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State of Michigan

Department of *Technology, Management, &
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Division of Central Procurement



2022 George Cronin Awards for Procurement Excellence

**Competitive Proof of Concept:
Trying Before You Buy While Complying
with Competitive Requirements**

Executive Summary

Though there are no one-size-fits-all solutions when it comes to IT procurement. The development and introduction of the Competitive Proof of Concept (CPC) as a solicitation type by Central Procurement Services (CPS, the State of Michigan's main procurement office that is vested with most of the executive branch's procurement authority) has helped solve some specific issues. These include how to deal with suppliers offering "free trials" and how to try out different potential solutions with the ability to move to a full implementation contract if a solution meets the state's needs.

The CPC was developed specifically to fill these gaps in IT procurement, but it can also be a good fit for new or innovative services or even commodities too.

Innovation

The State of Michigan has very strict competitive requirements. Public Act 431 of 1984 (the Management and Budget Act), which provides CPS with its authority, states that it "shall utilize competitive solicitation for all purchases authorized [except in limited emergency situations]." Further, it goes on to say that CPS must determine if "competitive solicitation of bids... [is] appropriate before using any other procurement method for an acquisition." For many years, this was interpreted to mean that the RFP process had to be used for all procurements. In 2015, fresh eyes discovered there was room for different methods of sourcing so long as they were competitive and involved requesting the participation of multiple potential suppliers. Specifically, the use of both terms, competitive solicitation (which is mandatory) and competitive bidding (which is preferred but not mandatory) in statute, gave CPS the opportunity to better define competitive solicitation, as there was no statutory or common law definition for it. New solicitation types were quickly implemented after this review.

By 2017, the need for a way to deal with the increasing number of "free trial offers" and "pilot programs" drove CPS to create the CPC. The CPC is a formal competitive solicitation process that asks for proposals from prospective suppliers to perform a proof of concept for a good or service with the option, at the state's discretion, to enter a full implementation contract after the completion and evaluation of the pilot. The state may select one or more of the submitted proposals and award a contract(s) to cover the proof-of-concept period. Once the proof of concept(s) is evaluated, negotiations with the selected vendor may be conducted for a new implementation contract. This meets with the requirements of the Management and Budget Act because there is competition through requesting the participation of multiple potential suppliers at the beginning of the process (and more at the end of the proof-of-concept phase, if there are multiple proof of concepts).

The CPC solicitation itself is a much smaller document than is typically issued. Long statements of work or requirements are discouraged, both to save time and more importantly to give potential suppliers room to provide their best solutions. As there is a period where end users get to test the solution in their everyday work, there is minimal

downside to this. Detailed statements of work may still be included in any full implementation contract, but because the competition portion is completed, the supplier can assist in drafting them without running afoul of conflict-of-interest policies.

The criteria used to judge the proposals and the finished proof(s) of concept(s) are also rather different. Rather than scoring based on how well a supplier answered each section of the solicitation, proposals are evaluated in a more holistic manner. Though subjective evaluation is often avoided in public procurement, in favor of elaborate point systems, so long as the rationale provided is sound and well documented, it can produce a better outcome.

The CPC is a very different type of public sector solicitation. The competition and final contract development are farther apart in time, the documents drive suppliers to provide solution-based proposals, and the proposals and proof of concepts are evaluated on their overall benefits.

Transferability

If a state, or any other public entity, has the statutory flexibility to add the CPC as a new evaluation method, implementation is simple. CPS has developed the policies and templates needed to implement and is willing to share them with any interested parties. After a review by legal counsel and, any required updates, it is only a matter of training procurement professionals on the process and documents.

Even states that are allowed to sole source procurements could still benefit from putting formal structures around the free trial and pilot process. This could encourage customers to consider other available options. Competition is not just a requirement, it is one of the forces that allows procurement professionals to best add value.

Even if the CPC is not right for a particular state, one important lesson applies: Do not assume that a statute requires what it is commonly thought to require. A fresh set of eyes, lawyer and non-lawyer alike, may find room for creative solutions in any statutory language. This room is commonly found where statutes use undefined terms.

Service Improvement

Anyone who has had to explain to a customer that the Request for Proposal (RFP) process must still be followed in the face of a free trial or completed pilot program of a perfect solution can understand how the CPC can improve service.

