Vested

Presented by
Kate Vitasek

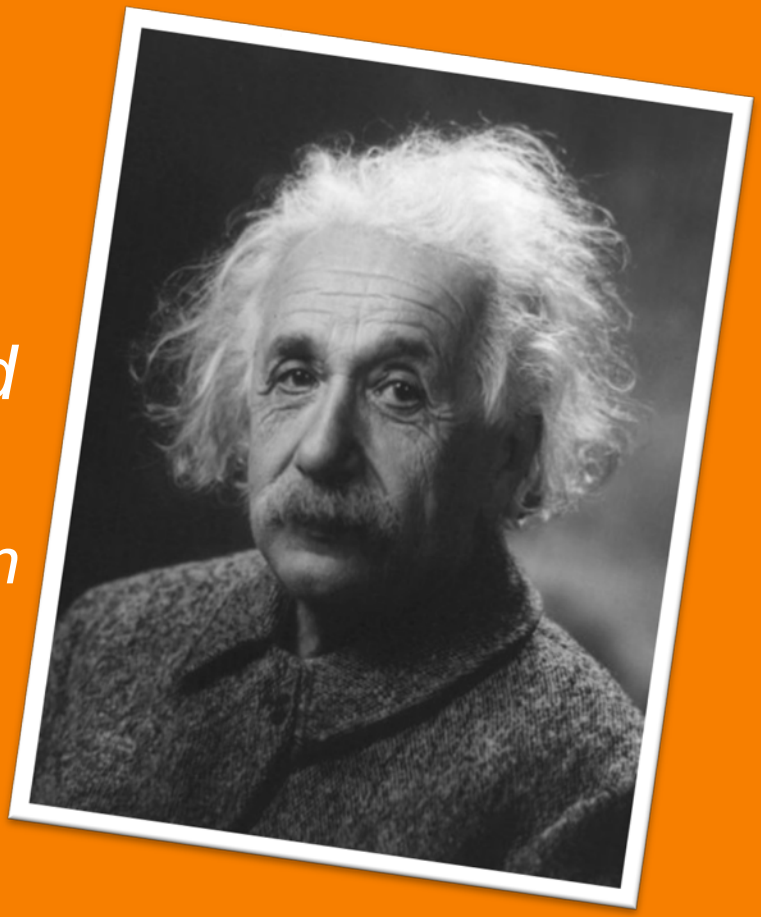
Five Rules that Will Transform Outsourcing

LEVERAGING THE POWER OF PROCUREMENT

FORUM2014

“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.”

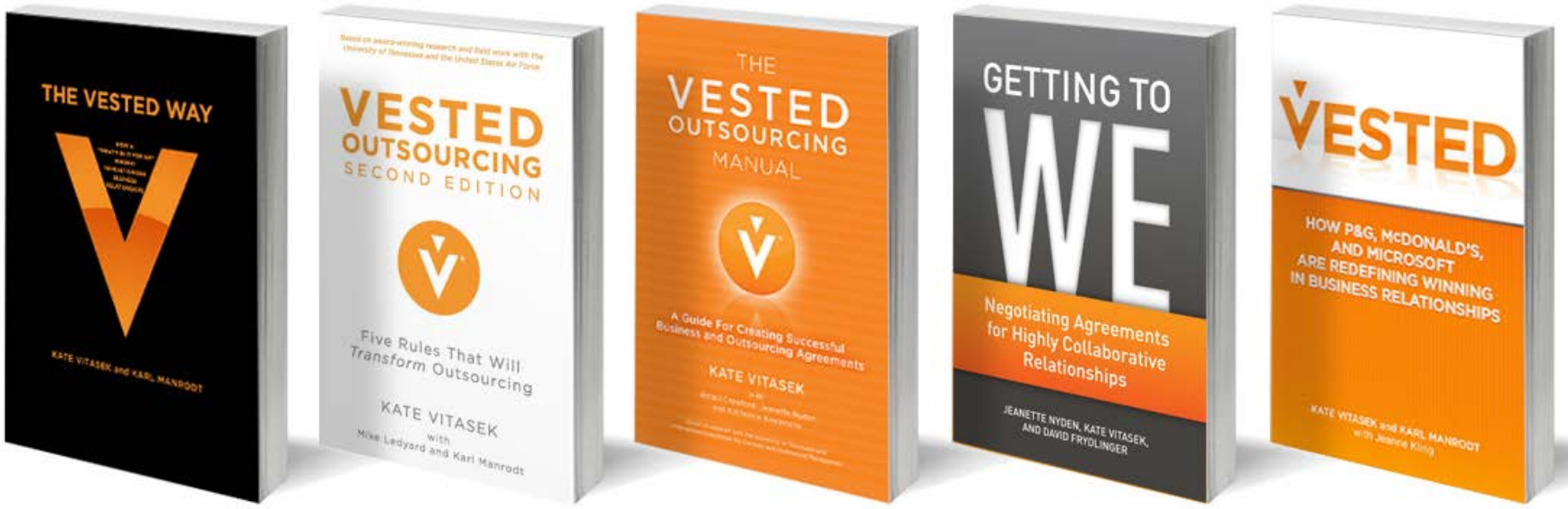
- Albert Einstein



Based on Research With……

THE UNIVERSITY of TENNESSEE KNOXVILLE
CENTER FOR EXECUTIVE EDUCATION

Why	What	How	Negotiate the relationship	Tells the real stories of…



Playing the Game

Win-Win Thinking is Steeped in Research…

		Me	
		Command	Cooperate
You	Cooperate		
	Command		

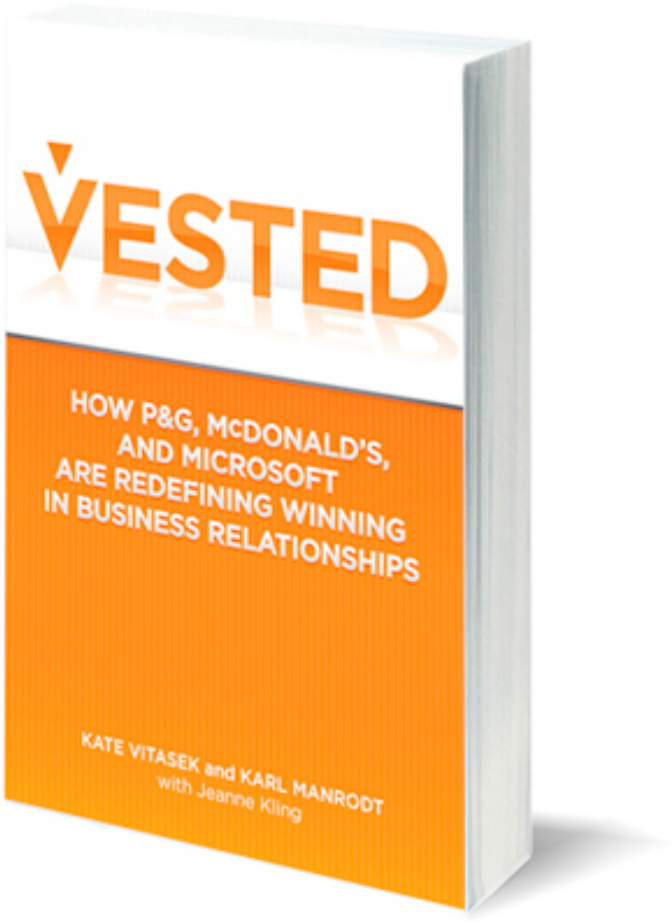
Win-Win Is Steeped In Research

Source: http://en.wikipedia.org/wiki/A_Beautiful_Mind_(film)

