

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**ACTION ITEM**

**Item No.** 6a  
**Date of Meeting** April 26, 2016

**DATE:** April 19, 2016  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** Dave Caplan, Sr. Director, Office of Strategic Initiatives  
Nora Huey, Director, Central Procurement Office  
**SUBJECT:** Procurement Excellence Services Contract

<b>Amount of This Request:</b>	\$3,760,000	<b>Source of Funds:</b>	2016 Operating Budget
<b>Est. Total Contract Cost:</b>	\$4,000,000		

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to execute an amendment to the Procurement Excellence Services contract for an estimated amount of \$3,760,000 and commence the implementation phase of the Procurement Excellence initiative.

**SYNOPSIS**

Central Procurement Office (CPO) purchases goods and services from paper clips to computers to service agreements to capital facilities and equipment. CPO is strategically and operationally critical to delivering key Century Agenda goals as well as a driver of financial stewardship and project excellence. Boston Consulting Group (BCG) is the consultant retained in March 2016 to perform a 4-week diagnostic on the efficiency and effectiveness of our existing procurement processes, systems and capabilities. Through that effort, BCG, in collaboration with employees and suppliers, identified several initiatives to help deliver the Century Agenda, significantly improve internal processes, and at the same time save money. We expect the return on investment to meet or exceed our initial targets of cash neutrality within 12 months of implementation and an annual run-rate savings of at least \$20M (5x the expected cost of the total effort).

**BACKGROUND**

CPO, part of the Office of Strategic Initiatives, is responsible for acquiring all public works, goods and services, and consulting services.

In order to meet the projected growth rate of the Aviation, Maritime and Economic Development Divisions, the Port will be making capital investments in facilities and infrastructure to enable significant increased throughput of passengers and goods. We see an opportunity to reduce capital and expense spending in a smart, efficient manner, while ensuring that the Port of Seattle

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achieves the highest possible value in future capital procurement decisions. Capital expense and operational expense spending for 2014 and 2015 was approximately \$280 million (\$160 million capital and \$120 million operating expenses). With the growing capacity at the Airport, we anticipate significantly increased capital spending in the coming years, further emphasizing the need to build the right processes, capabilities and practices today.

The recently completed Phase 1 (Diagnostic) validated that we have several key opportunities worth pursuing in the near-term. The priority recommendations reflect a combination of external best practices and benchmarks from our consultant and the collective wisdom and experience of our staff and customers whose input was actively solicited throughout the Diagnostic. Due to the value of the work, but also the collaborative nature of the effort, Port employees are broadly supportive of moving ahead with implementation of the Diagnostic recommendations.

## **PROJECT JUSTIFICATION AND DETAILS**

### ***Project Objectives***

The overarching objective for the implementation phase is the translation of identified opportunities into positive realized outcomes for the Port. We expect the initiatives to drive critical non-monetary value related to the Century Agenda and developing a High Performance Organization including but not limited to:

- Faster speed to delivery in the procurement process
- Improved capabilities of internal Port staff
- Making the Port an easier partner with whom to do business
- Stronger strategic partnerships with our key internal and external customers
- Improved ability to support our small business and minority, women, and disadvantaged business (MWDBE) community
- Improved ability to support our environmental objectives in the procurement process

Both the Port and our consultant will be focused on sustaining the change that we implement in Phase 2. We expect to leverage the expertise of BCG as an outside consultant and they are committed to ensuring the right capabilities are transferred to the Port to sustain the impact well beyond the completion of the engagement.

### ***Scope of Work***

The focus for Phase 2 is to execute the implementation plans for the highest-value opportunities. Some of the specific initiatives we plan to execute in Phase 2 include, but are not limited to:

- Enabler: Reinforce Port's 40% SBE goal through more active supplier development, updated bid process and better tracking & reporting on performance
- Enabler: Increase speed to delivery and ease of doing business by addressing key procurement process bottlenecks, including: insurance requirements and concurrent reviews

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- Opex: New janitorial contract procurement with productivity enhancements and key performance criteria to meet and exceed our customers' needs
- Opex: Re-negotiate credit card fees to be in line with benchmarks to driver \$200-300k in annual savings
- Capex: Formalize new strategic planning process for major projects to ensure alignment with all key internal and external stakeholders and drive more efficient, cross-functional collaboration
- Capex: New approach to managing change orders with opportunity to drive \$8M+ in annual avoided cost based on industry best practices

The other key dimension within scope for Phase 2 is sustaining the change. Both the Port and our consultant are focused on ensuring that the tools, processes and capabilities developed in Phase 2 are sustained beyond the completion of the contract. One of the most important factors in sustaining the change is clear commitment from Port Leadership.

