm.qld.gov.au/bpguides/value/index.html where you'll find incredible detail on what constitutes best value, including a full checklist that addresses costs. As well, from the US, the Seven Steps to Performance Based Services Acquisition project, conceived several years ago by the US Department of Commerce and Office of Federal Procurement Policy www.arnet.gov/Library/OFPF/BestPractices/pbsc/ addresses best value as its Step Six. And the US Defense Logistics Agency has a comprehensive set of guiding principles at www.dscpl.dla.mil/contract/bvtable.htm and the Federal Acquisition Regulation (FAR) 15.101 addresses the "best value continuum," and see FAR 8.4 on "application."

In addition I found a variety of quotable approaches I thought might clarify the term: "Best and cheapest are not synonymous concepts, nor should they be... In addition to cost, the best value determination must consider business factors such as innovation, quality, productivity, total cost of ownership, suitability, and customization." Information Technology Association of America, Statement of Principles, Global Outsourcing and Offshore Development, August 6, 2003

"Best Value Purchasing – Purchasing methods used in awarding a contract based on evaluating and comparing all established quality criteria where cost is not the sole determining factor in the award." West Virginia Purchasing Handbook.

"Value for Money is the core principle governing Commonwealth procurement. It is supported by the underpinning principles of: efficiency and effectiveness; accountability and transparency; ethics and industry development. Officials buying goods and services need to be satisfied that the best possible outcome has been achieved, taking into account all relevant costs and benefits over the whole of the procurement cycle. Accepting the lowest price is not necessarily an indicator of best Value for Money. Value for Money is a concept evaluated on a whole-of-life basis of the property or services being procured and is influenced by a number of factors: the procurement method adopted; market maturity; performance; financial considerations; and the anticipated price that could be obtained at the point of disposal." Australia, Commonwealth Procurement Guidelines.

"Best Value: A term used during procurement source selection to describe the solution that is the most advantageous to the FAA, based on the evaluation of price and other factors specified by the FAA. This approach provides the opportunity for trade-offs between price and other specified factors, and does not require that an award be made to either the offeror submitting the highest rated technical solution, or to the offeror submitting the lowest cost/price, although the ultimate award decision may be to either of these offerors." US Federal Aviation Administration Acquisition Toolset.

But, my surfing efforts brought about so much confusion for me that I decided that it must be so on purpose. What best value is about seems to a very large degree to be about what is being bought and why. Or, maybe, that's just an excuse to seek greater flexibility. Is "best" really that subjective? Let's see – let's chat!

Sit down, take a deep breath, sip a beverage, open your mind and stay awhile while we chat with:



Syl Parry
Projects Officer, Procurement Services
Manitoba Transportation and Government Services



Stan Soloway
President, U.S. Professional Services Council
Excerpts from *Buy lines: Back to the basics of best value*, (04/21/03)
www.washingtontechnology.com



George Butts
Director, Program Integrity Directorate
Public Works and Government Services Canada

Good, better, best

Parry: It is rather like asking 'How long is a piece of string?' When I worked in the private sector, if you were a "bean counter" purchasing material for a heavy electrical equipment manufacturer, best value was viewed as the lowest cost product that met the specification. If you were an engineer, best value was alternately viewed as the outcome of applying 'value analysis' to a component, to reduce the cost of making it, or to reduce the production costs of the end product. Spending an extra dollar to buy a part that needs fewer resources to incorporate into the final product obviously makes a lot of sense.

Soloway: Best value is a common-sense approach to procurement. It's the way we buy things in our daily lives; it's the way the private sector operates; and it's the way government procurement should function. While much of the rhetoric against best value is being used to serve the interests of anti-outsourcing forces, a handful of others are beginning to question it as well. In a survey by the Professional Services Council [2002], some government procurement executives expressed concern that support was weakening among some

leaders for best value contracting, and for acquisition reform in general.

