Driving innovation with collaborative bidding: Advice for CRE professionals

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ABSTRACT

This paper is the second in a series on how CRE organisations can improve supplier performance by leveraging collaborative approaches during competitive bidding. Part 1 was featured in volume 9.3 of the Journal. In this paper we examine the most collaborative approach (the Request for Partner process) in more detail and explore its benefits for both buyers and sellers. The paper starts by summarising research conducted by the University of Tennessee (UT) into the changing landscape of strategic sourcing that are causing organisations to deploy more collaborative bidding practices. We then discuss the Request for Partner (RFPartner) process and how it has been successfully used to strengthen strategic CRE outsourcing facilities management relationships. We examine other popular collaborative bidding methods and draw a comparison of the most popular ways to use the

RFPartner method. We conclude the RFPartner approach is the best way for organisations to source and craft strategic relational contracts.

Keywords: facilities management, procurement, competitive bidding, RFP, Request for Partner, Vested Outsourcing, Vested, University of Tennessee, sourcing business models, strategic sourcing, partnership

INTRODUCTION — THE CHANGING LANDSCAPE OF STRATEGIC SOURCING

In 1994, Toshihiro Nishiguchi introduced the theory of adopting a formal step-bystep sourcing process methodology.¹ His eight-step process resonated widely, and many organisations and consulting firms created their own variations, including the popular seven-step model espoused by AT Kearney. Regardless of which 'steps' or a 'cycle' used, all sourcing processes include supplier selection and contracting as part of their model. Figure 1 outlines the five most common stages of typical competitive bidding processes.²

The phases are summarised as follows:

(1) *Qualification phase*: The goal of the qualification phase is to efficiently and effectively 'cull' a long list of suppliers to a shorter list of the most capable suppliers whom the buyer wants to invite to a formal bid;

- (2) Award phase: The award phase is where the buyer goes from a few qualified suppliers to (typically) one selected supplier with whom they will develop a contract;
- (3) Due diligence phase: The buyer verifies the bid of the winning supplier. For example, typical due diligence includes validating a supplier's quality or other business processes essential to perform the work, conducting reference checks, etc.;
- (4) *Contracting phase*: The buyer and the supplier establish a contract that ensures the bid and contract align and successfully incorporate essential contracting elements;
- (5) *Execution phase*: Here the buyer and supplier begin to 'live into' their agreement. The traditional emphasis has been on contract compliance.

As CRE outsourcing has evolved, organisations are slowly shifting from traditional transaction-based 'out-tasked' agreements to a more strategic, integrated and global outsourcing model that places greater emphasis on performance-based (supplier outputbased agreements) and Vested outsourcing (highly collaborative win-win outcomebased agreements) models.³ Unfortunately, the traditional sourcing steps have not kept pace with CRE professionals' desires, especially in the following three key areas:

• The desire to include more collaborative 'solutioning' with a potential strategic supplier where the buying organisation and supplier collaboratively work during



Figure 1 Five Phases of a typical competitive bidding process Source: Vitasek, Van de Rijt and Witteveen⁴

the bidding process to determine the best possible 'solution' and strategy for an organisation given the scope;

- The desire to incorporate cultural fit when selecting a supplier;
- The desire to ensure continuity and alignment from the bid document through to the actual contract and contract compliance (eg ensure the buyer gets what they pay for).

Organisations such as Canada's Vancouver Coastal Health (VCH) — a public healthcare organisation - wanted to make the shift to a Vested agreement for their environmental services spend category and had contacted the University of Tennessee to help determine the optimal way to incorporate the Vested outsourcing methodology into their bidding process. Previously, all organisations that had implemented a Vested model had restructured existing first or second-generation supplier contractual relationships - usually shifting from a performance-based to a Vested agreement. But VCH could not do that, since public procurement laws in Canada required VCH to conduct a competitive bid.

Requests such as VCH spurred the University of Tennessee to begin what would become a four-year multi-phase research initiative into collaborative bidding methods. A fifth phase of the research was added in 2017, resulting in a collaboration with NEVI (the Dutch Association for Purchasing Management) and the publication of the white paper on which this paper is based: 'Unpacking Request for Partner'.⁵

PHASES OF UT'S RESEARCH

Phase 1

Included interviews with sourcing practitioners, consultants and lawyers that specialise in outsourcing to identify weaknesses with existing competitive bidding methods. The goal was to determine if (and how) the landscape is changing in strategic sourcing of complex outsourcing initiatives.

