



ALASKAN PURCHASER

www.napmalaska.org



March 2014

Supplier Selection: Lowest Bid vs. “Best Value”

By: Carolyn Pye Sostrom

Can you imagine needing to purchase ergonomic chairs for your organization and not being able to take into account the comfort and functionality of the chairs when awarding the bid to a supplier? Or consider seeing your organization written up in the local newspaper because you purchased a more expensive laundry soap that does a better job than the lowest bidder's product. These scenarios often sound all too familiar to supply managers at state, city, county and public educational agencies and institutions—until they can start using strategies like multiple-criteria awards or “best-value” procurement to award business to suppliers viewed as most beneficial or least costly in the long term.

The multiple-criteria award is a model that allows these professionals to defend their decisions to award business to someone other than the lowest bidder. But the concept isn't always popular with the public or with suppliers, who are usually accustomed to public supply managers awarding business based on price alone.

Sitting Pretty

The last time the state of Connecticut purchase desk chairs, state law required supply managers to do so in a low-bid-wins situation, which didn't make sense to the department in the long run.

“We had problems with the chairs, but they weren't major enough to terminate the contract with the supplier who had been the low bidder,” says Jim Passier, the state's director of purchasing. “Here we were buying a chair that was ergonomic, but we weren't allowed to include the criteria of how the chairs felt in our bid specs. If I'm going to sit in this chair for 10 hours, five days a week, shouldn't durability and comfort be part of the criteria?”

When laws restrict public purchasing departments from making what they see as logical decisions, they take action. The Connecticut purchasing department pushed to help get legislation passed in 1999 that now allows state purchasing officers to use a new bid form with multiple criteria. Previously the state's language required them to award to the “lowest responsible bidder” or to use requests for proposal (RFPs), which require a great deal of overhead and time.

“Previously, if the low bidder was in jail or bankrupt, had been convicted of illegal acts, or had circumstances that led you to believe you couldn't do the job, then we didn't have to use them,” Passier says. “Beyond that, we had to use the low bidder. We couldn't use the argument that one product or bidder was better than another.” With the new law, the Connecticut state purchasing department can use RFPs whenever it seems appropriate. It can also use

THURSDAY 6 MARCH 2014

**NAPM-ALASKA
PRO D MEETING**

See Page 5 For More Information

TIME: 5:30 p.m. Networking / 6:00 p.m.

Cost \$28.00* Includes Dinner.

VISA and MasterCard Accepted

No-Shows Billed

**Location: Coast International Inn,
3450 Aviation Avenue. Anchorage Alaska**

RESERVATIONS REQUIRED

Contact- Pam Chenier

email: Pamela.chenier@alyeska-pipeline.com

**no later than
5 P.M. on Tuesday March 4, 2014**

Supplier Selection: Lowest Bid vs. “Best Value”

(continued from Page 1)

Multiple criteria when it holds bids to evaluate and select suppliers. Criteria might include superior product quality or functionality, demonstrated experience, special skills, staff training, or financial strength. Typically, the purchasing department uses between four and six categories of criteria.

“We used the term ‘multiple-criteria bids’ because people here felt that ‘best value’ would be misleading and not understood,” Passier says. With RFPs, the state supply managers can enter negotiations with the highest-scoring bidder. With multiple-criteria bids, the supply manager can’t negotiate—whichever supplier scores the best depending in the identified criteria wins the business. So using multiple criteria is similar to a traditional build but allows the supply managers to take other factors into account. Cost could be one of the many elements that are factored into the decision and total score.

When the state rebid the chairs, it was also able to treat it like a multiple-criteria bid. “We had the suppliers bring in the chairs so we could sit in them and try their features,” Passier says. When the department included comfort and functional features as a part of the criteria, it selected the supplier with the third-lowest price, a difference of about \$30 per chair. “We scored and voted on the suppliers as objectively as we could. The low bidder protested because it had never been done before and he was losing state business,” he adds.