John Nash received a Nobel Prize in 1994

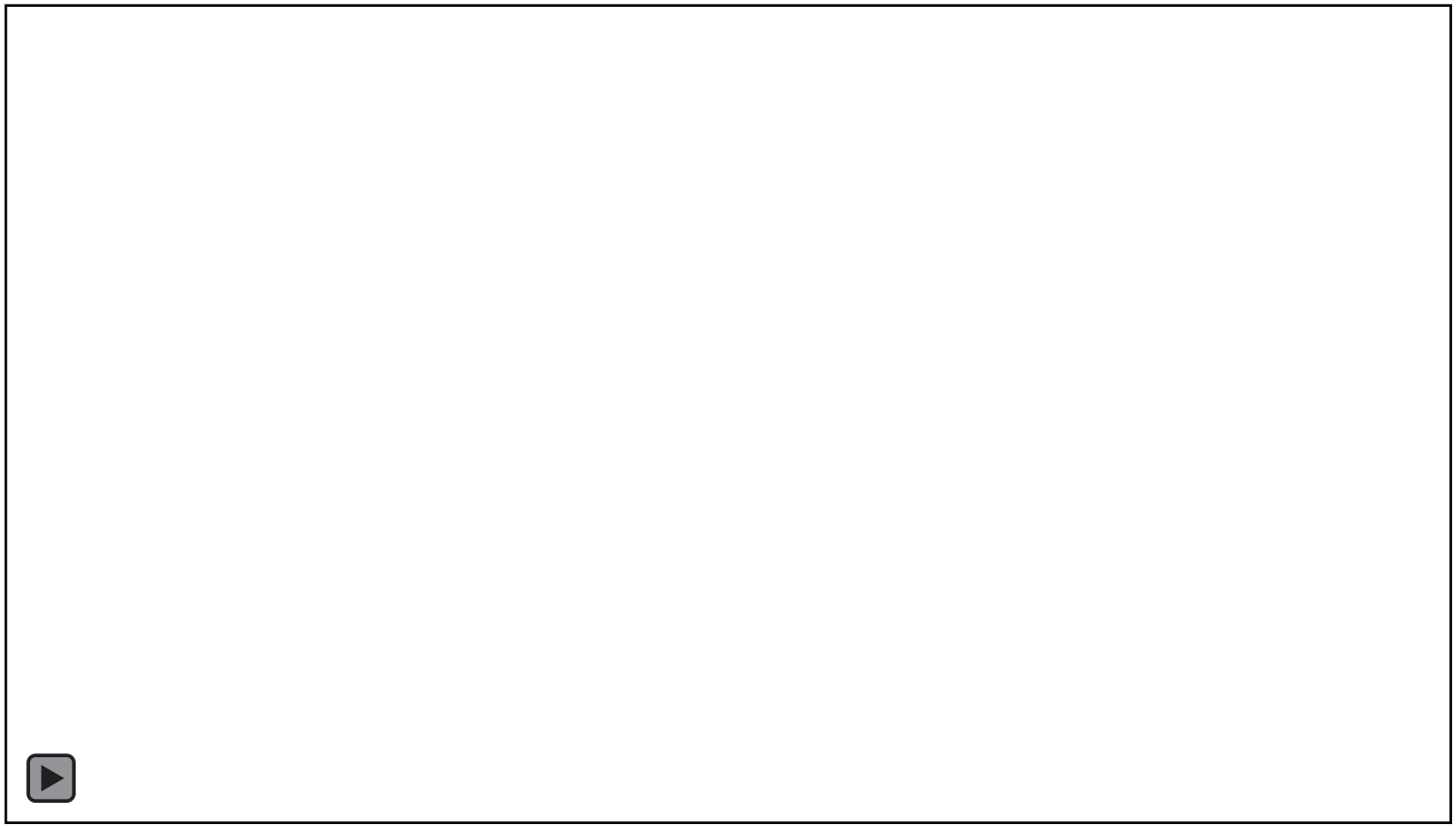
There have been a total of 8 Nobel Prizes awarded for the study of behavioral economics/cooperation.

How MnDOT Plays by the Rules to Succeed



Devastation

In their words…



Source: http://www.youtube.com/watch?v=5-QCigFrsA0

A Preventable Tragedy

- Bridge was nearing it's lifespan of 50 years
- Inspections had warned of risks for 20 years
- Rated as "structurally deficient" since 1990
- Meeting was planned for Aug 20th (19 days after collapse) to discuss condemning the bridge

The Challenge

In their words…

Tim Pawlenty

Former Governor
Minnesota
United States

"Rebuild the bridge by December 24th, 2008"

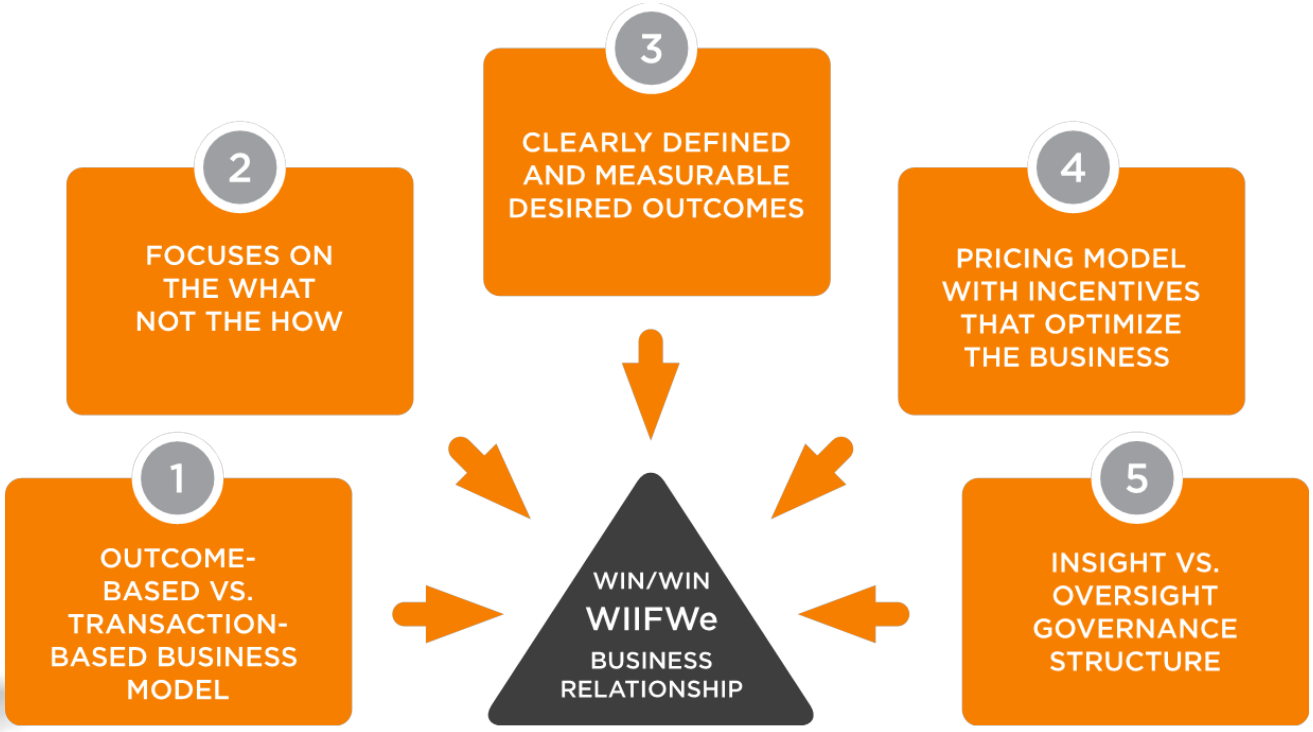
Source: http://en.wikipedia.org/wiki/File:Bill_Richardson_at_an_event_in_Kensington,_New_Hampshire,_March_18,_2006.jpg

