

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

**COMMISSION AGENDA**  
**STAFF BRIEFING**

<b>Item No.</b>	<u>4</u>
<b>Date of Meeting</b>	<u>July 26, 2016</u>

**DATE:** July 19, 2016  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** Nora Huey, Director, Central Procurement Office  
**SUBJECT:** Procurement Excellence Project Update

**SYNOPSIS**

On April 26, 2016 we shared with the Commission the results of Phase 1 of Procurement Excellence (the Diagnostic Phase), and asked for approval to proceed to an extended Phase 2 (the Implementation Phase) with our consultant, The Boston Consulting Group.

This briefing is intended to update the Commission on our progress, as we are roughly 50% complete with the consultant-engagement portion of Implementation.

Since we last met, significant progress has been made to transform both the Central Procurement Office (CPO) and the cross-functional procurement processes. This transformation is taking shape in several forms, including but not limited to:

- How procurement can deliver on the Port's Century Agenda goals
- How we can make it easier for others to do business with the Port
- How procurement can become a more collaborative, forward-looking function
- How procurement can drive robust analysis and decision-making

Culturally, we are on a path to turn procurement from a compliance-focused function to a core value-driver at the Port. With the changes underway, procurement should increasingly be looked to as a valuable resource for our operating units and corporate functions to deliver their financial and Century Agenda objectives.

**BACKGROUND**

CPO, part of the Office of Strategic Initiatives, is responsible for procuring all the contracts related to public works, consulting services, and goods and services.

In order to meet the projected growth rate of aviation and maritime, the Port will be making capital investments in facilities and infrastructure to enable significant increased throughput of passengers and goods. Capital expense and operational expense spending for 2014 and 2015 was approximately \$280 million (\$160 million capital and \$120 million operating expenses). Looking ahead for the next 5 years and beyond with the implementation of the Sustainable Airport Master Plan, we anticipate significantly increased capital spending. Overall spend on 3rd party suppliers is expected to be over

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\$400M annually for the foreseeable future. At the same time, the Port has set ambitious goals as part of the Century Agenda to increase our utilization of small businesses in contracting from roughly 33% to 40%. Finally, feedback from both internal and external stakeholders has indicated that the Port's procurement process can be overly burdensome.

Given all of these challenges, the Port retained an external consultant – the Boston Consulting Group (BCG) – to partner with the Port to transform our procurement function and processes.

Phase 1 consisted of a diagnostic effort, to identify the key opportunity areas for the Port based on external benchmarks and best practices and a deep-dive into the Port's current state. BCG engaged many of our internal and external stakeholders to develop a current state "factbase" and recommended improvement areas. In total, over 50 specific initiatives were identified for potential implementation across several categories, including:

- Century Agenda
- Capital expenditures
- Operating expenditures
- Port capabilities
- Procurement processes
- Tools and metrics

The identified opportunities included over \$4M over near-term savings or avoidance, which was a key component of the request for proposal (RFP). It also included the tools and processes to implement procurement best practices more broadly to deliver steady-state savings of \$20M+.

With the Commission's approval on April 26, 2016, we commenced Phase 2 (Implementation) with BCG. Since then over 30 of the initiatives identified in Phase 1 have been kicked off, often with close collaboration between BCG and Port-staff. This team-based, partnership approach will help engrain the capabilities and best practices from BCG. The initiatives are being tracked and reported on with the support of a Program Management Office (PMO), which over time will be led by Port personnel within CPO. And the ongoing effort is guided by a Procurement Council, made up of senior leaders from across the Port.

As part of the implementation phase, we have developed a procurement strategy for the Port to inform our priorities and decisions, both during this specific project and once our engagement with BCG has ended. The strategy is based on four key principles, and underneath each principle there are multiple initiatives ongoing.

