

# A case for achieving best value through **PIPS**

Arizona State University's alternative approach promotes efficiency by leveraging supplier expertise

By Steve Hagar

**S**ince 2009, the state of Oklahoma has been working as a research partner with Arizona State University's Performance Based Studies Research Group (PBSRG) to use a form of best value procurement known as Performance Information Procurements Systems (PIPS).

While strategic sourcing is the most recent "latest and greatest thing" in procurement, the PIPS approach to best value procurement has been championed and refined over 18 years by PBSRG founder, Dr. Dean Kashiwagi.



Dean Kashiwagi

PIPS' underlying premise shifts the procurement mindset from "this is what we want and how we want it to be accomplished" to simply "this is what we are trying to achieve." PIPS leverages the expertise of the supplier community to

identify an expert supplier who will in turn provide the client a plan to accomplish their objective. This may seem similar to a traditional request for proposal (RFP) process, but the PIPS process realizes efficiencies unattainable with a traditional RFP.

Efficiencies begin with the initial crafting of specifications. Traditional specifications are typically lengthy; some specifications are hundreds of pages long and convey both what is to be accomplished and how it is to be accomplished. Weeks or months are spent crafting specifications that convey our "requirements." Once the specification is complete and the solicitation is released, the burden shifts to the supplier community charged with crafting a response.

Suppliers spend thousands of dollars to prepare marketing-rich and content-intensive responses with absolutely no assurance of receiving an award. Once responses are received, the State is now responsible for reading and evaluating hundreds and sometimes thousands of pages of material. A technical evaluation may require our best and brightest to spend weeks or months reading

and interpreting this massive amount of material.

The PIPS process offers a more efficient alternative. The PIPS process consists of three phases: the Selection Phase; Clarification Phase; and Management by Risk Mitigation.

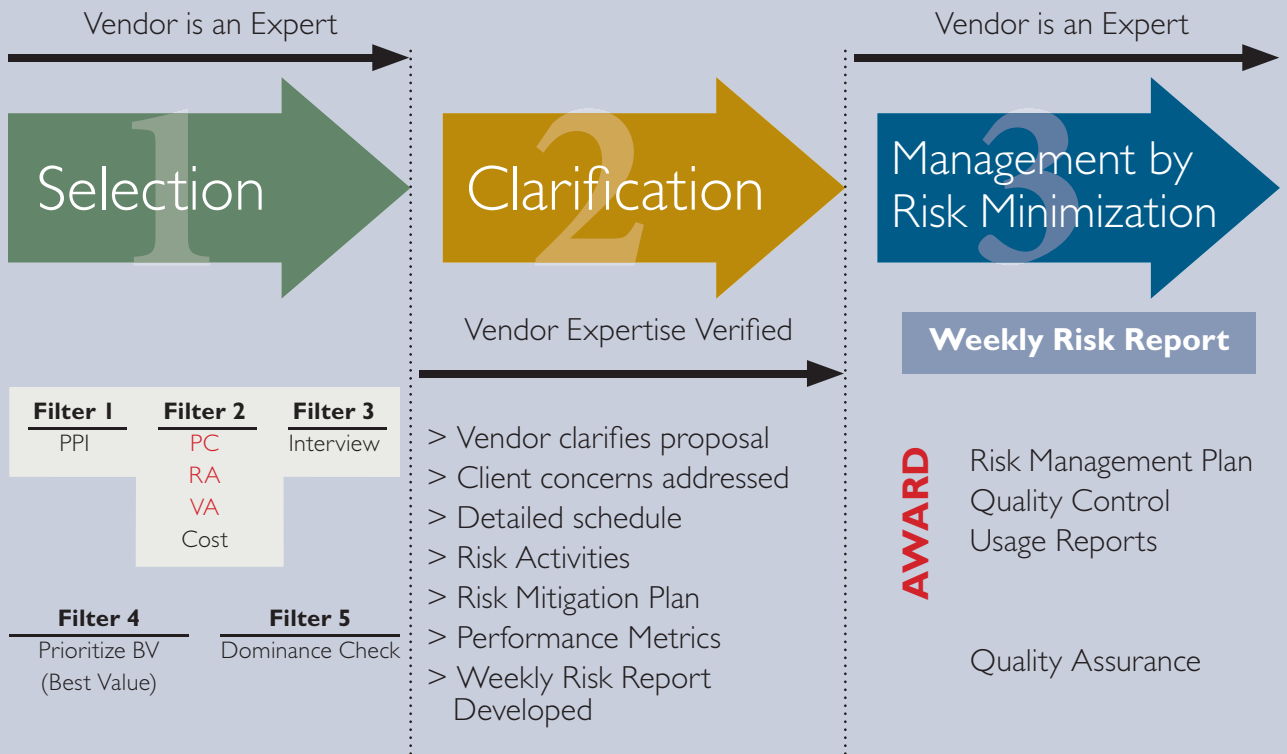
## THE SELECTION PHASE

The Selection Phase of the PIPS solicitation begins with a limited amount of documents. Submissions consist of a handful of one-page surveys completed by past clients to reveal the past performance of the organization and project leaders, a cost submission, a milestone schedule and a six-page Project Capability submission. The evaluation team initially sees neither past performance submissions nor cost proposals. What is left for evaluators are the six-page Project Capability submissions that demonstrate each supplier's expertise using easily understood terms and verifiable metrics. Suppliers are instructed to submit their Project Capability with no marketing material or information that could be used to identify the supplier. The blind evaluation makes PIPS an easy choice when dealing with politically sensitive acquisitions.

When the evaluation of the Project Capability submissions

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# Performance Information Procurement System



Filter 1 is Past Performance Information (PPI).

Filter 2 is Project Capability Submission comprised of Project Capability (PC), Risk Assessment (RA) and Value Add (VA).