Minnesota Statue §161.3410

– a rarely used law from 2001 –

opened the door for “best value” approaches

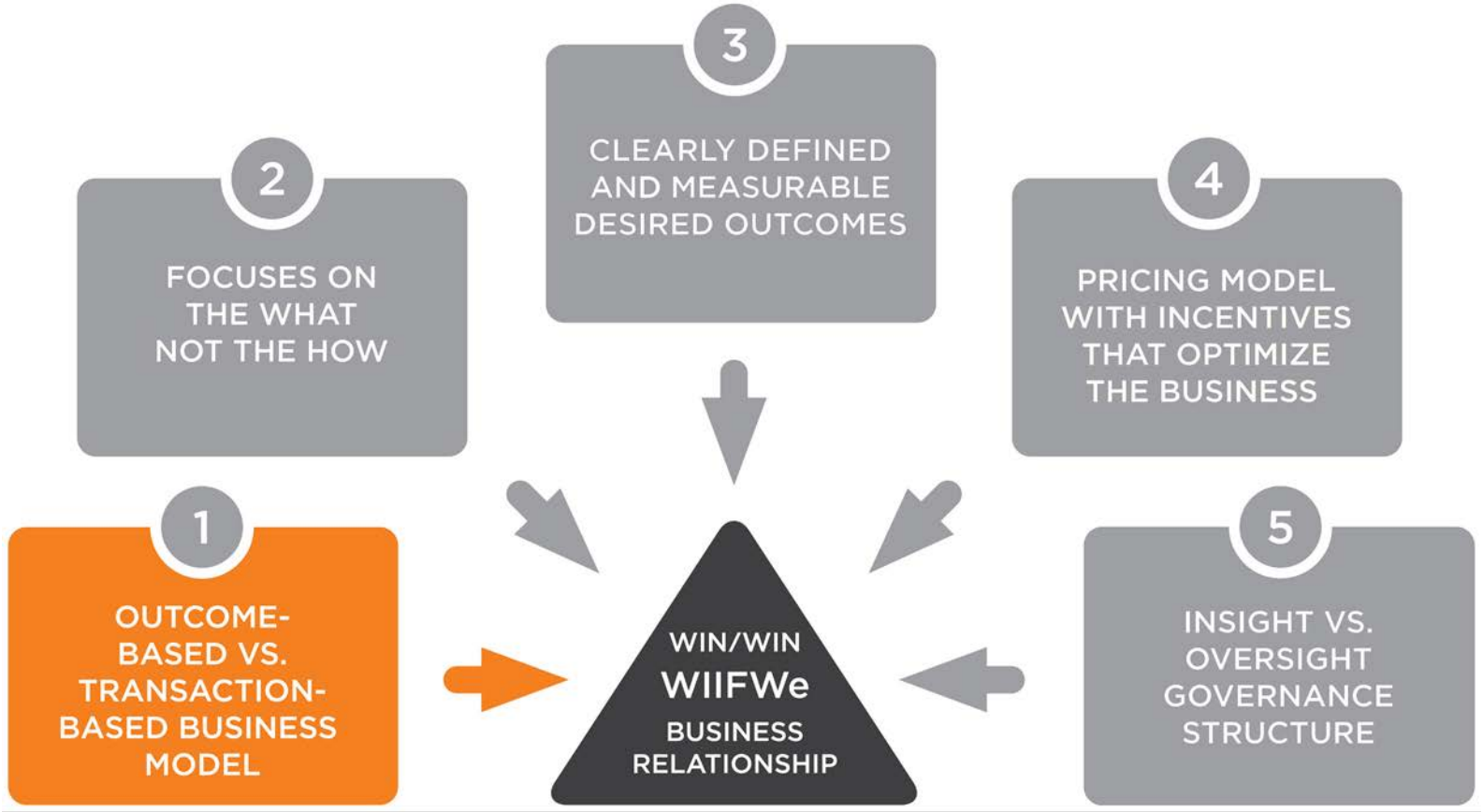
The Rules of the Game



Source: Vested®

Rule 1 –

Outcome vs. Transition Based Business Model



Source: Vested®

1. Outcome Based vs. Transaction Based Model

- Most relationships follow a ***transaction-based*** business model

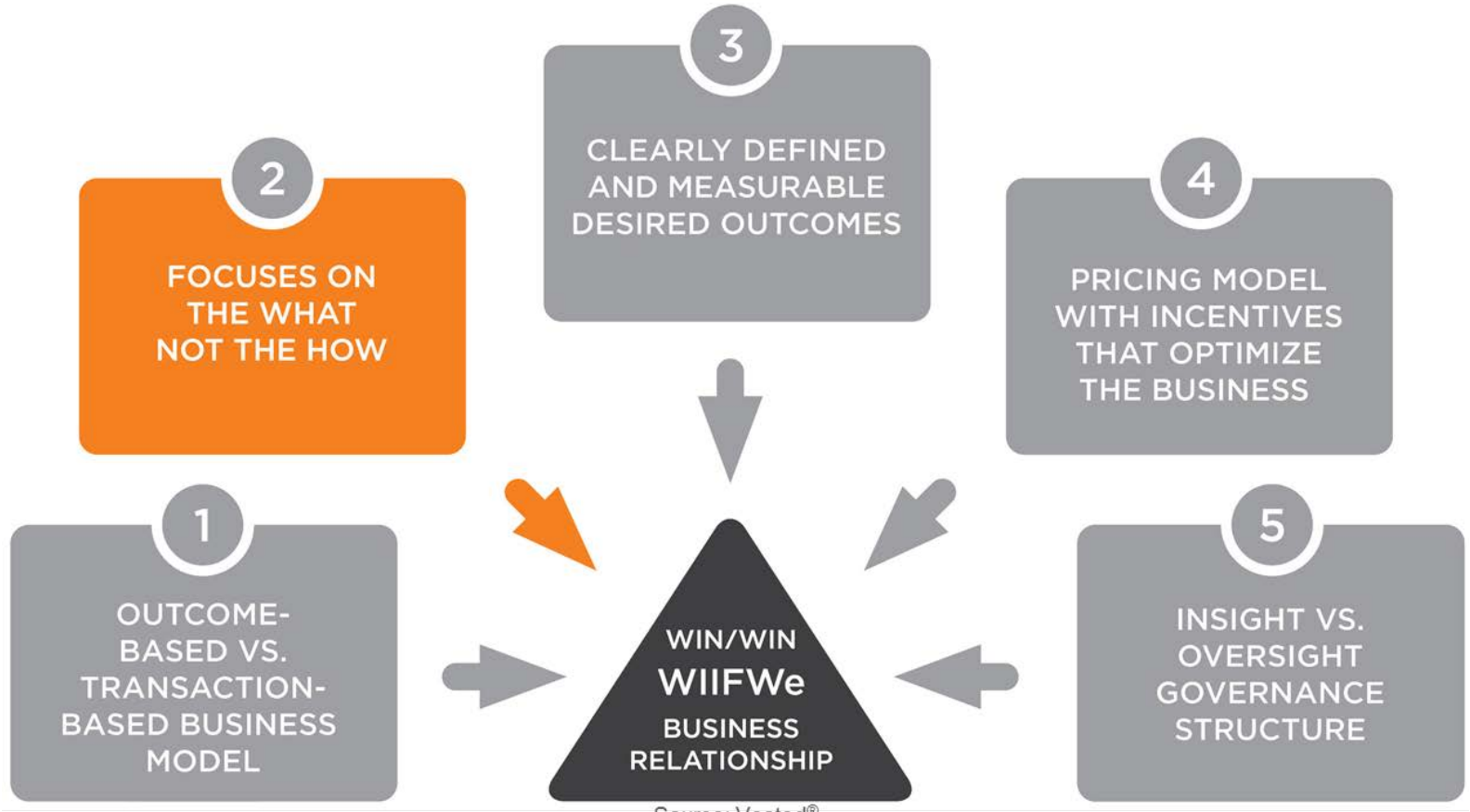
- Vested moves to an ***outcome-based*** business model where the service provider is paid for achieving results, not just for performing tasks or activities

The Desired Outcomes:

- **Safety** – safe project area
- **Quality** – reduce future maintenance costs