Phase 2

Augmented the interviews with a review of existing literature on competitive bidding approaches. The learnings led to a chapter in the book *Strategic Sourcing in the New Economy*,⁷ which compared the various bidding methods and introduced an alternative RFPartner method as an option for picking a supplier for a Vested sourcing business model. The chapter was expanded into the more detailed 'Unpacking Competitive Bidding' white paper.

Phase 3

Encompassed conference calls with a subset of individuals from phase 1. The goal was to flesh out a high-level RFPartner methodology, closing gaps in existing competitive bidding processes that fall short when an organisation is wanting to explore innovation and transformation through outsourcing using a Vested sourcing business model.

Phase 4

Involved a pilot with VCH to test the RFPartner process. The VCH pilot resulted in the RFPartner process being more fully developed and ultimately being documented in 'Unpacking Collaborative Bidding', a white paper published in 2016. Shortly after the white paper was published, other companies expressed interest in using the RFPartner process, which led to phase 5.

Phase 5

Included additional organisations (both private and public) that further tested the process and made refinements. UT researchers worked with five Vested Center of Excellence⁸ field teams as they rolled out the RFPartner process and made modifications unique to each of the pilot situations — for example, two of the organisations needed to ensure the RFPartner process

would be allowed under Dutch public procurement laws.

The original RFPartner method was piloted by VCH. The process was deemed a success, with the VCH selecting Compass as their partner of choice to manage environmental services across their healthcare facilities in lower mainland British Columbia (BC).⁶ The process was documented and formalised in a white paper by the UT researchers ('Unpacking Collaborative Bidding').⁹

The BC Government continued to be intrigued with the RFPartner process and conducted two additional pilots — the second for a large IT deal and the third for another CRE deal (Eastern Health). The Canadian Government's success spurred the interest of other organisations in Europe to also pilot the RFPartner process. In all cases, the subsequent pilots sought to make suggested improvements to the original RFPartner process adopted by VCH — for example, how to better add 'cultural fit' as a formal supplier selection criterion, or how to streamline the process to reduce the transaction costs and time.

One of those pilots was Telia Company AB (a Swedish listed telecommunications company and mobile network operator). Telia had already negotiated four other Vested agreements - all of which were restructurings of existing outsourcing relationships. Telia was intrigued that they could get to a Vested agreement using a bid process. In Telia's situation, the company wanted to shift from 20 CRE suppliers who performed maintenance services at their technical sites to one strategic partner working under a highly collaborative win-win Vested sourcing business model. The goal was to streamline the maintenance of Telia's 16,000 technical sites across Sweden and shift to a Vested business model simultaneously. Telia's work was documented in a teaching case study and will be profiled in a future CREJ issue as Part 3 in this series.¹⁰

With the knowledge of several pilots, UT and NEVI took a step back to do fieldbased research with the organisations that had piloted a RFPartner process. A key outcome of the research was the publication of a 'second edition' RFPartner process (V2).

THE RFPARTNER PROCESS

The RFPartner process includes 12 steps across five phases. Figure 2 provides a high-level view of each phase/step and typical time frames for public and private sector competitive bids.¹¹

On the surface, the high-level phases are not very different from any typical RFProposal process, as it still includes the five main 'steps' as found in a typical sourcing model — for example, most methods have a phase to qualify suppliers (eg go from many to a few capable suppliers).

The RFPartner process should be grounded in ethical procurement law, which espouses equal treatment, non-discrimination, mutual recognition, proportionality and transparency. This is similar to many public procurement policies such as European Union Directive 2014/24/EU.¹²

What is different in the RFPartner process is how the competitive bidding and contracting process formally incorporates highly collaborative relational contracting principles as recommended by the International Association for Commercial and Contract Management, UT and CIRIO law firm in the white paper 'Unpacking Relational Contracting' and featured in the *Harvard Business Review* article 'A New Approach to Contacts'.¹³

Incorporating relational contracting practices translates into critical differences in the mindset and details of each phase, especially in the award (phase 2), contracting (phase 4) and ongoing governance (phase 5).