### ***Principle 1: Procurement supports our values***

Procurement is a critical function to deliver the small business (SBE), women and minority-owned business (WMBE) and environmental objectives for the Port. Through

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supplier development and targeted application of bidding and contracting levers (e.g., preferential pricing and set-asides, where legal), procurement can impact our SBE and WMBE utilization rates. As these goals are now part of the Port's Incentive Pay plan, there is an increased focus within the organization on what can be done to help deliver these targets.

As part of Procurement Excellence, BCG, CPO and Economic Development are partnering closely to develop a new approach to improving engagement with SBEs and WMBEs. This includes activities such as:

- Developing a more robust supplier database
- Improving the visibility of upcoming procurements to engage in more targeted SBE and WMBE outreach
- Enhancing our ability to track and report on SBE and WMBE utilization
- Building the broader organization's awareness of bidding and contracting levers at their disposal to optimize SBE and WMBE participation

The goal of these initiatives is to improve SBE and WMBE utilization and assist the broader Port in meeting its Century Agenda and Incentive Pay targets.

Environmental initiatives are being developed for the later portion of Phase 2.

### ***Principle 2: Procurement processes emphasize customer service***

We have conducted multiple workshops with CPO and internal stakeholders, and had conversations with external partners, to identify pain points in the procurement process that can be addressed as part of Procurement Excellence. Examples of the types of changes we are undertaking include:

- Improving the consistency and speed of our selection processes (including RFPs, interviews and negotiations)
- Reducing iterations on scopes of work
- Reducing the number of stage gates for smaller-dollar procurements
- Eliminating unnecessary forms and signatures
- Simplifying terms and conditions in contracts
- Establishing more consistent and rational insurance requirements

These changes will improve the ease of doing business with the Port, especially for small businesses.

### ***Principle 3: Procurement is about planning ahead and working collaboratively***

One of the core challenges identified in the Diagnostic phase was the lack of planning for specific procurements and limited early cross-functional engagement. CPO was often engaged only late in the process. As part of Procurement Excellence, BCG is facilitating a cross-functional working team of director-level leaders from CPO, Aviation, Maritime,

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Economic Development, ICT and Capital Development to develop new planning processes for procurement.

These processes will result in a robust Procurement Calendar that will drive the early cross-functional engagement necessary to:

- Apply strategic procurement levers to drive cost efficiency (including coordinated purchasing, total cost of ownership, demand management, etc.)
- Optimize SBE and WMBE utilization and conduct the necessary supplier outreach and development to ensure a robust set of competitive bidders
- For construction projects, determine the optimal construction contracting method

These actions will reinforce the concept of "One Port" and improve the capabilities of the Port as a whole as more employees practice implementing strategic procurement levers.

### ***Principle 4: Procurement should be grounded in rigorous and transparent decision-making***

This principle is in part derived from Principle 3. With better planning and earlier engagement, the Port will be able to conduct more rigorous analysis of alternatives and communicate tradeoffs of different options more clearly.

In the process of Procurement Excellence, BCG has worked closely with CPO and non-CPO employees on specific procurements, applying rigorous analysis, external best practices and creative problem-solving to align on optimal decisions for the Port. This includes procurements on:

- Janitorial services
- Baggage optimization equipment and construction
- Maritime security services
- Roofing contracts
- Snow removal equipment
- Passenger loading bridges
- Airport gate seating

In practice, this principle will continually improve the capabilities of the Port's employees and drive cost avoidance and savings that can be re-invested in additional high-priority areas.

### ***Next Steps***

BCG will be engaged with the Port through the end of September, at which point CPO will take over full leadership of Procurement Excellence. Over the coming months our focus will remain implementing and embedding the various, tools, capabilities and process changes noted above.

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We will plan to update the Commission again around or after the completion of BCG's engagement this fall.

## **ATTACHMENTS TO THIS BRIEFING**

- PowerPoint Presentation

## **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- April 26, 2016 – Procurement Excellence Implementation Initiative
- February 9, 2016 – Procurement Excellence Services Contract Action Item (Phase 1 Commission authorization)