- **Schedule** – open for use by Dec 24th, 2008
- **Environmental Compliance** – minimal impacts to the environment while using context sensitive solutions
- **Budget** – maximize return on taxpayer investment
- **Aesthetics** – incorporate bridge into surrounding environment

Rule 2 –

Focus on the WHAT, not the HOW



Source: Vested®

2. Focus on the WHAT, Not the HOW

Joy's Law: No matter who you are, most of the bright people don't work for you

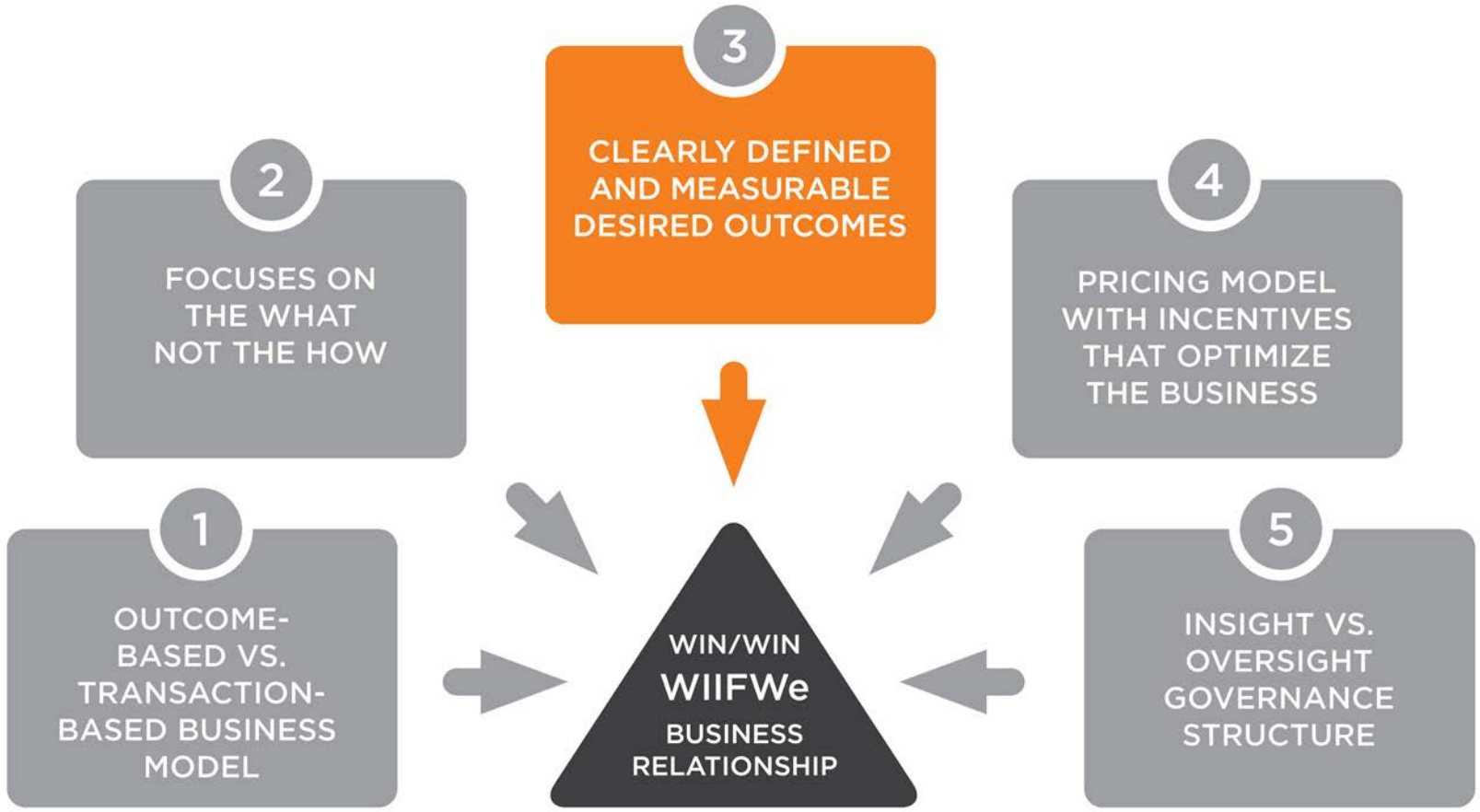
"For every P&G researcher, there were 200 scientists or engineers elsewhere that were just as good. That meant there was a total of perhaps 1.5 million people whose talents they could potentially use."