Phase 1	Phase 2		Phase 3	Phase 4	Phase 5			
Supplier qualification 1. Release first	Award (pick winning su The award phase can u two-step down-selection two-step process. Concept 3. Release tender	use a single or	Due diligence phase 8. Verify	Contract development/ making the Vested contract 9. Complete	Living into the agreement 11.			
1. Release first tender documents (including qualification criteria) 2. Qualify potential suppliers for phase 2	3. Release tender document(s) on award phase (including award criteria) 4. First dialogue phase Alignment on sourcing business model (optional) Statement of Intent (alignment on high- level vision for desired outcome/objectives/ guiding principles) High-level vision of opportunities	 b. Second dialogue phase (scope/workloa d allocation) 6. Suppliers prepare bids (partnership proposal) 7. Final supplier selection Vision on statement of intent/desired outcomes Vision on scope and opportunities Risk mitigation plan Compatibility and cultural fit between buyer and supplier (eg independent assessor) 	statements made in tender documents (proposal)	9. Complete Vested workshops and finalise the contract based on other contractual elements 10. Contract sign off	11. Onboarding and transition 12. Ongoing governance			
From many to 3–5	Typically, from 3 to 1 supplier in a singlestep down-selectFrom up to 5 to ashort list of 2–3list to 1		1					
Typical Public Sect		1	I					
2–4 weeks	2–6 weeks	6–10 weeks	1–4 weeks	10–20 weeks	ongoing			
Typical Private Sector Timeframe								
0–2 weeks	2–4 weeks	2–6 weeks	0–1 week	10–20 weeks	ongoing			

Figure 2 Overview of RFPartner V2 process Source: Vitasek, Van de Rijt and Witteveen¹⁴

USE OF COLLABORATIVE WORKSHOPS

The RFPartner process is specifically designed to incorporate supplier dialogues and solutioning where the buying organisation leverages the supplier's expertise in helping to co-create the optimal solution to how to address the buyer's CRE goals. In the public sector, many jurisdictions are now encouraging organisation to incorporate supplier dialogues. For example, the European Union (EU) advocates as a 'competitive dialogue' process which - since its inception in 2004 — has led to over 3,000 public procurements in the first five years.¹⁵ Likewise, the State of Tennessee modified their procurement policy to allow for 'collaborative value development' workshops with suppliers in 2016.16

Collaborative supplier dialogues and solutioning are vital for any supplier relationship where transformation or innovation is a requirement of the buying organisation. It is essential to understand that suppliers can have an impact on both top-line growth and bottom-line cost reductions at the same time. Supplier solutioning allows the supplier to understand potential opportunities and constraints. It also allows the buying organisation to get comfortable with how a supplier views itself in adding value to the buying organisation.

A key benefit of asking suppliers to develop a solution is that it allows buyers to work collaboratively with suppliers on more complex sourcing initiatives that may have more than one 'right' answer. It also challenges suppliers to come up with innovative solutions that can best meet a buyer's needs.

It is important to note the award phase requires more time from both buyers and prospective suppliers. Some organisations split the award phase into more than one iteration, as noted in Figure 2. The benefit of a two-step selection process is that additional time is only spent with the smaller number of suppliers that pass the first down-select.

A two-step selection process is used when the buying organisations want to decrease the number of suppliers to the critical two or three supplier finalists. The more iterations, the longer the sourcing cycle time. For this reason, we suggest trying to keep the award phase to no more than two iterations with the first focused on supplier's developing a concept followed by a much more detailed alignment and a formal partnership proposal. The 'partnership proposal' portion of the request for partner methodology (step 6) is not meant to be time-consuming or expensive for suppliers. Rather, it allows suppliers to showcase high-level creative ideas for how they would address the buying organisation's objectives, usually based on relevant other solutions/projects they have successfully done. It is important for team members from the buying organisation to open up to the supplier's viewpoint for a variety of creative solutions.

A key success factor is that solutioning activities are performed *jointly* between the buying and supplier organisation, but *independently* with each down-selected supplier. As such, the buyer and supplier are cocreating the foundation for unique solutions (apple to orange to banana comparison of the solution).

