





A NEW PROCUREMENT PROCESS: Dining services at Arizona State University

BY BRETT PEROZZI & KENNETH SULLIVAN

Arizona State University (ASU) recently embarked on a new request for proposal (RFP) process to procure a dining services vendor for the university. The process was unprecedented at the university and in the dining services industry, but its inherent focus on value and risk management made it a logical approach for ASU's dining services contract.

ASU has outsourced its dining services for more than 50 years, and the current 10-year contract had come due June 30, 2007. ASU has four distinct locations in the Phoenix metropolitan area, with the largest concentration of students, faculty, and staff in Tempe. The RFP requested a bid for services at Tempe, but indicated that the services would eventually be for all ASU locations in the "Valley of the Sun," including all retail, resident dining halls, markets/convenience stores, and catering. The gross revenue for

this contract is estimated to reach almost \$500 million over 10 years.

The dollar volume of the account and the intricacies of dining services generally made the contract risky for the university's adoption of a new procurement methodology. It required the close collaboration of many areas, constituencies, and individuals across the university to identify a vendor that would bring the most value to dining services.

About the process

The proposed new procurement methodology has been used fairly extensively and successfully in the construction industry, although it would still be considered new in that sector as well. A faculty member from the Performance-Based Studies Research Group in the engineering school at ASU had the opportunity to talk with a senior purchasing administrator a

few years ago about the process. When the dining services contract came up, the purchasing official decided to once again engage the faculty member to revisit the concept. At that point, the Memorial Union staff responsible for the dining services RFP became involved and attended a number of sessions and presentations on the process to decide whether to use it for the dining RFP. It was because of the open-minded attitude, patience, and commitment of the committee participants that the best value process was successfully executed.

After two months of review, they decided to apply the process for the dining services RFP. This decision did not come lightly. The success of the process in construction does not necessarily translate to success in dining services. Instead, the decision to test the process focused on the underlying concepts and efforts in establishing

models for sustained changes in organizational culture. The Performance-Based Studies Research Group's real work is not so much in construction as it is in creating efficient organizational leadership structures with accountability, effective risk transfer and minimization mechanisms, and environments of performance measurement and information.

The applied process itself is somewhat counterintuitive. In a traditional process, a university develops a detailed specification of its dining services requirements and often selects the vendor that makes the biggest promises in its proposal. The winning vendor and its lawyers then commonly use the negotiations stage to write out as many of the promises as possible. When the dining services must be delivered, the university is highly involved and the vendors consistently go to the client requesting, "What do you want me to do?" "How should I do this?" and "Is this what you want?" As soon as a client directs or controls the delivery of the dining services, the risk for the efficiency and performance of that service now lies with the university.

Conversely, the best value process ultimately places the responsibility of operating the outsourced service

squarely on the vendor, rather than the university (Angelo, 2006). The theory of the process aside, the logistics break down into three stages: 1) selection, 2) preplanning and quality control, and 3) management by risk minimization (see Figure 1). The overall process involves the vendor identifying the risks involved with operating the account that it does not control, and how it would manage those risks. Within the selection stage, vendors are asked to show how they add value to the university and what characteristics or features distinguish them from their competitors. In addition to risk and value, the process requires benchmarking of past performance for each vendor and the key individuals proposed as the operating management team at ASU (Kashiwagi, 2004).