Example in Action

- Patent for cold-weather concrete mixing
- Developed creative work environments despite very low outside temperatures
- Accelerated process for concrete strength testing

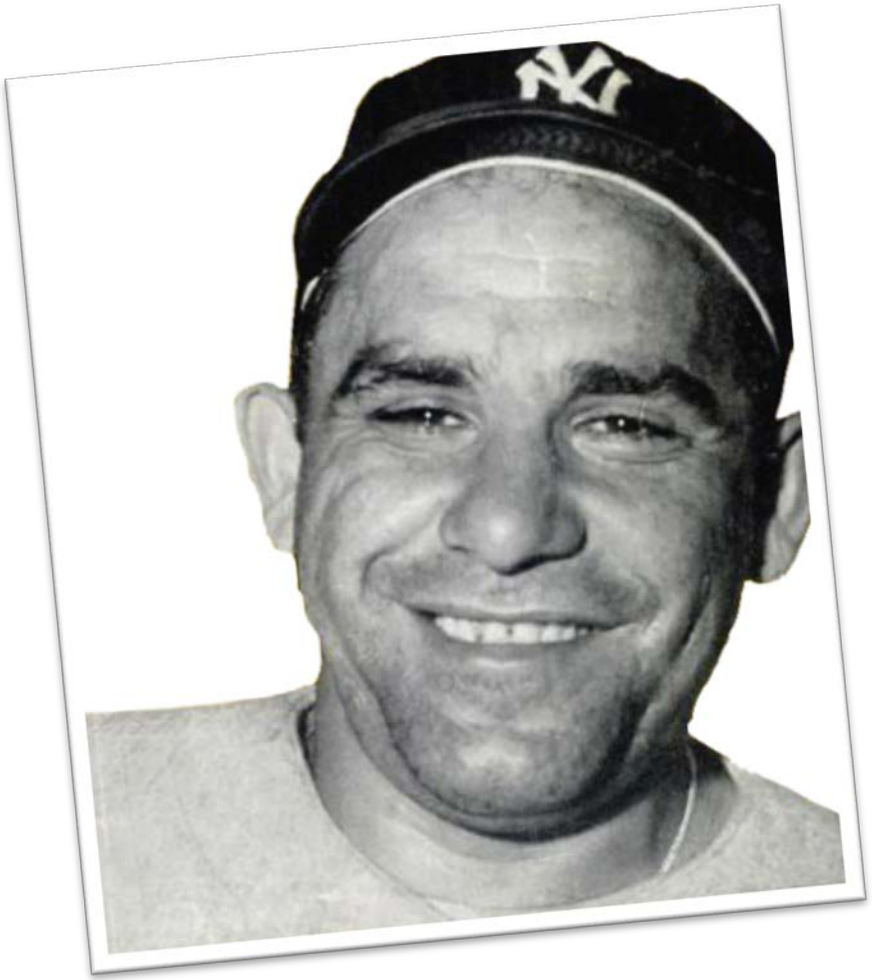
Rule 3 –

Clearly Defined and Measurable Desired Outcomes



Source: Vested®

3. Clearly Defined/Measurable Desired Outcomes



“You got to be very careful if you don't know where you're going, because you might not get there.”

- Yogi Berra

Rule 3:

MnDOT's challenge was to put a value and measures on the Desired Outcomes

- Focus was delivering the six Desired Outcomes with the lowest total cost – not on price
- Used "Best Value" criteria versus traditional "lowest price" to calculate an "Adjusted Bid" price
- Three components
  - "A" = Contract bid price
  - Plus "B" = Number of days to complete project, which is multiplied by $200,000 per day
    - $200,000 per day based on 50% or road user costs
  - Divided by Technical Proposal Average (TPA) Score

Calculation: [(A) + (B * $200,000)] / TPA

Valuing the "Soft Stuff"

Technical Evaluation Ratings

- Quality (50%):
  - Experience and authority of key individuals (20%)
  - Extent of quality control / QA (10%)
  - Safety (10%)
  - Measures to evaluate performance in construction (10%)
- Aesthetics (20%):
  - Enhancements to the RFP (10%)
  - Approach to involve stakeholders (10%)
- Enhancements (15%):
  - Geometric Enhancements (10%)
  - Structural Enhancements (5%)
- Public Relations (15%)

Flatiron-Manson Wins with…

…Highest Price, but Lowest Total Cost

Prosper	Technical Proposal Score	Days	Price	Adjusted Score
Ames Lunda	55.98	392	$ 178,489,561	4,588,953
McCrossan	65.91	367	$ 176,938,000	3,798,179
Walsh	67.88	437	$ 219,000,000	4,513,847
Flatiron-Manson	91.47	437	$ 233,763,000	3,511,129