To that end, one of the priority initiatives for Phase 2 is the establishment of a permanent Procurement Governance Board, consisting of the members of the Procurement Excellence Steering Committee. This Board will meet regularly to review progress on key initiatives, ensure effective cross-functional partnership on major projects, develop overall Port procurement strategy, and identify new opportunities for improvement.

### ***Schedule***

The Port anticipates commencing Phase 2 implementation immediately pending Commission approval. Services with the consultant will be completed in 2016.

## **FINANCIAL IMPLICATIONS**

Phase 1 (Diagnostic) was completed at a cost to the Port of \$240,000. The estimated cost of Phase 2 is \$3,760,000, for a total project cost estimate of \$4,000,000. Costs associated with this contract were included in the 2016 annual budget. We expect the contract to be cash neutral 12 months after implementation with an eventual steady state ROI of five times the initial investment (i.e., \$20M or more per year).

In accordance with RCW 53.19, the Commission is notified that this amendment exceeds 50% value of the original contract and this memorandum will be made available for public inspection.

## **STRATEGIES AND OBJECTIVES**

This initiative supports key aspects of the Century Agenda (see "Triple Bottom Line" below). At the same time, implementing the recommendations from Phase 1 is expected to result in annual savings or cost avoidance of five times the Port's investment into this contract. The implementation of the Procurement Excellence supports the port-wide strategies of exceeding customer expectations; managing our finances responsibly; and supporting the Port's mission with implementation of divisions' business plans. Furthermore, it aligns with the Port's values of

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ensuring the Port possesses high-performing employees who continue to value public service and conducting business with the highest ethical standards.

### **TRIPLE BOTTOM LINE**

#### ***Economic Development***

The Procurement Excellence initiatives will support more effective partnerships with small businesses, and minority & women-owned businesses. Through improved supplier development and management, the Port will continue on its path to 40% of eligible dollars spent on qualified small businesses and make progress on attaining 4% of eligible dollars on minority and women owned businesses.

#### ***Environmental Responsibility***

In addition to supporting small business, Procurement Excellence will also focus on developing processes and procedures to address environmental purchasing. For example, taking a Total Cost of Ownership, or lifecycle, perspective on major asset purchases will potentially drive better environmental outcomes (e.g., passenger loading bridges, baggage optimization, rooftop solar).

#### ***Community Benefits***

Procurement Excellence will benefit the broader community in several ways, including:

- Making the Port a better partner to do business with through more robust customer engagement and outreach
- Allowing the Port to re-invest money and time saved from the initiative into higher-value add activities

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1)** – Execute Phase 2 implementation using in-house staff and do not retain consultant. This would require a significant investment of dedicated resources, time and internal expertise to execute in the desired time frame. We estimate direct cost of \$400,000 (equivalent to 2 dedicated FTEs to focus on initiatives) with an ROI of \$2,000,000 on Opex levers within 2 years of implementing changes (50% of expected realized savings from consultant).

Pros:

- Development opportunity for high-potential staff
- Potentially lower direct cost outlay

Cons:

- Requires specialized expertise that may not exist within existing in-house staff, and will lose opportunity to learn from consulting firm with necessary skillset
- Process will take longer to implement and may face greater status quo inertia – difficult to make cultural change, establish a "new way to work" and sustain the change
- Specifically, will face challenges on implementing major Capex opportunities (e.g., Change Order Management)

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- Less data mining and benchmarking capability may hinder ability to identify additional opportunities in the future
- Likely lower ROI

This is not the recommended alternative.

**Alternative 2)** – Retain consultant for the implementation phase to execute on the initiatives they helped define and scope in the diagnostic phase. Estimated cost for the implementation phase is up to \$3,760,000. This does not include staff time costs associated with the implementation phase or subsequent ownership of initiatives once the contract with BCG is complete

Pros:

- BCG brings significant implementation and change management expertise on major strategic transformation efforts
- Represents continuity from diagnostic phase
- Develop in-house staff capability and effective transition of initiatives upon project completion
- Cost savings/avoidance and speed to delivery opportunities identified in diagnostic phase likely to be delivered
- Ability to make sustained Port-wide cultural change in strategic sourcing and procurement activities.

Cons:

- Continued cross-functional engagement and significant time investment required from staff across Port functions
- Significant upfront cost outlay to consultant

**This is the recommended alternative.**

## **ATTACHMENTS TO THIS REQUEST**

- PowerPoint – Procurement Excellence

## **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- February 9, 2016 – Procurement Excellence Services Contract Action Item (Phase 1 Commission authorization)
- January 6, 2016 – Strategic Initiatives Commission Briefing