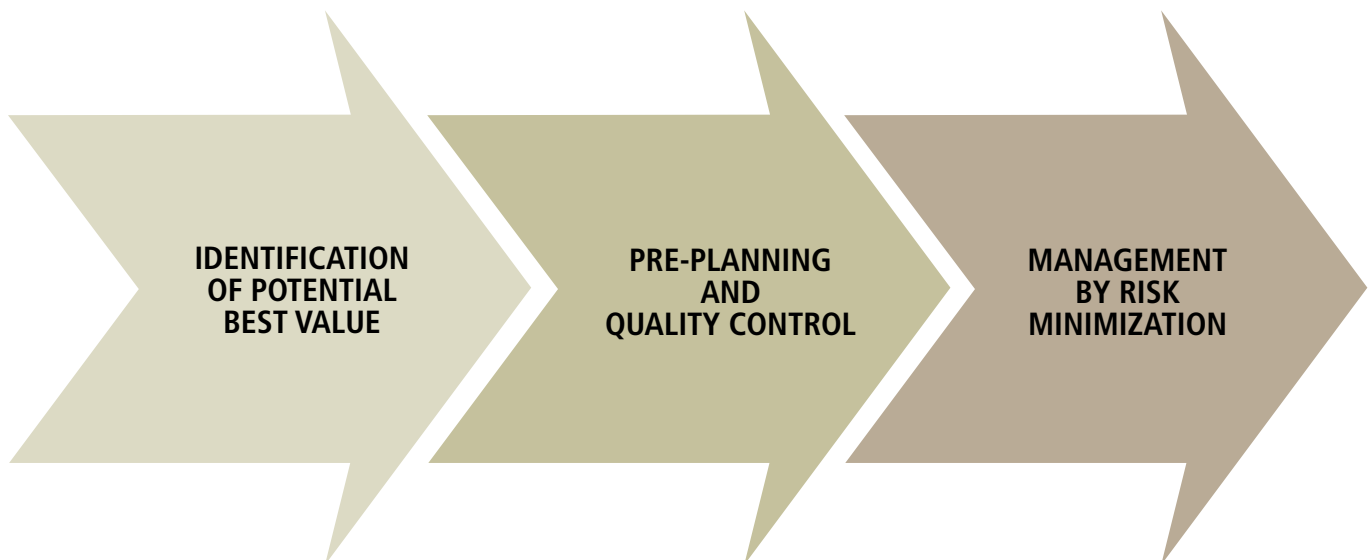
Contrary to most dining services RFP responses (typically hundreds of pages long), the vendors were limited to six pages of text. The first five pages describe the identified risks and the perceived value added, and is simply called the Risk Assessment and Value Added plan (RAVA). The sixth page is a transition milestone schedule for the Tempe campus. Marketing material was prohibited and was count-

ed against any vendor who submitted such things as brochures from other campuses, healthy living promotions, etc. Each vendor identified a number of different risks, although some were common across vendors. For example, the risk of catastrophic events was common, and the mitigation of that risk was similar, yet varied from RAVA to RAVA.

There were five distinct units of measure in the selection process: RAVA and transition plans, three past performance measures, three financial factors, interviews of operations personnel, and an equipment replacement indicator (see Figure 2). Notably absent from the first stage of selection was the requirement for a written or specific dining program. This information, while important to the overall dining program, does not help a committee make an informed decision. For example, how is a committee member to know if one type of burger concept is better than another? Committee members classified such information as non-value-adding data, which was a consistent theme in the selection model, where the research strove to minimize all information that did not help to differentiate between vendors.

Figure 1

THE THREE PRIMARY STAGES OF THE BEST VALUE PRACTICES



Initially, vendors were asked to identify peer institutions to ASU where they hold dining services contracts and submit financial and performance data over time. Next, the focus on the operational staff (as opposed to sales/marketing personnel) continued by asking vendors to submit personal references on their proposed operational staff; the general manager, his/her supervisor, the “operations director,” catering director, and executive chef. Five references were required for each staff member. Then, vendors provided an overview of their financial return to the university. This was done in simple, summary format. No lengthy, venue by venue pro formas were submitted to the general committee; however, vendors were required to submit venue by venue pro formas that a subcommittee of dining services experts reviewed. Finally, the full RFP committee interviewed each operational staff member.

Working through implementation of the process

The basic philosophy driving this process is difficult to grasp. The Memorial Union team attended multiple presentations, reviewed PowerPoint files, and discussed the process for sev-

eral months. Essentially, this process allows the university to hire the most outstanding (best value) expert vendor in the dining services field to come to the university and run the dining services operation. Therefore, the university wants to have the vendor assume the risks associated with running the program. Concomitantly, the university will allow the vendor to run the program as it sees fit, contrary to previous methodology where the university would dictate program specifics to the outsourced vendor. The vendor also leads the quality control management part of the process.