Calculation: (Bid $) + (Days X $200,000) / TPA

$ 233,763,000 + (437 X $200,000) / 91.47 = 3,511,129

Flatiron Brought Needs Not Wants

In their words…

Jon Chiglo

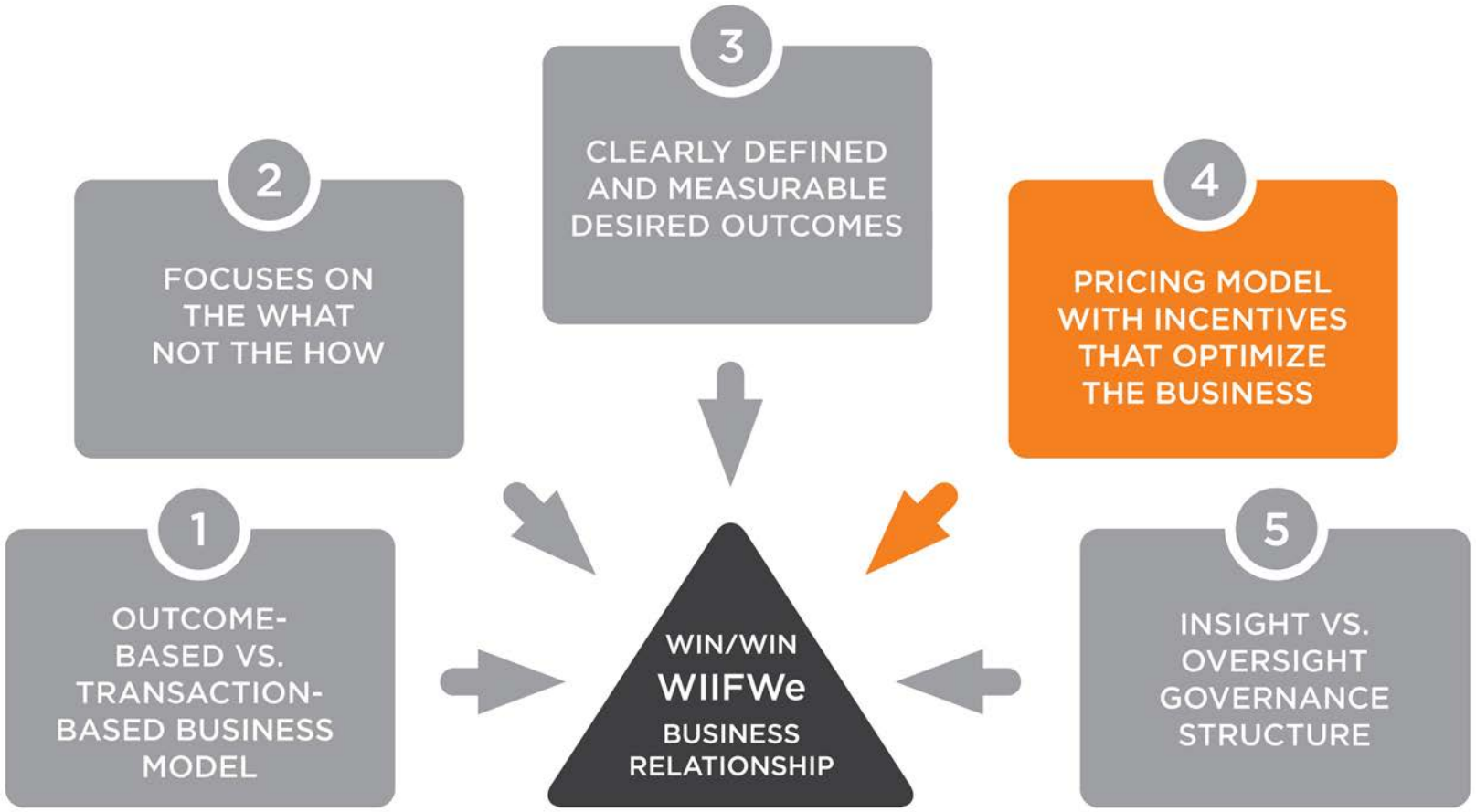
I-35W Bridge Rebuild
Project Lead
MnDoT

"Flatiron-Manson, on paper, was the most expensive bid. But they brought skills to the table that were NEEDS, NOT WANTS. Things like the Charette process, outreach to school kids, understanding of community buy-in."

Photo Source: http://www.newsline.dot.state.mn.us/archive/10/jan/27.html

Rule 4 –

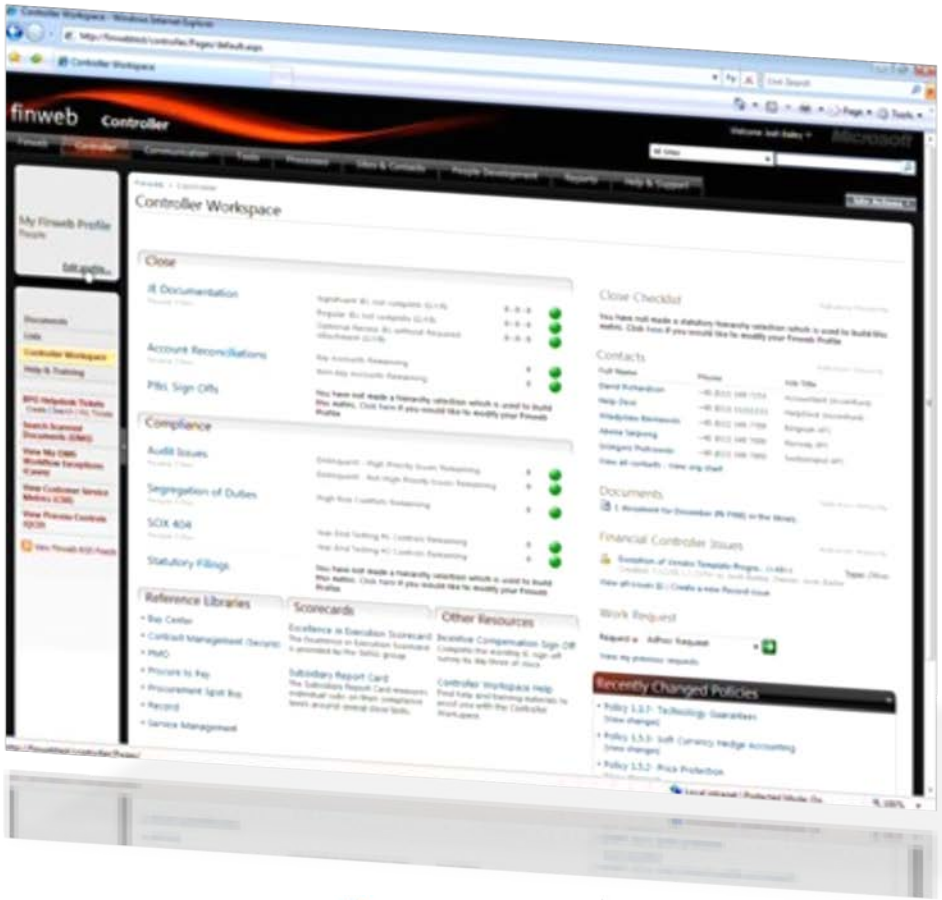
Pricing Model with Incentives that Optimize the Business



Source: Vested®

A Different Perspective

PRICE vs. PRICING MODEL



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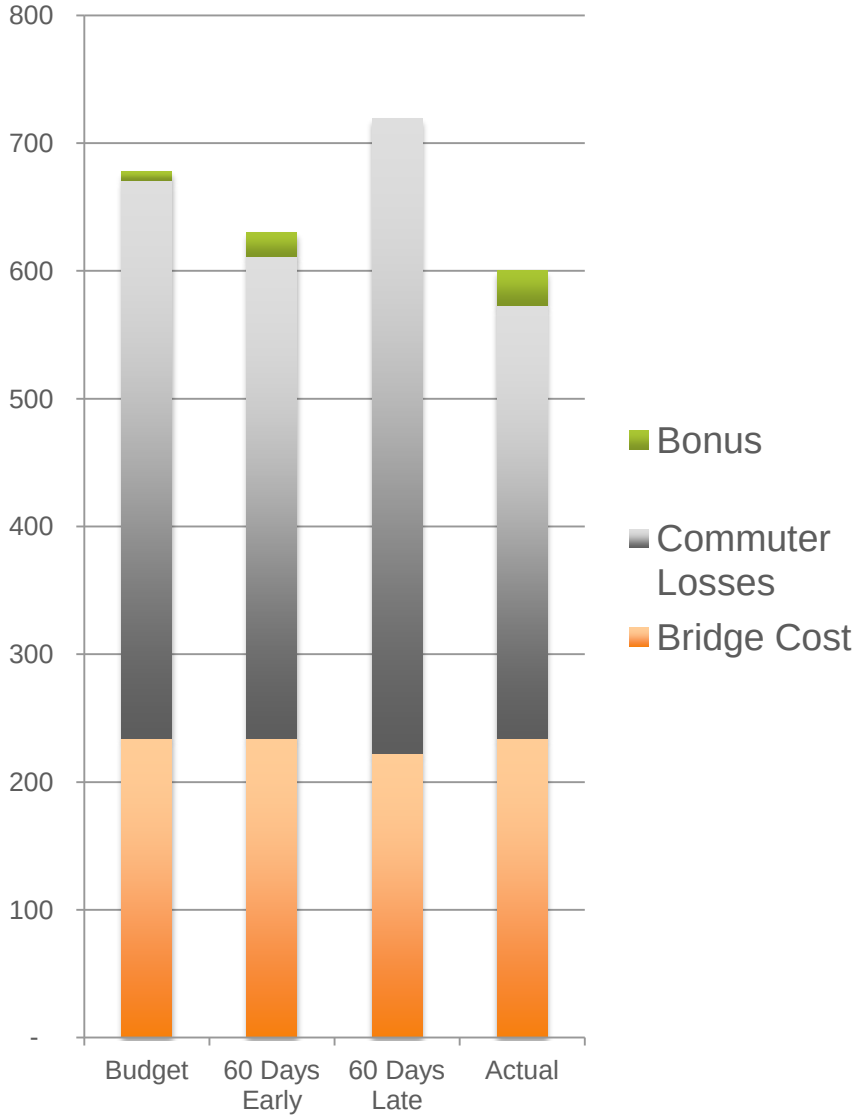
Rule 4:

