Contracting for Performance

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Arizona State University
Contracting for Performance

• Three dimensions of performance:
  – Supplier performance.
  – Department performance.
  – Individual performance.

• Today: Supplier performance.
Supplier Performance

• We built three new buildings.
• At the time, great interest in outsourcing.
• A great opportunity to outsource custodial services…
• Without impacting our in-house custodial staff.
Supplier Performance

- We did a great RFP.
- Included very specific specifications.
- We said exactly what to do…
- How to do it…
- And how often to do it.
Supplier Performance

- We got lots of proposals.
- Every one promised to do all we wanted.
- Our evaluation committee clearly picked the best contractor.
- We made the award.
Supplier Performance

• As soon as the contractor started, so did the complaints.
  – Trash not emptied.
  – Carpets not vacuumed.
  – Mirrors not cleaned.
  – Etc.
Supplier Performance

• Funny thing – the complaints were not consistent.
• Sometimes this trash not emptied, and sometimes that one.
Supplier Performance

• So, what did we do about it?
• Had meetings with the contractor.
• Required that he give us a correction plan.
• And a training plan.
Supplier Performance

- After every meeting, things got better.
- Not great, just better.
- And then they went back to bad.
- So, finally, we issued a formal cure notice.
- Things got better, then they got worse.
Supplier Performance

• So, we terminated the contract.
• And, went out to bid again.
Supplier Performance

• This time, we wrote stronger specs.
• We required the contractor to provide inspection reports.
• And we planned to verify inspection results with building occupants.
Supplier Performance

• Got new improved contractor.
• Went through same pattern.
• Terminated that contractor.
• Took the work back in-house.
Supplier Performance

• We started to look at other service contracts.
• Found lots of examples of the same pattern at the University.
Supplier Performance

- Contracted for duct cleaning in nine buildings.
- Had to successfully complete first building before starting on the next.
Supplier Performance

• Contractor had to do a lot of remedial work in the first building, but was allowed to go to second building.
• Security cameras videotaped contractor employees playing around all night.
Supplier Performance

• We terminated the contract.
• Contractor protested.
• Until we showed him the video.
Supplier Performance

- Examples outside the University.
- Weed control contractor for city road medians left a lot of weeds.
- Except where local neighborhood association had planted flowers.
- They killed every flower.
Supplier Performance

• When our second custodial contractor was leaving, we asked why.
• What did you expect? I have to bid lower than it really takes to do the job in order to get the work. So if I get the job, I’ll do the minimum you let me get away with.
Supplier Performance

• Then we came across Dean Kashiwagi.
• Performance Based Studies Research Group.
• http://www.pbsrg.com/
Supplier Performance

• Dean started with roofing contractors.
• What is the best criterion for success as a roofer?
Supplier Performance

• The roof does not leak.
• So, if hiring a roofer now…
• You want to know how many of his completed roofs leaked.
Supplier Performance

• Dean then expanded to Job Order Contractors.
• He had an elaborate fuzzy logic computer program to identify the best performing contractors.
Supplier Performance

- We wanted a simpler process than an elaborate fuzzy logic computer program.
- So we looked to see how we could deploy Dean’s principles.
Supplier Performance

• The key principle:
• The best predictor of future performance is…
• Past performance.
Supplier Performance

• Then we needed a contractor for:
  – Grounds Maintenance
  – Building Maintenance
  – Custodial Services
  – Refuse Collection
Supplier Performance

- The best predictor of future performance is past performance.
- And the only way to identify past performance is...
- To ask customers.
Supplier Performance

- To be sure, we did our usual thing in clearly identifying the requirements.
- And we certainly asked for prices.
Supplier Performance

- But we also required proposers to give us their customer contacts at 20 current sites.
- And their most recent sites if current sites do not equal 20.
Supplier Performance

• We constructed a fax survey of customer satisfaction.
• It used a ten point scale, with 1 being “Highly Dissatisfied”, and 10 being “Highly Satisfied.”
Supplier Performance

• After consultation with users, we identified 20 dimensions of performance to be rated.