INCORPORATING 'CULTURAL FIT' AS A KEY SUPPLIER SELECTION CRITERIA

In a highly strategic, complex and longerterm relationship the buyer and supplier will likely have high dependency — sometimes called 'lock-in'. While picking the supplier able to solve the buyer's problem is essential, many argue it is equally important to choose a supplier with a high degree of compatibility/cultural fit which enables the parties to increase trust levels and to avoid opportunism.

While many organisations argue cultural fit is important, in practice most organisations do *not* explicitly assess the cultural fit during

the award phase of a bid process. A key difference in the RFPartner process is the *formal* inclusion of cultural fit as an award criteria.

One notable academic that has promoted cultural fit and compatibility in strategic relationships is Doug Lambert from the Ohio State University. Lambert cited 'compatibility of corporate cultures and compatibility of management philosophies' as key success factors for strategic supplier relationships in a 2004 *Harvard Business Review* article.¹⁷ Cultural fit and compatibility does not mean 'sameness' but rather avoiding incompatibilities that can create conflict such as a top-down versus a bottoms-up approach for decision making.

If cultural fit and compatibility are important, the question becomes how to pick a supplier based on 'fit'. Not surprisingly, there is not a standard 'best practice' for selecting a supplier on cultural fit. UT's field-based research reveals organisations use different approaches - for example, one buying organisation provided potential service providers with 'scenarios' as part of the initial selection process to determine how the supplier would behave. The service providers were invited to describe how they would respond to sample situations. Another approach is to review a service provider's past behaviours and style attributes (with owner and buying organisation references) to see whether collaboration and innovation are part of the service provider's culture. A third approach has an observer sitting in the solutioning workshops to score how well the buying organisation and the potential service provider 'teamed'. A fourth option has the buyer giving potential service providers a test, much like how some companies human resource (HR) departments test employees during their selection process.

Some organisations ask, 'Can you legally factor in cultural fit into a supplier selection?' The answer is *yes*, as most public procurement laws allow for a concept known as 'Best Value' or Most Economically Advantageous Tender (MEAT) supplier selection which allow for organisation to go beyond price to value-based award criteria. Organisations can establish the award criteria that is best suited for their particular sourcing situation, one of which can be cultural fit with the supplier.¹⁸

A CROSS-FUNCTIONAL 'DEAL ARCHITECT TEAM' INCORPORATES CONTRACTUAL DISCUSSIONS END-TO-END

Finally, a key difference between the RFPartner process and a more conventional competitive bid method is the use of a cross-functional team representing key business stakeholders. The buyer's cross-functional team is then 'peered' with the supplier's cross-functional team. We call this the 'Deal Architect team', because these individuals not only link the business needs to the buying/selling process, they will play a key role during and after the bid process. The RFPartner process recommends at least half of the team become key personnel and staffed into key governance roles of the partnership.

In addition, the RFPartner process calls for the buying and supplier organisations to consciously incorporate ten contractual 'elements' throughout the bid and contracting phase.

Telia's Deal Architect team (see Figure 3) consisted of two team leads (one from the business and one from procurement). The team leads were augmented with four individuals representing: 1) a key business unit; 2) contracting/legal; 3) operations; and 4) innovation. During the award phase the supplier's team members were 'paired' with buying organisations, with the winning supplier team going all the way through the contracting phase and key team members 'staying behind' team as part of ongoing governance.

Part 3 in this series of papers will provide a deeper-dive profile of the Telia case study.

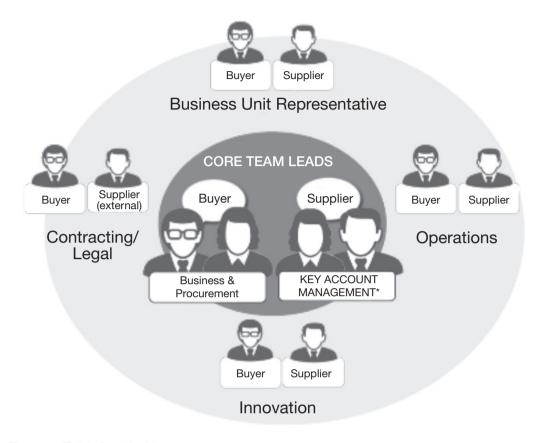


Figure 3 Telia's Deal Architect team Source: Telia case study, Vitasek, K. and DiBenedetto, W.¹⁹

