

# Understanding Competitive Sourcing: The Role of the Business Case

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# Competitive Sourcing: Guiding Principles

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- Non-policy making or “inherently governmental” functions present opportunities for competition
- Competition should drive change, such as:
  - Less tax dollars required
  - Higher quality of service
  - More capital investment
  - More flexibility
  - Transferring risk to private sector
- Government sets the agenda—establishes goals and desired outcomes upfront, then structures competition to achieve them
- Developing a credible business case should be the first step in any competition initiative, outlining the rationale

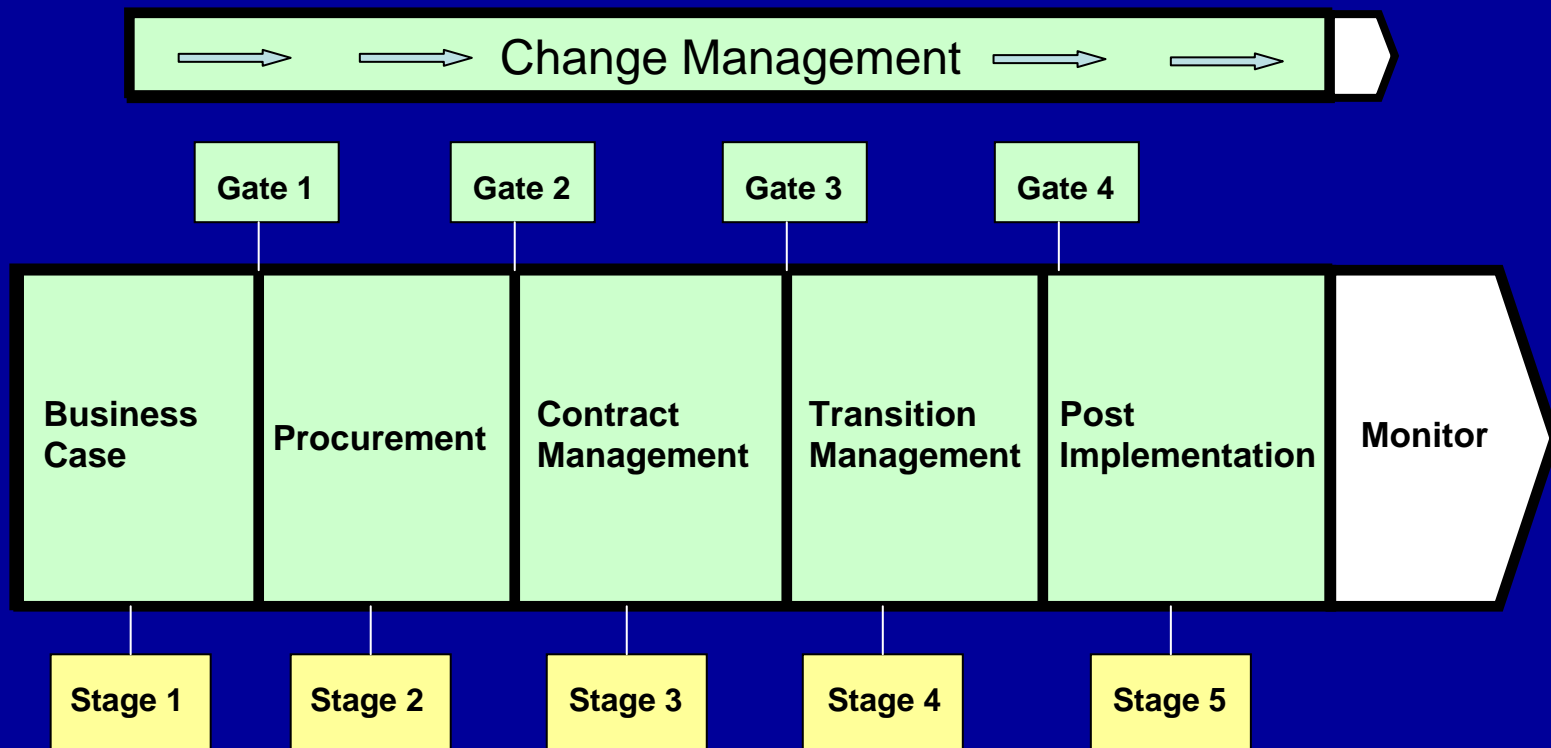
# Implementing Competitive Sourcing: Understanding the GATE Process

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- Process model developed in the UK; transparent method of managing each stage of any outsourcing initiative
- Adapted in Florida by Governor's Center for Efficient Government; Hamilton County, OH
- The *Gateway Process* consists of 5 steps:
  - Business Case
  - Procurement
  - Contract management
  - Change management
  - Performance measurement

# Gate Management Process



# Developing a Business Case: First Steps

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- **Why**

- Essential to provide a broad analysis and plan of the overall project to facilitate buy-in and provide a verifiable basis for conducting a competition initiative.

- **What**

- Clear rationale for the recommendation to compete; should define:
  - current situation/benchmarks;
  - need or desirability for the proposed competition initiative;
  - key expected project benefits & outcomes;
  - estimated financial costs.

# Developing a Business Case: First Steps

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- **When**

- Should be drafted after a project has been conceptually designed and vetted. However, it should be a living document through the execution of a contract and updated as conditions change.

- **Who**

- Developed with the input of key stakeholders (internal and external). Drafted by a team of people, including subject matter experts; budget, legal, personnel and purchasing staff; experienced project managers; senior managers; and, seasoned technology project managers where appropriate.