Base	Incentives			
Bridge Design & Construction	Time	Public Relations	Safety	Quality
$233,763,000 Fixed Base Fee for Project Smart Risk Allocation: MnDOT bore cost of unknowns	Bonus for On-Time Completion Additional Bonus for Each Day Early Penalty for Each Day Late Credit if MnDOT caused delay	Bonus for Hitting Defined Goals	Bonus for Hitting Defined Goals	Bonus for Hitting Defined Goals

Pricing Model with Incentives Optimized



- Bonus drove process innovations that saved 98 days
- Even with bonus, total taxpayer cost was $71MM better than budget

Note: Commuter losses figure includes estimated losses to businesses & the state economy

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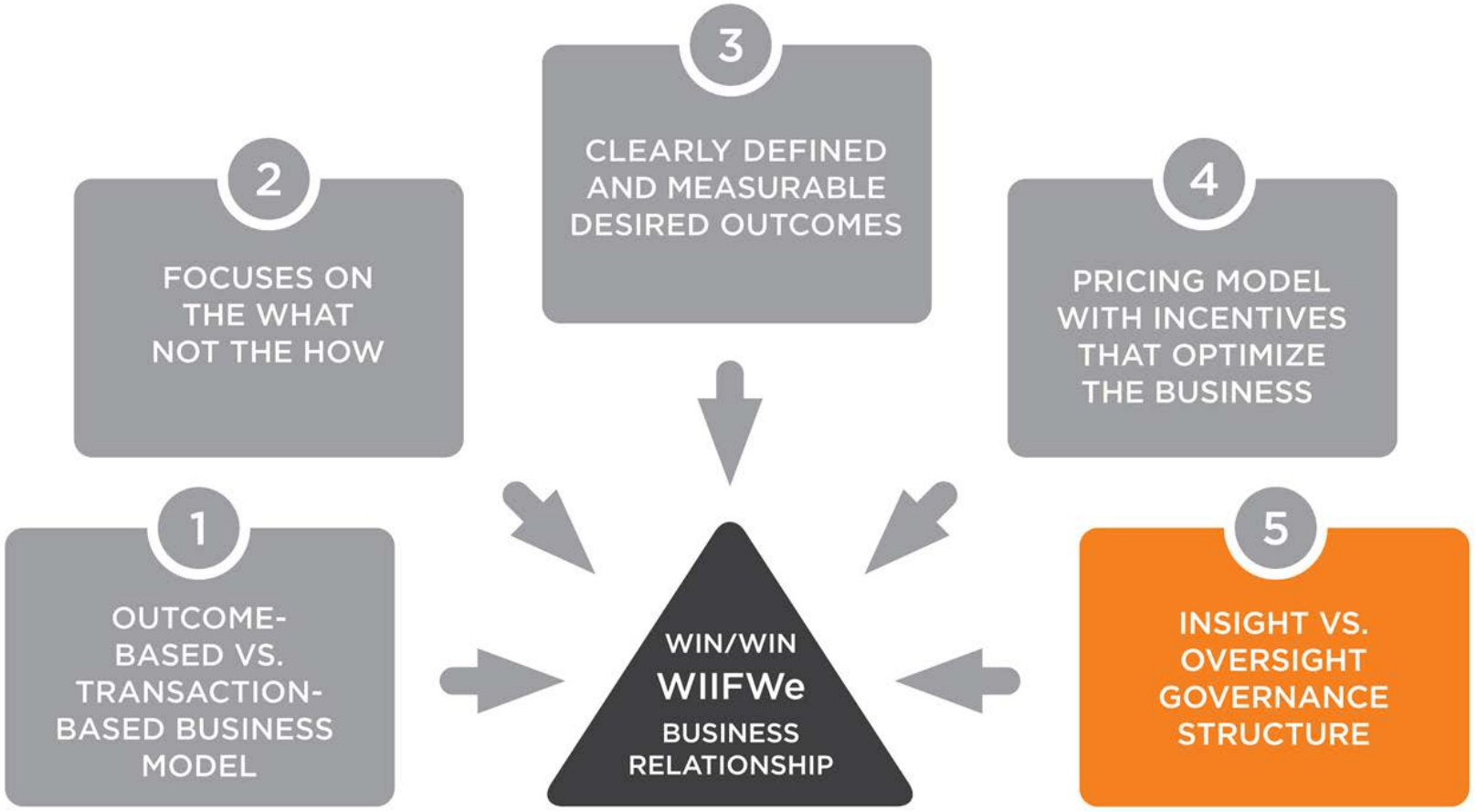
Rule 5 –

Insight vs. Oversight Governance Structure



Source: Vested®

5. Insight vs. Oversight Governance Structure

ME

- Getting the service provider to meet my needs
- It's in the contract, now it's the service provider's problem
- Blame and punish the service provider
- Unpleasant surprises

BECOMES

WE

- Finding a way to meet our mutual needs
- Work together to achieve performance and compensation goals
- Communicate the issues, jointly find solutions
- Integrated planning and communications