Butts: It is easy to say [best value], but hard to define. It means different things to different people. The most-used definition of best value is the combination of quality, service and time considerations (e.g. delivery dates), at the lowest total cost over the useful life of the good or service being bought, that best meets the operational needs of a department. Many people think only in terms of the original purchase. A key element is the cost of using or maintaining whatever was bought while it is in use. We also have to consider the cost of the procurement process itself.

What's the bestest?

Soloway: In fact, best value is where cost and quality come together. That's the whole point. But ... best value is poorly understood.... The real strength of best value is that it's at once flexible and objective. Far from being the unconstrained bazaar that some critics like to suggest, it is a carefully and appropriately bounded process. Rather than being a one-size-fits-all strategy, best value is an entire spectrum of options, including low price and technical acceptability, that enables the government to match its source selection factors to a given requirement.

Butts: I have talked about best value for individual transactions, but we must look at more than that or we miss the opportunity to find best value for the organization as a whole – e.g. for the federal government rather than its constituent departments and agencies.

This leads us to the definition of best value in approach and process, to complement and build on individual transactions. This has major challenges for government, but also offers the greatest potential for really getting best value. We've seen a lot of this in recent years: bulk buying seeking to minimize individual unit costs and lower administrative costs for buyer and seller; longer-term contracts to reduce the cost of running multiple procurements;

using acquisition cards to reduce the costs of paper transactions. Our challenge is to continue to seek new ways to get the goods and services that the government must have to deliver its programs quickly, easily and at least cost.

Achieving best value is a moving target. Because so many people are interested in what we do, and how, there will always be some who disagree with our approaches. We may never find a way to bring what are often opposite positions together. Rather, we must focus on designing our approach to procurement so that as many people as possible see and are seen to benefit.

Parry: Best value in government is viewed in many different ways also depending on who you are and what your objectives are at the time of purchase. Purchasing sandbags at the height of a flood emergency or fire hose in the fire season tends to make you focus more on the availability of the products than their cost. When you are preparing for the eventuality of a flood or forest fire your time constraints allow you to concentrate on other aspects of the purchase, cost being one of them.

The cost of value

Parry: I believe that best value in government procurement is the successful performance of a balancing act. You have to satisfy the timely needs of your clients for goods and services in a lawful, cost effective manner that conforms to the legislation you are working under with due regard to commercial practices, the obligations of trade agreements, and the overall objectives of your government. This has to be accomplished while at the same time maintaining impartiality, fairness and transparency in all your actions. If at the end of the day you honestly believe that you did those things you are probably getting best value for your government. A sense of humour will do you no harm either.

Butts: Is price the most important factor? Sometimes – when we know exactly what we want, and are not prepared to pay for anything more, we will select the

lowest priced compliant bid. Sometimes, it is not – e.g. when we expect suppliers to propose different ways to give us what we need, or where we are prepared to pay more for advantageous delivery dates.

A best value definition based solely on the operational need we are trying to meet does not always serve well. People – taxpayers, businesses, politicians, government policy-makers – want procurement to be more than “just” buying. They may want it to create employment, or stimulate small businesses development, or encourage innovation. At the same time, they expect fairness, openness and transparency. Governments – including Canada – have built these wants and expectations into their procurement policies – often with a cost to be paid. When you try to achieve multiple objectives, procurement can be more complex, require more highly trained staff, or take longer. You can pay more than you “have” to, because that is the way to meet some other government objectives. In all of these cases, you can still have best value.

Soloway: Some critics say that cost is sometimes not adequately considered in best-value competitions. However, there is no data to support such an allegation, and the experience of many companies is just the opposite. They are concerned that the very performance and quality discriminators on which they have built their capabilities and reputation are not being given adequate credit. We need to expand, not limit, the use of best value, even as we make appropriate improvements to the process and its execution. We need to recognize that little of what the government buys is so simple that it should be purchased based on cost alone. And we need to make best value authorities available to all government procurements, including public-private competitions.

Next chatroom

**Vendor prequalification:
Fair or not?**