Because the process is far different than other processes the vendors had participated in previously, they initially had many questions and some degree of skepticism. However, in the end, the vendors generally embraced the methodology partially because of its “hidden” similarities to the common process. Those similarities are that the vendors still needed to do extensive research on the account and build their assumptions and financial pro formas as they have during other RFP processes. The difference was that ASU did not ask for all of that data. The university wanted to know how they would minimize the risks associated with the

contract (necessitating that vendors identify those risks and propose solutions), what value they would add to make this account the best, most unique university dining services contract, and how they distinguish themselves from other vendors.

The committee reviewed and scored the RAVA and the transition document and participated in personnel interviews. Detailed financial pro formas were turned in to the university and reviewed and scored by dining services experts. Essentially, the financial modeling needed to be done to provide a proposed percentage return to the university and the capital investment being offered. The percentage return in relation to the capital commitment were both rated and factored into the decision-making process.

Making the decision

The entire process was data-driven, eliminating any bias that could creep into this type of process. For example, if committee members prefer Subway over Quizno’s and Burger King over McDonald’s, does that affect their rating? This process obscures vendors’ identities, eliminates specifics about the final program, and places exclusive importance on

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raw and interpreted data. For example, the RAVA and transition plans were turned in anonymously, where only the purchasing staff member knew which plans had been submitted by whom. The committee rated the RAVA and plans blindly (vendors were not allowed to insert any names, product, etc. that could reveal their identity—a unique trait from other selection methodologies). All data was arrayed in Excel spreadsheets as presented in Figure 2.

As is shown, the three most important factors were the RAVA, interviews, and financial metrics. From these items, each vendor displayed its ability to not only identify risk, but also minimize it, and to show how it would manage the contract and add value to the university. Within the context of the RFP and the process, value was measured by the ability to understand

and meet the university's expectations. The committee defined value as relative to the vendors' capabilities. The vendors were not measured against a "max value"; instead, the vendors were competing against the unknowns of what their competition was proposing (Sullivan, Kashiwagi, Chong, & Pauli, 2006). As an example, in the case of the RAVA plans, there was no scoring mechanism where the identification of "X" number of risks with solutions warrants a certain point score. Instead, each committee member rated the RAVAs relative to each another, with best, second best, and worst being identified and then identified the distance between them. The committee members were told that if they could not tell a difference between the plans, then they should not make a decision, and should rate all the plans the same, relying on other metrics of the selec-

tion process to determine the differences. In this process, risks come from decisions and decisions are a result of not having enough information.

In the case of the financial metrics, the process considered proposed monies as well as actual past performance at other universities. This information-rich environment ameliorates numerous key factors including returns over time, customer satisfaction numbers over time, missed meal factors (the percentage of meals that students "lose" because they have not used that at the end of a given time period), retail, catering, and voluntary meal plan sales, along with a host of other information (example in Figure 3). These data, combined with the risk information and interview process, which also focused on risk and meeting ASU's requirements, helped clearly differentiate one vendor from the others.