Filter 3 is the interview and is the final filter for evaluation.

is complete, the process moves to the critically important interview of key project leaders. This is the final evaluated filter in the Selection Phase and is the first opportunity for the evaluation team to know who has submitted responses. Interviews are limited to the two or three individuals who will be responsible for successful delivery. Interviews of supplier representatives are conducted individually with each representative asked identical or very similar questions. Questions are crafted to allow the interviewee an opportunity to very quickly demonstrate their knowledge and articulate how they will achieve the stated objective. Interviews for each representative are typically 20 to 30 minutes long, and the interviewee is asked to keep responses free of technical jargon and at a 30,000-foot level. At the end of the interview process, scores for all components are tabulated, and a best value candidate is identified to move into the second phase known as the Clarification Phase.

## THE CLARIFICATION PHASE

It is in the Clarification Phase where the heavy lifting begins.

The Clarification Phase begins with the supplier being asked to submit a detailed plan that will accomplish the stated objective. The foundation of the PIPS process is based on a companion text by Dr. Kashiwagi called “The Information Management Theory” or IMT. A key premise

of IMT is that initial conditions of an event (or project) predicate the final conditions (outcome). With an expert supplier identified, we now have a supplier who can “see into the future.” This vision is critical for the construction of a detailed delivery plan that identifies and accounts for risks that could potentially compromise the delivery.

The identification of risks, accompanied by a plan to mitigate those risks, is critical to achieving very high levels of customer satisfaction (98 percent satisfaction) while minimizing costs. PIPS defines risk as anything outside of the supplier’s control. A risk that is outside of a supplier’s control could be the weather in a construction project or a critical piece of information that needs to be supplied by the client by a certain date.

Having completed a multitude of similar projects, an expert will know when and where risks will typically occur. This knowledge enables the expert to establish a “Risk Mitigation Plan” that describes potential risks and how they will be prevented or minimized should they occur. High-level metrics are used to demonstrate at a glance the progress made over the life of the project.

An important objective of the Clarification Phase is for the supplier to clearly convey to the client what is in scope and what is out of scope. In contrast to a typical response to a solicitation, the supplier is charged with

## IN DEPTH [best practices]

pricing a project assuming no (external) risk. The scope of delivery is to be priced completely void of risk. Should any risks (outside of the supplier's control) occur, it will be the client's responsibility to cover any financial impact.

A supplier who is an expert, in response to a traditional RFP, will always price into projects some amount of risk. It is reasonable to assume that the amount of risk that is priced into a proposal by a supplier will be adequate to cover expenses in a worst-case scenario. By providing a mechanism for a supplier to charge for risk, should it occur, the pricing of scope can be minimized with an assurance to the supplier that a reasonable profit will be made. With close to 1,600 projects now complete, PIPS-based awards have been the lowest priced proposals 57 percent of the time.

The Clarification Phase is complete when all past performance is verified; scope is determined; a detailed delivery plan accompanied by a Risk Mitigation Plan is provided; metrics are in place to provide a management and reporting mechanism; and when all of this documentation is incorporated within a "Weekly Risk Report." Once the client has reviewed all documents and had any concerns addressed, an award will be made. Once an award is made the process moves into the final phase, "Management by Risk Mitigation".

### MANAGEMENT BY RISK MITIGATION

Management By Risk Mitigation is founded upon the Weekly Risk Report (WRR). Traditional contract management requires the client to assign a project manager to monitor a supplier's performance. Clients historically have assumed that they can control the actions of the supplier by utilization of management, control and direction. Information Management Theory asserts that event outcomes are determined by the initial conditions. Efforts to control the process during delivery are fruitless and bring risk to the client. Project management within the PIPS paradigm is achieved by using the WRR to keep the project progress visible to all interested parties, track risks and any associated impact to the project, and, most importantly, hold people accountable for their respective responsibilities.

The importance of maintaining the WRR cannot be over-emphasized. The WRR utilizes an Excel template that contains one tab dedicated to all potential risks along with the associated Mitigation Plan. If risks materialize during the course of delivery, the specific risk is moved to a separate tab utilized to track realized risks. Realized risks will be tracked by monitoring the progress of resolution against the pre-determined Mitigation Plan. Also tracked is the responsible

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party that has caused the risk to materialize, the expected date of resolution, the actual date of resolution and any impact to the project in terms of increased cost or time for final delivery.

The identification of the responsible party and impact to the overall project is the transparency component that holds everyone accountable for their specific project responsibilities. This section is also the repository for documenting any realized risk and related additional costs for which the client will have responsibility.

The upkeep of the WRR, as well as overall project management, is the responsibility of the supplier. As such, the WRR eliminates the need for a client project manager as well as a manager from the supplier side charged with interfacing with the client. Clients realize a reduction in project management costs, and the supplier sees a reduction of non-value added communication for their project leaders, netting another opportunity for increased efficiency.

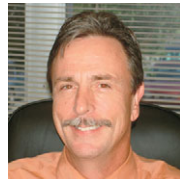
#### DELIVERING A 'WIN-WIN'

The age old struggle of “best price or best quality?” has been solved through the application of PIPS. PIPS can deliver both and truly is a win-win for suppliers and clients.

There have been many innovations in the field of

procurement throughout the years, but in my opinion none more significant than PIPS. PIPS utilizes logic and common sense to very quickly and efficiently identify an expert who will craft a detailed plan that incorporates risk mitigation to ensure successful delivery. Cost and management efficiencies continue throughout the process with project management shifted to the expert supplier who reports progress through high level metrics. PIPS offers a viable alternative to low-bid procurements, providing a mechanism that attracts the best suppliers and appropriately compensates for the expertise and solution they provide. Additional information about PIPS can be found at <http://pbsrg.com/>. <

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