

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	<u>7b</u>
Date of Meeting	<u>September 27, 2016</u>

DATE: September 20, 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. On July 26, 2016, we shared an interim briefing with the Commission at roughly the halfway point of the consultant-engagement portion of Implementation.

As a reminder, we are on a journey to transform procurement from a compliance-focused function to a core value-driver at the Port. With the changes underway and now well into implementation, 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.

Since our last briefing, progress has continued on the core strategic principles we set out to address, 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

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 and support our ambitious economic development agenda, the Port will be making significant investments in facilities, infrastructure and services to enable increased throughput of passengers and goods and overall economic activity. 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. On July 26, 2016, we shared an interim briefing that highlighted progress underway, focusing on actions related to our re-defined core strategic principles for procurement:

1. Procurement supports our values
2. Procurement processes emphasize customer service
3. Procurement is about planning ahead and working collaboratively
4. Procurement should be grounded in rigorous and transparent decision making

Since then, progress on over 30 initiatives has continued with BCG and Port staff collaborating closely to turn our strategic principles into reality. These initiatives are now being tracked on a Program Management Office (PMO), which BCG has recently fully transitioned over to Port ownership. Procurement will continue to be guided and overseen by the Procurement Council, a group of ELT-level stakeholders. This body, like the PMO, will continue to meet beyond our engagement with BCG and will be a core aspect of Procurement Excellence into 2017 and beyond.

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As our engagement with BCG comes to a close, we wanted to share what we have collectively accomplished, discuss key factors for long-term success and share how the Commission can support this effort moving forward.

PROCUREMENT EXCELLENCE ACHIEVEMENTS

We have fundamentally changed how the Port approaches Small Business Enterprise (SBE)/Women and Minority Business Enterprise (WMBE) utilization and environmental purchasing.

The Port has set high aspirations for SBE and WMBE engagement and development. Through Procurement Excellence, we have developed a robust strategy to achieve these objectives, grounded in vastly improved collaboration between Central Procurement Office (CPO) and Economic Development Division (EDD). The deliverables and outcomes here include:

- A new data-driven methodology for establishing SBE and WMBE utilization targets at the spend category level, including targets for 2017
- In collaboration with EDD, a comprehensive overhaul of our Port Gen outreach program, with more targeted training and supplier development based on major upcoming procurements
- Clear guidance on bidding levers the Port has at their disposal to drive SBE/WMBE utilization. These materials have been posted to our Procurement Excellence SharePoint (that the broader Port Staff has access to), and they have been incorporated into our new acquisition planning process to encourage earlier strategic decision-making on SBE/WMBE inclusion
- *In progress:* Updating the way we track and report on SBE/WMBE utilization at the Port so that it is more reliable and readily available
- Clarifying the organization structure to support achieving our ambitious goals, in collaboration with the Office of Strategic Initiatives and EDD

We have revamped the Port's environmental purchasing practices in line with our goals.

The Port is a leader in overall environmental practices but lacks a clear strategy for how that translates to the purchasing process. Through Procurement Excellence, we've made three changes to enable us to procure in an environmentally friendly way:

- We've created an accessible, Port-wide resource bank of environmental product guidelines and specs to aid in purchasing
- We've created a guidance document to help the Port make more purposeful use of environmental bid levers in the procurement process
- We've created a clear process for how roles and responsibilities should breakdown between environmental team, CPO, and requesting departments

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The Port is already testing these changes on key procurements (e.g. airport seating) and has identified target procurements in 2017 for increased focus.

We have made it (and will continue to make it) significantly easier to do business with the Port.

One of the consistent areas of feedback early in the project was that the Port, and specifically its procurement processes, made it challenging for suppliers to work with us. While there will also be certain constraining factors in a public setting, we set out to address process pain points where feasible. Among the changes implemented (or soon to be implemented), we have targeted:

- Improving the consistency and speed of our selection processes (including RFPs, interviews and negotiations)
- Eliminating unnecessary forms and signatures
- Simplifying terms and conditions in small works contracts
- Establishing more consistent and rational insurance requirements
- Establishing a Continuous Improvement Process amongst the CPO management team to drive ongoing optimization of CPO's performance

We have improved CPO's capabilities.

In order to work differently, CPO needed to evolve its capabilities. Our new procurement strategy requires that CPO is more of a strategic partner to other departments. This means improved planning and analytics skills, as well as the ability to consider and recommend innovative approaches to procurements in order to deliver the optimal solution for the Port and its stakeholders.