“There is language in the legislation that says the criteria will be as objective as possible because some people were very concerned about what we were doing,” Passier says. “We’ve tried to be aware of that.” The department keeps detailed documentation on how it arrives at these decisions in case suppliers or the public wants to see it.

Public Perception

Even when existing or new laws allow public supply managers to use strategies like multiple-criteria awards to look at the best overall cost versus lowest price, the purchasing department can face criticism. Members of the public may still believe that the

Supply manager must take the lowest bid, and this requires education on the part of the purchasing department.

Troy Harris, C.P.M. former purchasing manager for the county of Santa Barbara, CA, used a “best-value” approach to defend the award of a copy services contract to a supplier whose price was \$750,000 higher over a five-year contract. The award decision, made in 1995, covered maintenance and service of the county’s 200 copiers. “Our experience with the incumbent supplier had not been positive,” he says.

One of the first steps the county purchasing department took was to make it clear early on that it was looking at other criteria in addition to price. “We were not required by county law to take the lowest bid, but people often think we are—it’s a common misperception,” Harris says. “We had to do some education even with people in our own organization who assumed we had to take the lowest bid.” Purchasing department staff did this by pointing to the sections of county code that covered purchasing requirements.

“We were able to make the case that the extra cost for the copy contract would be recouped in the productivity,” Harris says. “The decision was mine as the purchasing manager, but I needed to be able to defend it. We didn’t want to do a scientific study, but we were able to show that saving 15 minutes per person per week waiting for copiers that didn’t work would pay for the \$750,000 difference.” Harris was able to sustain the award in the face of challenges from two other bidders, including the incumbent.

Determining the Winner

When using multiple-award criteria, the purchasing department usually facilitates or leads a team with representatives from the requesting department, as well as others who may have knowledge of the good or service being purchased. The team will discuss the purchase and identify how they will select the winning bidder, frequently through the use of weighted criteria or points. However, not all public supply managers see points or weighted criteria as the way to go. “We’re trying to move away from point systems,” says David F. Ancell, director of the state of Michigan’s office of purchasing. “Rather than talk about the issues, suppliers start talking about the

Supplier Selection: Lowest Bid vs. “Best Value”

(continued from Page 2)

Points and why they didn’t get more.” When the state of Michigan selected a supplier to build and run a maximum-security prison, the team didn’t use weighted criteria but instead created a written evaluation of why the selected supplier was the best value for the state. “We’re lucky that our state law allows us to consider more than just cost when awarding contracts,” says Kathryn Jones, Michigan’s deputy purchasing director. “A lot of states are finding it hard to move in this direction.”

The evaluation team included such criteria as ability, successful performance with similar services, availability of services, past contracts, references, and price. “We needed to know what factors were important to the department of corrections,” Jones says. “They worked very closely with us in making the award decision.”

Five suppliers bid on the prison job; the evaluation team initially knocked out two suppliers who didn’t propose adequate amounts of staff and didn’t have experience with maximum-security facilities. “Sometimes people offer prices so low that you know if they had the right systems in place, it would cost them a lot more,” Jones says.

The three remaining suppliers came in and gave presentations to the team. “One of the companies had a design that was pretty innovative that a lot of people liked, but the prices were so high,” she notes. To justify outsourcing the prison, the department of corrections had to show it would save the state money. Of the other two companies, one didn’t have the breadth of experience the state wanted, so the state selected the other supplier.

“This process really makes us justify our purchasing decisions,” Jones says. “It makes us focus on the real issues and make good decisions as professional purchasers because that’s our job. It gives us that ability instead of letting us hide behind a process.”

Getting Suppliers on the Bandwagon

Suppliers, especially those who’ve worked with government contracts for a long time, might not like the

Idea of using criteria other than low price. The savvy public supply manager can work with suppliers in pre-bid conferences and explain the additional/new criteria upfront.