# Developing a Business Case: Next Steps

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- Provide the Benchmark
- Rationalize the Competition
- Articulate Assumptions and Methodology
- Describe Recommended Solution & Full Project Scope
- Identify Impact & Risk Assessment
- Develop Transition Management Strategy
- Identify Critical Success Factors
- Detail Proposed Procurement Process

# Developing a Business Case: Provide the Benchmark

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- **What**
  - Should be a comprehensive documentation of the current service, program or function, as it is currently conducted by the State.
- **Why**
  - Provides ability to compare future outsourcing activities with the benchmark data to determine successes and failures.
  - Identify whether the goal of the outsourcing initiative was achieved.
- **How**
  - Include outcome and performance data, including but not limited to:
    - Specific service descriptions
    - Statutory authority
    - Staffing information
    - Budget data
    - All internal and external stakeholders
    - Number of customers served

# Developing a Business Case: Rationalize the Competition

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- **What**
  - Gives basis for moving forward with the outsourcing initiative.
- **Why**
  - Document issues that need to be addressed.
  - Why the service is critical and needs to be improved i.e., why status quo is not desirable and the drivers of change.
- **How**
  - Explain objectives (i.e., what the initiative will achieve.)
  - Explain what the current service has been compared against (public to private, public to public, etc.)
  - Briefly document recommended solution
  - Discuss remaining alternatives in terms of feasibility, anticipated process or programmatic improvements and benefits
  - Explain why alternatives were dismissed, including a cost benefit/risk analysis for each alternative
  - Explain why the function or service could not be improved internally

# Developing a Business Case: Assumptions and Methodology

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- **What**
  - Objectives and recommendations are often based on assumptions associated with policy, legislation, agency direction, market conditions, etc.
- **Why**
  - Assumptions need to be clearly articulated and should be the basis for the business case.
  - The larger audience may not have enough background.
  - Should also identify how changes in the key assumptions would impact the project and outcome.
- **How**
  - List all assumptions considered when determining the necessity of performing the project.
  - Organize assumptions into major categories.
  - Methodology used to develop cost comparisons should be detailed.

# Developing a Business Case: Recommended Solution

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- **What**
  - Describe the proposed solution and full scope of the project.
- **Why**
  - It's the recommendation, the reason for doing this.
- **How**
  - Scope i.e., what will be transferred to contractor.
  - Identify requirements that must be addressed and delivered.
  - Fiscal impact of the project (savings, cost avoidance, etc.).
  - Expected performance (highlight service improvements).
  - Impact on organization.
  - Project timeline and milestones.
  - Outline how the project is achievable and how the project can be managed.
  - Outline case studies.
  - Conduct cost benefit analysis for each available alternative.
  - Final Business Case Only:
    - Justification of award to contractor.
    - Chart comparing the different bids.

# Developing a Business Case: Identify Impact

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- **What**
  - State which division/unit of the agency will be impacted and how their service delivery will change.
- **Why**
  - To identify potential risks and craft a mitigation strategy.
- **How**
  - List what division, agency, or unit is impacted.
  - List which functions are impacted.
  - Identify personnel, capital or technology resources will be impacted.
  - Conduct risk assessment and SWOT Analysis (strength, weaknesses, opportunities and threats).
    - Identify risks that are REDUCED or mitigated from outsourcing effort.
    - List risks associated with moving forward, as well as not moving forward.
    - Determine a severity level for each risk.
    - Identify any obstacles for pursuing outsourcing.
  - Determine a mitigation for each risk identified.
  - Explain how the agency will capitalize on strengths and mitigate negative impacts of its weaknesses.
  - Clarify roles of the state and the contractor.
    - Define impact, if any, on other agencies.

# Developing a Business Case: Transition Management Strategy

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- Identify project management team and determine the roles and responsibilities of each.
- Communications plan
  - Develop plan to communicate the status of the project and the personnel impact on each employee
- Employee Transition
  - Address the transition of all affected employees in business case and procurement process
  - Develop job placement policies for affected employees, for example:
    - Require that each impacted be interviewed and considered for job placement within the company
    - Severance compensation
    - Early retirement incentive packages
  - Develop a reemployment and retraining assistance plan for employees not retained by agency or employed by contractor
  - Offer Critical Employee Retention salary increases in order to retain individuals identified as critical to successful transition
- Outline training plan for employees and customers
- Identify how the transition from State operation to contractor operation will be handled

# Developing a Business Case: Identify Critical Success Factors

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- **What**
  - Determine what factors will determine a successful end-result.
- **Why**
  - To identify success from failure.
  - Learn from previous initiatives and incorporate them into future efforts.
- **How**
  - Should be easily measurable.
  - Provide a full description of business outcomes and service requirements necessary.
  - Identify as many specific, minimum performance metrics that should be included in the final contract.
    - For example: reduced annual maintenance costs or higher quality service metrics.

# Developing a Business Case: Proposed Procurement Process

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- **What**
  - The recommended procurement approach and basis for it.
- **How**
  - Identify procurement review team
    - Senior level management from the lead agency
    - Project director, if identified
    - Agency budget staff point person
    - Purchasing representative from the lead agency
    - General Counsel or designee
    - Representative from Privatization Policy Board
  - Proposed solicitation method
  - Anticipated number of respondents
  - Proposed evaluation method (i.e., best value or low cost)
  - Anticipated procurement timeline
  - Anticipated procurement budget, if required
  - Document key contractual terms i.e., duration, milestone delivery
  - Monitoring plan

# Questions?



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