• You can download the survey as a Word file from the NAEB-NE site.
20 Dimensions of Performance

1. Quality of Work.
2. Responsiveness.
3. Professionalism.
4. Resources.
5. Timeliness
20 Dimensions of Performance

6. Quality Control.
7. Deficiency Resolution.
8. Training.
20 Dimensions of Performance

11. Safety.
15. Emergency Response
20 Dimensions of Performance

17. Innovation.
18. Teamwork.
Supplier Performance

• You can change dimensions.
• You can add your own dimensions.
• You can weight them.
• This is a tool for you to use.
Supplier Performance

- Surveys were faxed to the clients identified by prospective contractors.
- The average score was multiplied by 20 to account for items not answered.
- Individual respondent scores were averaged.
## Supplier Performance

<table>
<thead>
<tr>
<th>Firm</th>
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Purchasing recommended Firm A.
Supplier Performance

• Evaluation Committee could not believe it was this simple.
• They demanded to study each proposal.
• A week later, they met again with their recommendation.
• The same as Purchasing’s.
Supplier Performance

• This supplier was very successful over the life of the contract.

• The user was not all that successful.
Supplier Performance

• You can adapt the survey to any service contract.
• And take advantage of the concept...
• That the best predictor of future performance is past performance.
Better Way?

- Is there a better predictor of future performance than past performance?
- Yes.
- Risk Based Contracting.
Risk Based Contracting

- Best predictor of future performance is the ability to manage risk.
- Risk in its most generic sense.
- Transferring risk from the Owner to the Contractor.
Risk Based Contracting

• More important for the Contractor to know what to do...
• than it is for the Owner to know what the Contractor is supposed to do.
Risk Based Contracting

- Detailed specifications are out.
- Outcomes are in.
Risk Based Contracting Process

- Selection.
- Quality control planning.
- Minimization of risk by using performance information.
Risk Based Contracting

- When risk is transferred to the Contractor, it will be minimized.
- When risk is not transferred, the Owner must minimize the risk.
- When the Owner must minimize risk, may as well accept low bid.
How, Exactly?

- Create our expectations.
- All proposers must meet expectations.
- Request a list of risks for the contract.
- Owner adds to the list.
How, Exactly?

- Request a risk mitigation plan for all risks outside of the Contractor’s control.
- Establish measurements.
- Write all of this into the contract.
- Report only when risk was not managed.
Food Service Contract

- Large service contract.
- Bid every 10 years.
- Same contractor for the last 52 years.
Last Food Service RFP

- Huge solicitation document.
- Evaluation Committee with students.
- Feed the Evaluation Committee.
- Marketing people make huge promises.
Last Food Service RFP

• Evaluation Committee picks best food and biggest promises.
• Contractor’s attorneys try to keep all promises out of the contract.
• Owner tries to hold Contractor to the promises.
Risk Based Food Service

- Consultant to help with our expectations.
  - Best sanitation practices.
  - Best training practices.
  - Best sustainability practices.
  - Best user satisfaction scores.
Expectation Example

• Hours of service that support student lifestyle needs across campus and in residential neighborhoods, including late night service venues that offer menu variety and that accept meal plan cards.
Risk Based Food Service

- PBSRG identification of best risk manager.
  - Selection.
  - Quality Control and Planning.
  - Risk minimization and performance measurement.
RFP Pass/Fail Criteria

- Certifications.
- Accept sample contract.
- Pro Forma financials.
  - Comprehensive.
  - Achievable.
  - Sustainable.
RFP Scored Criteria

- Risk Assessment Plan (30%)
- Management Interview (25%)
- Client Survey Ratings (25%)
- Financial Compensation (20%)
Risk Assessment Plan (30%)

- Risk Assessment and Value Added Plan.
  - Limited to 5 pages.
- Transition Milestone Plan.
  - Limited to 1 page.
- No identification – to be evaluated blind.
Management Interview (25%)

- On-site General Manager.
- General Manager’s Supervisor.
- Regional Vice President.
- Director of Catering.
- Executive Chef.
Client Survey Ratings (25%)

- Contractor sends surveys to clients.
- Contractor calls clients to confirm.
- Contractor provides client list to ASU.
- Clients fax back survey to ASU.
- Contractor provides financials in graphs.
Client Survey for Food Service

- Ability to be price competitive.
- Ability to deliver quality food.
- Ability to market food programs.
- Ability to integrate new technology.
- Sustainability program.
Financial Compensation (20%)

- Commissions to be paid.
- Investment to be made.
Scored Criteria

• Clear to all who was the top contractor.
• Able to do sensitivity analyses.
• Debriefs are easy.
Quality Control and Planning