COMBINED – USING A DEAL ARCHITECT TEAM AND INCORPORATING ESSENTIAL CONTRACTING ELEMENTS DURING THE BID PROCESS SERVES THREE PURPOSES

First, it allows the buying organisation and potential supplier partner to build relationships among the key stakeholders who will remain behind in the ongoing relationship. The buyer's operations people match with the supplier's operations team during the solution proving phase. This not only helps make the solution 'workable', it also increases the buy-in from the operations because they were integrated to the solution and become Vested as a result. This avoids a throw-it-over-the-fence mentality all too common where the focus is on the deal - not on creating a sustainable solution and relationship.

Second, it ensures that what is 'bought' and 'sold' during the bid process is consciously factored into the solution during solutioning workshops. For example, one recommendation of the solutioning workshops is for the joint teams to co-create a taxonomy and workload allocation where the parties do an end-to-end mapping of the work needed to support the outsourcing relationship. The parties then develop a workload allocation matrix which becomes a key part of the scope of the work in the contract. Another example is the Deal Architect team co-creates the parties' mutual exit management approach which is formally embedded as contractual obligations in the formal contract.

COMPARISON OF RFPARTNER TO OTHER COLLABORATIVE BIDDING APPROACHES

It is important to note that the UT RFPartner methodology is not the only approach for incorporating more collaborative approaches with suppliers during the bidding process. With this in mind, a key part of UT/ NEVI research was to look at the various collaborative 'request for solution' methodologies that have emerged such as the EU's 'competitive dialogue' method and Arizona State's 'Best Value Performance Information Procurement System' (BV PIPS) methods. These methods (and variations of them) bring significant value to the organisations that incorporate them. The following are three of the most popular methods.

- Competitive dialogue: A competitive dialogue process creates a collaborative 'dialogue' with suppliers during the competitive bidding process. UT researchers used the European Commission's (EC) 'competitive dialogue' process.²⁰ While we analyse the EC process, there are other processes that are similar, such as the Canadian Government's Joint Solution Request for Proposal (JSRFP) approach;
- Best value: A best value process encourages a buying organisation to incorporate 'value'-based supplier selection into the award criteria. For the research, UT researchers analysed the popular BV PIPS method as developed by Dean Kashiwagi the Performance-Based **Studies** at Research Group (PBSRG) of Arizona State University²¹ and later customised to the European legislation. While there are multiple 'best value' methods, the BV PIPS approach provides a robust, yet simple, process for supplier selection for procuring complex projects, especially large construction or IT projects. It is also well documented and can be used for a variety of applications including CRE sourcing initiatives;

• *Competitive dialogue plus:* The third method evaluated is what UT researchers called the competitive dialogue plus method. Competitive dialogue plus is a generic name we give to a classic competitive dialogue method that deliberately includes cultural fit and compatibility as an award criteria for choosing the best-fit supplier.

Figure 4 shares the pros and cons of each of these collaborative bidding methods to the RFPartner process.

ADVICE FOR CRE PROFESSIONALS

When exploring more collaborative bidding methods, we want to emphasise that no one approach is better than the other. Instead the key is to know when to use which approach. We recommend:

- The BV PIPS process (and similar methods) is a wonderful low-cost and fast approach for picking a supplier for a limited risk performance-based contract or preferred supplier relationship when the technical aspects of the solution and value are important but cultural fit is not essential. Specifically, the BV PIPS method does not work well when cultural fit is important such as is essential in a Vested agreement. The main reason is twofold. First, the fast-paced nature of the down-select process only allows the supplier to develop the solution versus joint solutioning. In addition, the short time frame (typically eight weeks) does not afford the opportunity for the buyer to assess the supplier on cultural fit as they do not have enough time and interaction needed to assess for cultural fit:
- The competitive dialogue is ideal when the buying organisation requires a significant amount of solutioning with the potential suppliers, but when cultural fit is not an issue. The strength of the competitive dialogue is the emphasis and diligence