The state of Connecticut has had a long history of awarding business to the low bidder, says Jim Passier, director of purchasing, so the supply managers wanted to guide suppliers on its new method of using multiple criteria. “During the pre-bid conference, we have the bidders in and make sure we explain to them how this will work,” he says. The supply managers will mention the state statute and define the criteria that the bid will be awarded upon.

It’s also important to work with the suppliers after the bid award, especially the suppliers that didn’t get the business. “One lesson that’s taken awhile to learn at the federal level is that the more you tell unsuccessful bidders, the better - and the less likelihood of a protest,” says Karen L. Manos, partner with Howrey Simon Arnold & White, LLP, in Washington, D.C. “Even if a contractor thinks he’s the best, if you explain why he lost and the other one won, he’ll figure it out. When agencies have been more open with this information, they’ve had a dramatic decrease in protests.”

Unsuccessful suppliers can learn from multiple-criteria bidding sessions if the supply manager talks with them about why they didn’t get the business. “We spend a lot of time briefing the unsuccessful suppliers on why they did not get the bid,” says David F. Ancell, director of the state of Michigan’s office of purchasing in Lansing. “This will help them learn about their strengths and weaknesses for future bids.”

2013/2014 Officers

President

Tony Lazenby
 Anchorage Neighborhood Health Center
 Phone (907)-743-7340
 Email: tlazenby@anhc.org

Past President

Marlys Hagen, C.P.M.
 State of Alaska, Department of Natural Resources
 Phone (907) 269-8666
 Email: marlys.hagen@alaska.gov

Vice President

Marianne Beckham
 Alyeska Pipeline Service Company
 Phone (907) 787-8015
 E-Mail: Marianne.beckham@alyeska-pipeline.com

Secretary

Jared Rennie
 Alyeska Pipeline Service Company
 Phone (907) 787-8796
 Email: Jared.Rennie@alyeska-pipeline.com

Treasurer

Pamela K. Chenier, CPPO, CPSM
 Alyeska Pipeline Service Company
 Phone (907) 787-8852
 Email: Pamela.chenier@alyeska-pipeline.com

Director of Education

Ben Milam, CPPM, C.P.M.
 Alaska Native Tribal Health Consortium
 Phone (907) 729-2972
 Email: whiskers@mtaonline.net

Director of Membership

Ward Wells, C.P.M.
 University of Alaska Anchorage
 Phone (907) 786-6504
 email: flatheadward@yahoo.com

Director of Communications

Angie Middleton
 Arctic Slope Regional Corp.
 Phone (907) 339-6862
 Email: amiddleton@asrc.com

Director at Large

Suzanne M. Collier
 Alaska Native Tribal Health Consortium
 (907) 729-2967
 E-Mail: smcollier@anhc.org
Carol Geiger C.P.M.
 Providence Health & Services
 Phone (907) 212-6339
 E-Mail: Carol.geiger@providence.org
Mary Beth Overturf
 University of Alaska Anchorage
 (907) 786-6508
 E-Mail: overturf@uaa.alaska.edu
Jule Magee
 Alyeska Pipeline Service Company
 E-Mail: jule.magee@alyeska-pipeline.com

PRESIDENT TONY LAZENBY



From the left: Ben Milam, Tony Lazenby, Mary Beth Overturf, Jule Magee and Marlys Hagen

Ben Milam, Marlys Hagen, Mary Beth Overturf and Jule Magee joined me in manning the phones at the annual KASH for Kids fundraiser for the Children’s Miracle Network (CMN) this year.

This great event raised over \$100,000 to help ensure that Alaska’s kids will receive the best care possible right here in Alaska. One hundred percent of these donations to Children’s Miracle Network will go to care for Alaska’s kids and support the services provided at the Children’s Hospital at Providence.

March is National Purchasing and Supply Management Month. Lets get the supply management profession in the limelight.

NAPM Alaska will hold elections for open board positions in April. Nominations for office will be accepted at the March 6, 2014 Pro-D meeting.