- Detailed dining program.
- Quality control plan.
- Growth management plan.
- Plan to report on performance and risk.
Quality Control Plan

- Risk identification and minimization plan.
- ASU action items and requirements.
- Performance metrics.
- Use of metrics to minimize risk.
- Transition schedule to contract start.
Food Service Contract

- All the preceding goes into the contract.
- Including the video of meetings.
- If unable to contract, go to next contractor.
Management

• Contractor manages performance.
• Also manages ASU’s performance.
• What? Say that again?
• Best managed contract maximizes revenue for Contractor and ASU.
Financial Proposal Worksheet

• Commissions offered to the University
  – Meal plan sales
  – Retail sales
  – Subcontractor sales
  – Catering sales
  – Summer Conference Dining sales

• Capital Investment Plan

• Equipment Replacement Reserve
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100 | 65.09 | 78.13 | 69.04 |
Pre-Planning/Quality Control Period

- Quality Control Plan
- Quality Assurance Checklist
- PPQC Document

The objectives of the pre-planning/QC period are to:
- Provide and finalize a detailed food services program
- Preplan the service / detailed analysis
- Identify and minimize risk including client issues before the service begins
- Identify all risks that cannot be controlled by the vendor and develop plans to minimize those risks (includes unforeseen risks)
- Develop a list of client action items and responsibilities
- Develop a detailed list of performance metrics and benchmarks considering financial performance, quality, and customer satisfaction
- Develop a Risk Minimization and Performance Measurement Program to be used during the life of the service to document risk and performance
- Finalize transition schedule
Vendor Performs Quality Control

• Seven (7) Primary Risks
  – Bad Debt
  – Meal Plan Counts
  – Asbestos Abatement
  – Construction Delays
  – Loss of Sites
  – Client change in start date
  – Utility capacity
### Example: Bad Debt Collection

<table>
<thead>
<tr>
<th>Identify Greatest Potential Risks for Each Class</th>
<th>Risk Mitigation</th>
<th>Business Actions</th>
<th>Financial Impact</th>
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</thead>
<tbody>
<tr>
<td>Meal plan sales- Bad debt collection. If University does not take full responsibility for collection of meal plan sales, ARAMARK bad debt risk (based on historic dollar effect stated by incumbent), is over $400K more than budgeted for in proposal. Best solution: University collects student meal plan revenues; one semester (16 week) advance payment made to ARAMARK.</td>
<td><strong>Step 1</strong> Require all freshmen to purchase with a credit card the full value of their meal plans at orientation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Step 2</strong> Students that are unable to pay the full value of the meal plan will be allowed to go on a payment plan that corresponds to their room payment plan. There will be a $50 processing fee and the student will still need to supply a valid credit card at orientation.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Step 3</strong> If student does not make payment on the installment plan over 30 days, we will put their meal plan card on hold and send a letter to them stating that payment is due immediately with a follow up phone call by ARAMARK.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Step 4</strong> University agrees to freeze students grades and transcripts until payment of meal plans are made</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Step 5</strong> Students that continue not to pay will have their receivables sold to a collection agency.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Step 6</strong> Any loss in revenue that ARAMARK incurs will result in an equal reduction in commission to ASU</td>
<td></td>
<td>$200K to $600K</td>
</tr>
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</table>
Result

- ASU not certain about debt collection.
- Contract formed with two options (if and if not)
- Once impact shown, decision made to eliminate risk and have ASU collect debt.
- Risk identified – risk eliminated.
Changes this has Brought

• Risk and Reality
  – Risk and Performance defined and measured.
  – Alignment of Expectations.

• Accountability
  – Vendor QC – Client QA.
  – Measurement of risk.

• Vendor is the lead – change in culture
  – Client defaults to vendor.
**Example Issue: MU Fire**

<table>
<thead>
<tr>
<th>Natural Disasters</th>
<th>Step 1</th>
<th>Our policy in responding to a natural disaster is included in original RAVA document risk #9.</th>
</tr>
</thead>
</table>

**RISK 9: NATURAL OR MANMADE CATASTROPHIC EVENT**

**SOLUTION:** Utilize our entire team in the greater Phoenix/Tampa area for crisis response.

Our company maintains sufficient business interruption insurance to address any resulting financial or facilities issues resulting from a catastrophe. Our first priority in the event of disaster is to focus on community support and recovery. In addition to primary roles such as providing food, shelter, and basic medical services, our local planning and national reach would provide ASU with access to backup communications, transportation infrastructure, and crisis management experts. We empower our on-site teams to act in the best interests of our clients and our communities, allowing for real-time entrepreneurial response to specific situations not directly addressable in any pre-incident plan. As an example, in the case of a recent hurricane, our teams in surrounding, unaffected states provided long-term shelter and more than 550,000 meals to over 26,000 evacuees on less than 24 hours’ notice. Our disaster plan envisions integration with existing ASU plans to ensure that crisis response is seen as an ASU effort rather than separate activities by the University and its food service partner.