Manage the Business…Not Just the Supplier

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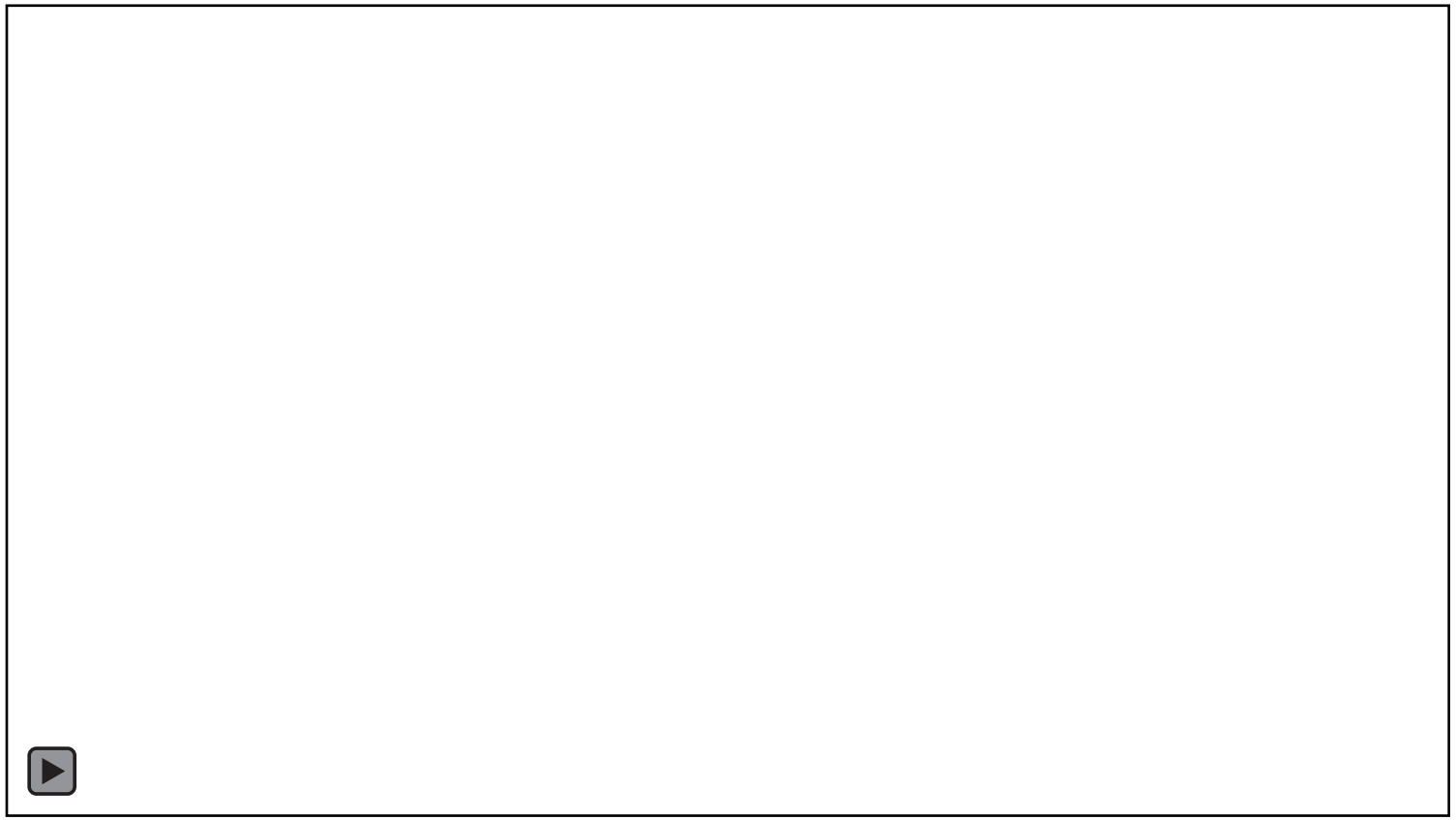
Relationship Management

- Used two in a box concept
  - MnDOT project leadership co-located on project site
    - Sped issue resolution and decision-making
- Sound performance management plan
  - Up-and-down commitment to “Do It Right The First Time”
  - Jointly standardized inspection process & check-sheet
- Neutral Third Party Reviews
- Public involved every step of the way

Saturday Public Walks

In their words…

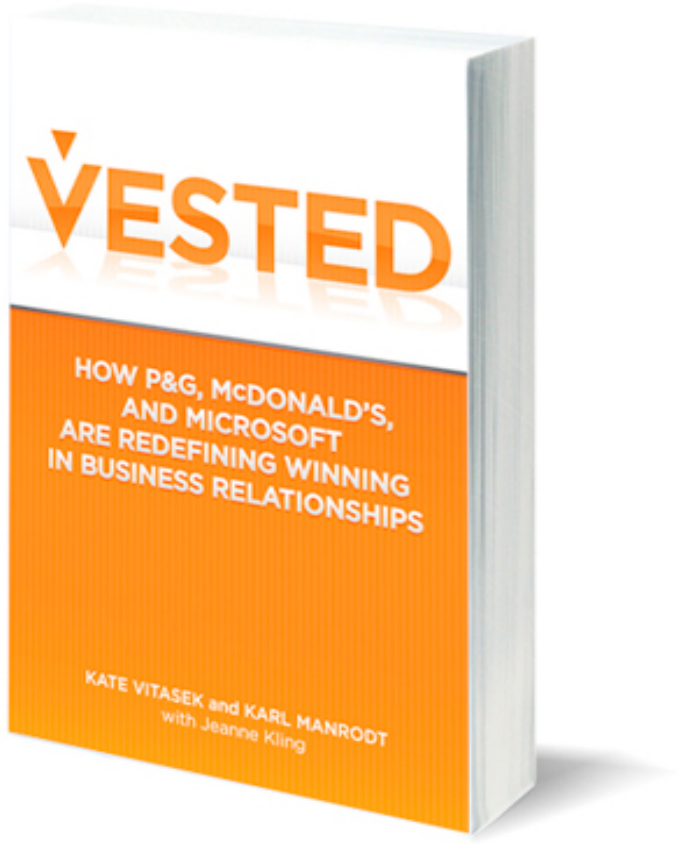


Source: https://www.youtube.com/watch?v=RPDK19UtF9g

Change Management

- Established Executive Joint Venture Committee
  - With flexibility built into contract, Committee provided forum for dealing with constant surprises and new ideas
- Strong Stakeholder Management
  - MnDOT took the lead in managing multiple regulatory agencies
    - All standards documented in books held on site

The Results Are Real!



"As people started approaching the crossing of the bridge, horns were honking, flags were waving, and people were cheering and yelling 'THANK YOU'"

Jon Chiglo
I-35W Bridge Rebuild Project Lead
MnDoT

Results

- 98 days ahead of schedule (completed in eleven months)
- Innovations like concrete formula improved future work
- Smart Bridge technology provides vital data winning many awards
- Expedited construction with zero safety accidents
- Redundant Design – if one part fails, the bridge won't fail

- 25% under original budget of $350 Million
- Public savings of $800k a day for early opening

I WIN with lowest possible costs

- Fee was highest among bidders but best value for lowest total costs
- Achieved full fee with maximum incentive pay ($27 million)
- Many awards for excellence and innovation

I WIN with a better environment

Does **Vested** Really Work?

I WIN with higher profits

Winning Together

- 2009 Grand Prize America's Transportation Awards - American Association of State Highway and Transportation Officials
- 2010 Award of Excellence Federal Highway Administration
- 2009 Best Overall Award
  Design-Build Institute of America
- 2009 Project of the Year American Public Works Ass'n
- 2009 Grand Award
  -Associated General Contractors of America/Aon

- 2009 Celebration of Engineering and Technology Innovation Award - FIATECH
- 2009 Build America Award – Associated General Contractors of America
- 2010 Bridge Design Award of Excellence Portland Cement Ass'n
- And, 8 More National, prestigious Awards!

MINNESOTA DEPARTMENT OF TRANSPORTATION

FIGG

CREATING BRIDGES AS ART

FLATIRON

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Questions?

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University of Tennessee
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