Additionally NAPM will host the 71st Annual Pacific Northwest Purchasing Conference on October 6-8, 2014 here in Anchorage. Interested in having a table at the trade show? Please contact Kat Wall at 907-341-8704 or contact her via e-mail at wall.kat@nrim.com for more information.

Tony

**DIRECTOR OF EDUCATION
BEN MILAM, CPPM, C.P.M.**



Most common response heard after last month's meeting, "That's scary!" I have to agree! Hank Seaton, JD gave an outstanding review of the transportation industry from inception to the current state. One of the things he stressed throughout his presentation concerned changes in the law that allows sort of a cradle to grave responsibility, meaning the Contracting Officer/owner can be held responsible for actions of the transportation company. He discussed a case where a grocery store was held responsible for an accident caused by a truck driver "on his way home after delivering a load of watermelons." According to Seaton, transportation companies, truckers in particular, are rated based on several factors. Seaton believes that Contracting Officers have a responsibility of due diligence in selecting truckers that are not flagged for poor performance and safety. Yes, that is scary since most of us don't have the time or assets to do the research required.

On a much happier note, this was one of our largest meetings in a long time. Dr. Darren Prokop from the UAA Logistics Department brought his whole class of 19 students. We gained a few new members, but more importantly we now have some of the younger generation involved. Some of them came to me after the meeting wanting to volunteer for our October Conference. It was great to see their enthusiasm. Maybe some of us "ole guys" can retire after all. Thank you Dr. Prokop. You have some great students. Please pass our thanks on to them.

PRO-D MEETING AND DINNER, MARCH 6, 2014. "Negotiating Out of a Hole: Techniques for Complex Negotiations"

Our seminar speaker, Mr. Mark Trowbridge, CPSM, C.P.M., MCIPS has agreed to speak to us for our Pro-D/dinner meeting. It seems that I am always in a hole so I am really looking forward to this presentation.

We are meeting at the Coast International Inn (near the airport) for this meeting and all remaining meetings through May of this year.

**IF YOU HURRY YOU CAN STILL GET IN!
SEMINAR, MARCH 6 & 7 IN ANCHORAGE.**

"Innovative Trends in Technology Contracting"

Concepts like transfer of intellectual property rights, license types, intangible code, source and object code, contingency operating plans, and others must be understood and written to maximize your organization's leverage against powerful and influential technology providers and consultants. This workshop teaches participants techniques, content, and strategies to utilize while creating and negotiating software licenses, Software as a Service (SaaS), ASP hosting, development arrangements, hardware purchases, hardware and software maintenance, technology service arrangements, and even consulting support. Participants will receive a 100 page color training manual. See insert for registration and information on the instructor.

TIME IS PASSING FAST! MARK YOUR CALENDAR!! 71st Annual Pacific Northwest Purchasing Conference, October 6-8, 2014, Anchorage Alaska. NAPM-Alaska has been selected to host this important conference again in 2014. Hopefully you had as much fun as we did at the conference in 2009. That one will be a hard act to follow, but your Affiliate Officers are striving to improve on that great performance. Our theme for this conference is **"Prospecting for Golden Nuggets of Knowledge"**. We will build on that theme to bring you fantastic speakers and fantastic entertainment.

Our Conference Planning Committee is now in full swing looking for vendors for the tradeshow and high quality speakers to conduct educational sessions. We have an extraordinary vendor community in Alaska and many of them are looking for increased business opportunities. We can benefit by helping them become stronger.

Please look at your vendor list and provide us with contact information. If you know of a great speaker, please send their contact info as well. Please send any information to the Conference Co-Chairs Ben Milam, whiskers@mtaonline.net or 729-2972 OR to Marlys Hagen, marlys.hagen@alaska.gov or 269-8666.

**PAST PRESIDENT
MARLYS HAGEN, C.P.M., CPPB, CPPO**

I can't believe that Fur Rendezvous is almost over and Iditarod is almost here already, but that means winter is almost over. The days are getting noticeably longer!



