

Benchmarking procurement

by Steve Tudor

Get what you really want: and know you got it

THERE'S AN OLD apocryphal story about an astronaut who is asked how he feels as he is about to climb into his space capsule for a journey to the moon. "I'm sitting on top of a solid fuel booster the size of a skyscraper, with a million complex, critically important moving parts, each one of which was provided by the lowest-cost supplier. How would you feel?"

Confidence in a procurement system that not only obtained what was really needed, but the best available, is likely what that astronaut was wishing he felt, but the system has not contributed to that feeling of security.

There is a much-needed evolution occurring in the worlds of federal and provincial government procurements – a drive toward performance-based contracts. A requirement of these contracts is that performance benchmarks must be clearly identified for each contract, defining what will constitute good performance and good quality on the part of the supplier. This is a win-win development – for the customer, which gets to better demonstrate to its stakeholders how it is allocating resources to generate results, and for the suppliers, which get to improve their financial return by meeting clearly identified performance targets.

Unfortunately, governments are large, expensive and complex systems with diverse stakeholders. For all the investigations and reviews of procurement and individual contracts, no one has yet found the magic answer that explains how to properly apply benchmarking to each situation. But that answer likely lies in the

realization that when benchmarking procurement, you need to do it in the context of the total management of the outcome you are trying to achieve.

Procurement benchmarking is, fundamentally, the effort to measure performance of a supplier of goods or services on the basis of quality, price, timely delivery and effectiveness of the deliverable. In the public sector another benchmark might also be customer/supplier satisfaction, as measured by the number of complaints received. In government procurement, the department or agency making the procurement must also be seen to be adhering to some fundamental pillars – chiefly openness, fairness and transparency of the process. If suppliers don't believe they are participating in a process that is open and fair, then they have mechanisms to lodge formal complaints. At the same time, if customers – either the department or agency making the procurement or the individuals it serves – don't believe they have received the best value for their investment, they are not happy and they too have mechanisms to complain and seek redress.

Trying to benchmark government procurement is not new. In fact, Member of Parliament Walt Lastewka is currently leading a task force conducting a Canada-wide review of federal procurement policies. Federal procurement amounted to \$13 billion in 2002, the last year for which there are complete numbers. That's more than 30 percent of federal government program expenditures, not including transfer payments and debt payments.

The potential benefits of getting it right are enormous. When the United Kingdom redesigned its procurement process, it announced savings of £4.6 billion over six years, on a base of £90 billion. When IBM redesigned its own procurement process, it reported savings of \$5.4 billion on base of \$38.9 billion.

What the task force learned from its interviews of vendors is that the vendors believe there is a lack of consistent use of vendor performance and that there is too much emphasis on inputs, tasks and specifications and not enough emphasis on the actual outcome.

As relates to the transparency of procurement activities, public reporting in the past has been essentially on how much money was spent on a particular list of items. There was no attempt to measure the value received – the outcome of the expenditure.

The good news is that government procurement is moving in the right direction. Up until 15-20 years ago it was almost exclusively specification driven. A procurement officer would identify the required specification in painstaking detail, which sometimes resulted in outcomes, in the US at least, like the \$200 hammer, or the \$500 toilet seat or the \$1,000 coffee pot.

At that time there was a realization, in some circles, that there are some things you can buy off the shelf. If it's good enough for the public, it's good enough for government.

But in more recent years, as government started buying more complex and sophisticated services, it had to ask: "How do I measure the services, how do I know if

they are any good, how do I figure out what good performance is?"

If I ask you to dig a ditch and I don't have a specification for the ditch other than, "from here to there," the issue becomes, what's good quality ditch digging. Is it speed, cost, quality?

Those questions have permeated the public sector procurement process. But we're still in the middle of this transition to effective benchmarking. Governments still struggle consistently with trying to identify how they want something done, versus what outcome they want and how a supplier could help them achieve it. Government really shouldn't care about how things are done. It should care about the result. (Of course, if government only cares about the pure result that may mean that it could not necessarily use procurement as an instrument of public policy to promote the development of certain regions, or environmental priorities such as sustainable development, or to create opportunities for certain groups of people as it has through the federal Procurement Strategy for Aboriginal Business.)

In fact, in larger contracts, government has moved to incentive-based payments that encourage suppliers to hit performance benchmarks on time and under budget. However, the debate continues to rage

related to just how you structure these incentives. That is the heart of the benchmarking issue.

While an element of benchmarking is becoming fairly prevalent on large services procurements – that can only be done where responsibility for poor performance can be clearly be placed on the contractor, which points to another problem with public procurement: the blame for poor performance often falls back on the government consumer.

If, for example, the government puts out a Request for Proposals for a database programmer with five years experience and then picks the lowest cost supplier, it might not get the most effective database programmer. The supplier has met the requirement, regardless of whether the programming job is well done, or completed at all. And if the programming is not well done or completed, it's the government that ends up wearing the blame because the supplier provided what was asked for.

Most procurement people would argue that the system should be different but there is not yet consensus as to how it should be different.

One school of thought says you need to measure client satisfaction. You need to get feedback that demonstrates that your client is getting what they want. Procure-

ment people say they need to know what their customers think in order to know if they have done a good job. Client satisfaction can be measured through surveys that track satisfaction on a number of variables over a period of time. Conducting a survey – deciding what you will ask, who you will ask and how often, and how you will evaluate the data – might be one of the best places to start.

Another school of thought says that managing procurement to the most effective outcome is also part of the overall responsibility of management. If I contract with a supplier to do something that is important to my outcome, am I getting the best value for the money? Is that supplier doing a good job? Are they the best I could have picked on all fronts, and have I structured the agreement such that the supplier has some incentive to assist me in achieving the best outcome?

These questions are issues in every government, but where this is becoming an especially hot issue is in those departments – like Public Works and Government Services Canada (PWGSC) – who have as one of their primary roles the procurement of things for other government client departments.

Some of PWGSC's clients have tried to avoid using the department, believing that, since they know their own requirements better, they can do a better job themselves of procuring what they need.

But the result of that is that 98 federal departments and agencies have somewhat different approaches to procurement. There is costly duplication of processing information holdings – more than 67,000 individual suppliers and over 500,000 contracts. It's bad for government and bad for the suppliers, who face different processes depending on which government department or agency they are dealing with. That has to change.

As public procurement practitioners become more professional, the issue becomes how they put mechanisms in place that will help them help their customer become a better general contractor; that helps them manage the total process to achieve the desired outcome, rather than simply meeting a set of specifications. ■■■



Steve Tudor is a partner with IBM Canada Business Consulting Services.