While this process takes time, we were able to kick-start the evolution by:

- Conducting trainings on strategic procurement levers (including consolidated purchasing, demand management), total cost of ownership (TCO), continuous process improvement, and project planning
- Providing hands-on coaching from BCG on specific procurements to apply innovative analytical and strategic solutions
- Updating existing or developing new tools for use by CPO
 - Total Cost of Ownership model
 - Procurement Calendar tool
 - Service Agreements rate negotiation tool
 - Program Management Office (PMO) tool
- Gaining approval for a new Planning and Analytics function within CPO. These three Full Time Equivalent (FTEs) will be a resource to the entire Port to help implement many of the new analytical approaches to procurement

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We have implemented new processes to drive collaboration across departments.

Another challenge identified in the Diagnostic phase was the lack of planning for specific procurements and limited cross-functional engagement. CPO was often brought in late in the process. As part of Procurement Excellence, BCG facilitated a cross-functional working team of director-level leaders from CPO, Aviation, Maritime, Economic Development, Information and Communication Technology (ICT) and Capital Development to develop new planning and collaboration processes for procurement.

This working team defined several new processes and solutions that will facilitate better collaboration across departments:

- Procurement Calendar which will improve the line of sight on upcoming procurements and foster improved communication between CPO and requesting departments on timing and resourcing
- An update to how acquisition planning is done. Specifically, a new acquisition planning cover sheet that is jointly owned by CPO and the requesting department that defines the strategy for a specific procurement and guides subsequent cross-department interactions

More broadly, the establishment of the Procurement Council and its ELT-level membership from across the Port signals the fundamentally cross-functional nature of procurement. This group has and will continue to serve as a leadership by example in terms of overcoming silos and operating as "One Port".

We have saved money and set the Port up to be a better public financial steward.

While we recognize that saving money was not the primary objective of this effort, it is also true that we have an obligation to be effective financial stewards on behalf of the Port, its stakeholders and the broader public. In the process of Procurement Excellence, we have identified and are expecting to deliver over \$5M of savings within the first 12 months of implementation (by July 1, 2017).

Other deliverables of the effort will help ensure that the Port continues to realize the financial benefits of this effort well into the future:

- Trainings on strategic procurement levers and total cost of ownership
- Tools to support optimal financial decisions for the Port
 - Service Agreements Rate Tool
 - TCO Model
- Engagement and training with the Aviation Investment Committee on more rigorous upstream project analysis and justification

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KEYS TO LONG-TERM SUCCESS

While we are proud of the accomplishments of the effort thus far, we recognize that we cannot let up our commitment or focus now. There are several keys to sustained success that CPO and the broader Port staff must ensure happen:

- **Drive the message** that CPO can be a valuable partner in delivering other departments' objectives. Whether in hitting SBE utilization goals, making environmentally-sound purchasing decisions or saving money, CPO can be a valuable resource to the rest of the organization – but only if they are engaged early in the process.
- **CPO must live up to that message**, and re-commit to being a great business partner, both to our internal and external stakeholders. We will do this by an ongoing commitment to our PMO, the continuous improvement process, and by being open to the input and feedback from other functions and external suppliers.
- **Continued leadership and management commitment**, as demonstrated by ongoing engagement in the Procurement Council, and more importantly, by each leader holding their respective teams accountable for engaging proactively and constructively with CPO.
- **Celebrate the wins we achieve** loudly and publicly. Part of driving change is reinforcing positive behaviors.
- **Recognize that change will take time** and not get discouraged or revert to old behavior if something does not work perfectly at first. Especially as our consultants leave, Port staff needs to commit to working through the challenges and coming up with constructive solutions.

NEXT STEPS

BCG's contract with the Port will end on September 30. During the month of September we are working closely with BCG to ensure all current initiatives are either completed or fully transitioned to Port ownership.

Procurement Excellence will continue beyond BCG's engagement. With the PMO and Procurement Council we have the structure in place to execute on existing initiatives and to develop new initiatives for improvement.

We will plan to periodically brief the Commission on the status of Procurement Excellence in 2017 and beyond.

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ATTACHMENTS TO THIS BRIEFING

- PowerPoint

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- July 26, 2016 – Study Session
- April 26 2016 – Procurement Excellence Services Contract Action Item
(Phase 2 Commission Authorization)
- February 9, 2016 – Procurement Excellence Services Contract Action Item
(Phase 1 Commission Authorization)
- January 6, 2016 – Strategic Initiatives Commission Briefing