Figure 2
PAST PERFORMANCES: FINANCIAL DATA ANALYSIS

		RESULTS														
Vendor B		0.823														
Vendor A		0.771														
Vendor C		0.748														
		out of 1.00														
By Rank	No	Client/University	Total Return (\$) v Time			Total Return (%) v Time			Retail Revenue (\$) v Time			Catering Revenue (\$) v Time				
			Average	Change	Slope	Average	Change	Slope	Average	Change	Slope	Average	Change	Slope		
Vendor B Summary	1 A		4479244.8	1747781	463197	0.258	0.05	0.013	6800224.2	1889451	481348	3144516.8	197971	46407		
	2 B		2286360.333	1229874.87	614937	0.214949	0.0335692	0.0168	5621404.7	3230424	2000000	1841100	206410	103205		
	3 C		5516802.998	1702367.49	356813	0.2385546	0.0017856	-0.0003	4873445.2	1079451.1	237307	1009180	513137.6	134529		
	4 D (Same GM as proposed)		951415	667150	151047	0.1389496	0.0300566	0.0055	2282967.3	974689.29	214746	1388600.5	1095383.3	300797		
	5 E (Same GM as proposed)		2544320.2	15574	8964.1	0.2546	-0.067	-0.015	2532876.8	738546	177655	1173455.2	237008	57127		
	6 F		4670650.6	881335	226738	0.1884	-0.006	-0.0012	6749465.2	2009289	502177	3924981.8	1601828	387981		
	7 G		1250600	-1143000	0.3914	0.1810044	-0.312018	-0.0626	2663034.4	2735488	677096	1017581	492589	110449		
	8 H		2980149.8	744473	109597	0.3658188	-0.072464	-0.0273	1748575.2	1015377	266750	999618	1125895	279281		
	9 I		2322933.2	890978	222667	0.1242	0.0024	0.001	11924753	3962566	945027	2385547.4	934010	220262		
	10 J		3075174.564	2314277	581920	0.35426	0.0701	0.0171	3789129.8	4340203	1000000	635360.66	633101	162899		
	Averages	4.8	3007765.15	905081.036	273598.05	0.2318736	-0.028957	-0.0053	4898587.5	2197548.4	650207.6	1751994.1	703733.29	180293.7		
Vendor A Summary	1 K		954746.4955	60311.00628	16007	0.1589139	-0.009569	-0.003	1427527.8	78617.859	20113	466465.7	111771.64	34245		
	2 L		2007710.708	453969.6	59607	0.1570847	-0.024964	-0.0103	9292099.8	2047221.7	600895	1407764.1	790702.71	196990		
	3 M		3051016.788	2004889.28	963307	0.1597003	0.0556175	0.0353	2848065	483890.87	196916	1416463.8	364277.19	128432		
	4 N		2628679.151	19379.09944	80011	0.2416019	-0.01164	-0.0038	4797777.3	3311912.3	860742	715651.57	135647.21	33775		
	5 O		3080829.064	-463621.6422	-113191	0.3901245	-0.017148	-0.0043	1463480.4	52969	14686	510044.98	-109926.9	-31576		
	6 P		1184976.392	342848.24	29519	0.1497711	0.003591	-0.0062	6286705.2	1934326.3	459694	1628764.6	318729.5	72217		
	7 Q		2019872.052	747249.9872	146769	0.1163079	0.0006104	-0.0015	5721011	2210056.4	448223	2676678.2	799654.96	217959		
	8 R		2204888.315	1258253.724	243568	0.1762974	0.0559295	0.0076	1917501.7	1340758.9	316928	523580.68	163639.89	41705		
	9 S		4422834.646	1115102.78	256457	0.3011235	0.0111118	0.0006	9419925.1	2502268.2	608184	711866.64	-1319.62	-788.7		
		Averages	5	2394839.29	615375.7839	184672.67	0.2056583	0.0070599	0.0016	4797121.5	1551113.5	391820.11	1117475.6	285908.5	76206.644	
Vendor C Summary	1 T		12277465.03	1349126.99	450647	0.9842981	-0.172712	-0.0391	5079703.6	1559371	440438	2283534	1669566.9	404708		
	2 U		1427136.458	344332.12	85709	0.1299263	-0.000743	-0.001	4986661	947796.04	263239	1482419.2	98280.01	13404		
	3 V		3303340.985	223470.3498	67512	0.337197	-0.047678	-0.0122	3094648.7	414730.92	130216	484709.12	28994.89	15731		
	4 W		479258.315	383618.13	134335	0.1071292	0.0500679	0.0181	2010026.8	1396578	496268	1010900.6	163996.77	42481		
	5 X		3689737.543	1052903.1	376308	0.4655589	-0.002337	0.0042	1569672.5	175637	56658	1564998.7	906475.87	274265		
	6 Y		3629417.247	1032656.833	215245	0.3289621	0.0214013	0.0005	6072150.4	1132781	347652	796622.20	252659.87	72955		
	7 Z		2246022.1	749850.18	184964	0.2136477	-0.00522	-0.0018	2779751.7	1348633.1	313930	907272.96	115725.23	30083		
	8 AA		9663648.324	-1018296.33	-495390	0.6020077	-0.090115	-0.0354	4403919.1	-1257151	-365554	3857432.1	335794.76	97469		
	9 AB		305073.91	-22247.52	-4171	0.0527909	-0.014374	-0.0035	4651600.4	620389.41	161313	1027088.9	194038.22	57770		
	10 AC		844042.765	107100.67	107100.67	0.1052934	0.0001369	0.0001369	5438568.5	1575579.4	1575579.4	2152526.5	235000.73	235000.73		
	Averages	4.5	3768414.267	420251.4523	112225.97	0.3324812	-0.026157	-0.007006	4008670.3	791434.44	342173.94	1556750.4	400025.33	124386.67		