Following is a list of the open board positions, the incumbents, and the candidates, as it stands as I write this (last week of February). We will accept nominations from the floor at the March Pro-D meeting and finalize the slate of candidates, and we will have elections at our April meeting. We will do the installation of officers at our May Pro-D meeting.

Please note that just because there is a candidate's name indicated, that doesn't mean that other members shouldn't run.

Office	Incumbent	Candidate(s)
Past President	Marlys Hagen, C.P.M.	Marlys Hagen, C.P.M. Tony Lazenby
President	Tony Lazenby	Marianne Beckham
Vice President	Marianne Beckham	Annie Messer
Secretary	Jared Rennie	Jared Rennie
Treasurer	Pam Chenier	
Director at Large	Suzanne Collier	Suzanne Collier
Director at Large	Jule Magee	Jule Magee Roxanne Peter

Northwest Purchasing Education Council

No NPEC board meetings have been held. I do want to remind everyone to get the Pacific Northwest Purchasing Conference to be held in October in Anchorage in your budget for this fall, if you already haven't.

Have a good month! Happy St. Patrick's Day!!

Marlys

**DIRECTOR OF MEMBERSHIP
WARD W. WELLS, C.P.M.**

I am truly excited to see the advancements NAPM Alaska has been making as an organization. Our website is beginning to serve us in a fashion that we can all be proud of, we have connections to Linked in on line, our Pro-D meeting speakers have been outstanding, and we have had several top name speakers travel to Alaska for training conferences this year.



Looking forward, we will host the Pacific Northwest annual conference next fall in Anchorage, with a full venue of trainings and vendor representation from local and national companies. The networking opportunities are truly endless in our organization! And we have the ISM website available for truly top quality procurement resources, just to name a few, I could go on but the point I want to highlight is the value of your Membership. I know of no other place where purchasing professionals can get so much value for your spend than with an NAPM Alaska membership.

March is National Purchasing Month. We plan to highlight new membership at our Pro-D meeting in March. Please invite your procurement associates to join us at the March Professional Development meeting to introduce them to the wide variety of professional development available through NAPM Alaska and ISM.

Please Welcome New NAPM Alaska Members:

Jonathon Harshfield
Purchase Agent
Alaska Native Tribal Health Consortium (ANTHC)

David Andrews
Purchasing Agent
Alaska Native Tribal Health Consortium (ANTHC)

William (Bill) Ryan
Director, Procurement & Contracting
Alaska Native Tribal Health Consortium (ANTHC)

Gregory Razo
Vice President, Govt. Contracting
Cook Inlet Region Inc. (CIRI)

Hope to see you all at the Professional-Development meeting in March

Ward

March 2014



**National Association of Purchasing
Management - Alaska Inc.**
PO Box 93047
Anchorage, AK 99509-3047
www.napmalaska.org

WHAT'S HAPPENING!

**THURSDAY,
6 MARCH 2014**

**PRO-D MEETING
TOPIC: "NEGOTIATING OUT
OF A HOLE: TECHNIQUES
FOR COMPLEX
NEGOTIATIONS."**

**COAST INTERNATIONAL INN
ANCHORAGE, ALASKA**

WHAT'S INSIDE

**PAGE 1/2/3 SUPPLIER SELECTION:
LOWEST BID VS "BEST
VALUE"**

PAGE 4 PRESIDENT'S MESSAGE

PAGE 5 EDUCATION NEWS

PAGE 6 PAST PRESIDENT

PAGE 7 DIRECTOR OF MEMBERSHIP

The Alaskan Purchaser is published monthly (September to May) by NAPM-Alaska, Inc., an educational organization committed to providing purchasing and material management practitioners the opportunity to enhance their professional skills and knowledge. If you have an item you would like to contribute to the newsletter, please contact:

Angie Middleton, Director of Communications
Phone (907) 339-6862
email: amiddleton@asrc.com