**Trigger Events:**
1) Floods, fires, or manmade disasters

**Action Planning:**
1) Proactive planning includes meeting with ASU’s disaster preparedness committee to clearly understand food services’ role.
2) Proactive planning and contingency planning including the following:
   a) Communication plans
   b) Evacuation plans
   c) Inventory control
   d) Housing plans
   e) Employee, student, staff, and faculty safety
   f) Short-term planning (including meal planning, food safety, meal delivery, and accounting and reporting)
   g) Long-term planning (including site usage, venue changes, and community outreach)
   h) Information gathering
3) Plan sharing with all ASU stakeholders
4) Utilize sprung structures for temporary dining facilities if need be
Can the vendor act in the best interest of the client without a “directing” contract?

Thursday Afternoon - 11-1-07- Fire in the MU
(3:11pm email sent to all ASU)

- Aramark employees first to see fire
- Aramark activates fire alarm
- Aramark lead the evacuation
- Aramark modifies all markets to accept meal plan cards (usually only dining areas)
- All meal plan students have access to additional food in a matter of hours
Thursday Night – 11-1-07

- John J gets call at 9:00pm to access the building
- Gets two laptops and 600 paychecks needing to be distributed
Friday Morning – 11-2-07

- MU closed
- Investigation switches from Tempe and ASU authorities to ATF
- Treated as a criminal investigation
- Rumors abound…
Friday Afternoon – 11-2-07

- Aramark begins switch over to nearby gym (PE West)
- Aramark organizes resources
- Aramark begins making the calls and bringing the necessary items in
  (inventory lost at MU ($390,000) – all was replaced)
Saturday Morning – 11-3-07

- MU employees allowed to get items left behind in building
- Gym begins being prepared for MU
- Contractors brought in
- Protective floor installed
Saturday Afternoon and all night

- GYM prep’d for electronics
- Tables/chairs/booths…etc cleaned and transferred over (Belfor)
- Kitchen ordered, refrigerator/freezers ordered
- Vendors contacted (papa johns, Chic-fil-a…)
Work takes place around the clock
Sunday Morning 11-4-07

- Still transporting
- Still setting up
- Data hookups/cash register testing
Sunday Afternoon 11-4-2007

- Arranging gym
- Stocking
Can the client transfer risk and control to the vendor?

Monday morning 11-5-07
• Open for business at 9:00 am
Wed 11-7-07

- Freezer/refrigerator delivered
- Services expanded in gym (more hot food, etc)
Summary

• Aramark had very fast response and resolution
  – Difficult for ASU to keep pace with vendor.
  – Difficult for vendor’s bureaucracy to keep pace with best value team.
  – Aramark ASU team has two bureaucracies to interact with.
Summary

• Did not cease operation and look for direction (no contract directives).
• Utilized their Quality Control plan and proactively mitigated the risk, which was planned for before their service began.
• Weekly report creates the documentation of how the risk is resolved.
  – Shows value added and vendor performance.
Moving Forward

• Everyone understanding the supply chain.
• Understanding Aramark has control.
  – Measurement holds accountability.
  – Accountability drives performance.
• Need a structure where:
  – Performance is measured and used.
  – Risk is identified allowing mitigation.
  – Data is available to minimize decisions.
What Else?

- Used for Athletic Marketing Rights.
- For new Parking Structure.
  - Design professional.
  - Construction-Manager-at-Risk.
- Any big service contract.
- And construction.
Simple Use of Concept?

- Require risk management plan.
- Get performance info from clients.
- Require planning before starting work.
- Require periodic reporting meetings.
Thanks

- ASU Purchasing:  John.Riley@asu.edu
- Performance Based Studies Research Group:  Dean.Kashiwagi@asu.edu
- http://www.pbsrg.com