The scoring methodology outlined here, however, was just the first step of the screening process. One vendor was identified to move on to the second stage of the model—the quality control section—with quality control being defined as the minimization of risk. During the quality control period the vendor needed to identify all risks associated with the account. In addition to the risks the leading vendor identified in the RAVA, at this stage the university provided the vendor all the risks the other vendors identified during the process (but not their solutions or their value-added items), as well as other risks the RFP committee identified. The best value vendor then needed to adequately address all of the risks during the quality control phase.

During the quality control phase, the vendor and university are in a pseudo-negotiation stage, where the vendor is the lead, detailing the risks it does not control, how it will minimize those risks, and by default identifying everything it does control. The vendor drives the process, requesting meetings, setting tasks, keeping university personnel on track, etc. Many risks are discussed and emerge during the process, and the vendor must present its plans for minimizing those risks to the university's satisfaction.

This is also when the quality control plan for future management of the account is developed. Managing by risk control is how the account will be ad-

ministered throughout the term (seven years, plus the option for a two-year extension, and the option for a one-year extension after that). The key to this management is performance metrics and how they will be tracked. All unexpected risks, plans to minimize risk, financial summary numbers, sustainability numbers, complaints, customer satisfaction, employee educational efforts, student opportunities, etc. will be measured by the vendor and reported to the university. The philosophy of the best value process is that the vendor is the expert in its field, in this case dining services, and will essentially manage itself because if it does not, it will fail and/or lose revenue, which is neither in the best interest of the vendor nor the university. One central aspect of this model is that both parties want the other to be very successful, as that means greater profits for the university and the vendor and leads to satisfied customers.

Reasons for success

The implementation of the selection process was an overwhelming success. ASU identified a best value vendor, continued to negotiate a contract, and was able to transition the program with little incident. From RFP release until contract signing, the process took just 13 weeks. The major challenge was explaining the process to the various constituencies, including those leading it at the origin of the process. The best

value process is counterintuitive and moves the university out of the business of “managing” a contract in the traditional way. The process allows the experts in the field to manage themselves and brings their expertise to bear on the process, thus transferring risk to the vendor to make it and the university successful. It was a process that moved the university to a leadership model, where value, efficiency, win-win, and accountability through measurement are realized. Not only is the best value process a different way of conducting an RFP process, it is a change in philosophy and culture for the university and the way that it conducts business.

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Figure 3
FINAL SCORING SUMMARY

No	Summary Criteria	Weight/Out of	Vendor		
			A	B	C
1	RAVA Plan	28	16.55	19.85	17.67
2	Transition Milestone Schedule	2	1.03	1.39	1.27
3	Interview	25	15.77	16.78	13.53
4	Past Performance Information - Survey	9	8.82	8.99	8.84
5	Past Performance Information - #/Clients	1	1.00	0.53	0.78
6	Past Performance Information - Financial	15	10.53	13.01	10.35
7	Financial Rating	5	2.00	4.00	4.00
8	Financial Return - Commissions	7	3.31	6.58	7.00
9	Capital Investment Plan	6	4.31	6.00	3.61
10	Equipment Replacement Reserve	2	1.77	1.00	2.00
		100	65.09	78.13	69.04