	Competitive dialogue (1)	Best value PIPS (2)	Competitive dialogue plus (3)	RFPartner (4)
Understanding of solution	During award phase (2)	After supplier selection in due diligence phase (3)	During award phase (2)	Hybrid: Some during to supplier selection in award phase (2), most after supplier selection in contracting (4)
Explicit assessment of cultural fit	No	No	Yes	Yes
Transparent award criteria	Yes	Yes	Yes	Yes
Transaction costs	High	Very low	Very high	Medium
Time to select supplier	Long (> 1 year)	Quick (Approx. 8 weeks)	Longest (> 1 year)	Medium (2.5– months)
Proportionate	Not always	Yes	Not always	Yes
Explicit incorporation of contractual elements	Typically, only in contracting phase	No; only in contracting phase	Can be award phase	Conscious linkage between award phase and contracting phase
Recommended use	Performance- based contract where buyer has an opinion and desire to have input and influence into the technical solution	Performance- based contract where technical solution/cultural fit is not important (eg construction projects not needing a high level of integration and where the supplier can demonstrate success metrics with past performance)	Vested model or investment model (JV/PPP) where integration and shared risk/shared reward is essential	Performance- based contract, investment model (JV/PPP), Vested model where integration and shared risk/shared reward is essential

Figure 4 Summary of the collaborative bidding methods Source: Source: Vitasek, Van de Rijt and Witteveen²² in the solutioning. This is also a weakness, however, because it creates a process that is both long and costly for the buyer and supplier;

- A competitive dialogue plus is by far the most robust process. The approach should only be used on the very largest, complex and risky deals and is only suitable when the buyer has lots of time and when the service providers do not mind a lengthy and costly bid process - for example, a high risk/high stakes bid where a longterm integration solution is needed, such as a public-private partnership or a large public Vested deal. We recommend that if a competitive dialogue plus approach is used, the buyer be open to compensating the service providers for at least some ---if not all — of their costs during the bid process:
- The RFPartner is the most effective approach for most performance-based, Vested and investment-based models and is ideal for highly complex and integrated supplier relationships (eg strategic outsourcing relationship that will yield significant dependency and 'lock-in'). A key benefit of the RFPartner over the competitive dialogue plus approach is that it reserves the costliest solutioning for when there is only one service provider. Where the results are unsatisfactory, the buyer can fall back to the second-ranked service provider. In public procurement bids this is often referred to as 'supplier in waiting'.

SUMMARY AND CONCLUSION

As organisations mature and their approaches to sourcing become increasingly sophisticated and vital to the enterprise, new competitive bidding methods must address the need to incorporate innovation into complex sourcing initiatives. There is a growing trend towards increasing the use of collaborative bidding methods to enable buyers to work jointly with service providers to find 'solutions' and potential 'partners' — not just to find a vendor with a price for a specification.

More modern and collaborative 'request for solution' methodologies have emerged such as the EU's competitive dialogue method and the best value methods. We have reviewed the most common methods, all of which can add tremendous value to the organisations using them. A key point? There is no 'one size fits all'. Instead the key is to know when to use which method.

UT and NEVI researchers show that the RFPartner V2 methodology and process is designed to overcome the weaknesses of existing collaborative approaches specifically for those wanting to explore a Vested relationship with a potential supplier. The RFPartner methodology offers a promising new approach that enables buyers to tap into the creativity and innovation of potential service providers while still allowing for a competitive environment. The process enables service providers to authentically create better solutions, purpose-built to add value and drive innovation.

The benefits of the RFPartner process are clear and compelling:

- A simple yet effective methodology to select a service provider with the best solution *and* cultural fit;
- Leverages the best thinking from a competitive dialogue method to drive collaboration around the best solution, but streamlines the process from learnings from best value methods;
- Retains flexibility within the process to expand or collapse down-selection processes;
- Has been field-tested as part of UT's research;
- Is offered as an open-source solution through the Creative Commons; the method is open source and can be adopted by both public and private sector organisations (buy-side and sell-side), using it

for non-commercial purposes to help them with their bid process.

Sourcing professionals should use the information here to embrace more collaborative bidding methods and — when appropriate — know when to use the RFPartner method to create long-term strategic relational agreements.

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