The two most important factors customers use to evaluate Michigan's Central Procurement Services are, the time a solicitation takes and satisfaction with the awarded supplier. A proof of concept solicitation can dramatically reduce the effort required in developing a solicitation, while providing the customer an opportunity to truly become familiar with a solution before deciding on full implementation.

Since the introduction of the CPC, CPS's overall Net Promoter Score (NPS) has gone from 61 to 92 (per CPS's KPI Dashboard, FY 2017 versus FY 2021), and CPS's IT Division's NPS has gone from 69 to 84 in the same period. While we do not attribute these gains only to the introduction of the CPC, the seven CPCs completed so far have perfect customer satisfaction results in all three measures CPS uses: NPS (how likely the customer would recommend working with CPS), Customer Effort Score (how easy the process for the customer), and Customer Satisfaction Score (happiness with the overall outcome).

Though these KPI improvements are impressive, the best way to show the service impact is to explain the real ways in which the CPC has helped CPS's customers.

DNR LED Digital Evidence Capture System

Michigan's Department of Natural Resources (DNR) wanted to pilot a solution that allows conservation officers to use existing cell phones as body cameras. Besides the uncertainties surrounding whether this was a workable solution, DNR did not yet know the number of software licenses or the amount of server storage that would be needed. Getting either of these numbers wrong would either drive the cost up unnecessarily or require future contract expansion.

This was a perfect situation for a CPC. Within 73 business days of the requisition being submitted, a one-year, no-cost proof of concept contract was negotiated with the one responding supplier. (The average Complex IT RFP takes 299 business days.) Once the pilot was completed and determined to be a success, a five-year full implementation contract was negotiated and executed.

MDOS Customer Flow Management System

The Michigan Department of State ("MDOS") is the agency responsible for issuing driver's licenses in Michigan. MDOS sought a new customer flow management, or "queuing" solution, as the current supplier (obtained through an RFP) was not providing reliable service.

A CPC was issued to cast the widest net and allow for extensive trials. After evaluation of the four proposals received, one was selected to do a pilot at several branch locations. The pilot contract was negotiated at a cost of \$20,000. After the pilot, the team determined the system would not be a good technical fit. MDOS was able to avoid what could have been a costly and long-lasting mistake, for the cost of \$20,000.

The CPC is not only a service improvement for state agencies, but also for suppliers. The CPC allows an approved vehicle for free trials and pilots that many suppliers are eager to provide. Additionally, responding to a CPC is a much easier process, especially for suppliers not accustomed to working with public entities.

Cost Reduction

When a CPC is used as the means of solicitation, it is almost always going to be faster and less labor intensive than a traditional solicitation. This reduces the administrative costs in comparison with the normal RFP. There are also important cost avoidances, which are best illustrated through direct example.

DNR LED Digital Evidence Capture System

DNR was able to try out the solution for a full year at no cost and evaluate the product's viability. If an RFP had been used, DNR would have had to guess at the number of licenses and storage needed, paid for the product, and then hoped the project was successful. These uncertainties were eliminated by the CPC. Information from the proof of concept was used to determine the correct number of licenses and storage required. DNR was able to ensure that it only paid for what was needed in the resultant five-year contract, and that the solution met its needs. At \$ 45,575.64 per year for licenses and \$ \$3,500 per year for storage, even a minor 5% overestimate would have resulted in \$2,500 in additional costs per year.

MDOS Customer Flow Management System

While the CPC did not result in a contract, the value of avoiding a long-term contract for a product that ultimately did not work is undeniable. The original system's solicitation resulted in a three-year contract costing over \$600,000. Had the CPC not been conducted, and the proof-of-concept supplier been awarded a contract through the RFP process, it would have been at least a year before the problems were identified. The supplier would then be given a chance to remedy the issues, and failing to do so, the cancellation process would be completed. This would have resulted in MDOS spending over \$200,000 to find the solution was unworkable compared to \$20,000 thanks to the CPC (avoiding at least \$180,000 in additional costs).

The ability to truly try before the state buys, with minimal investment or risk, will allow the state to avoid untold costs associated with supplier performance issues. This is particularly valuable in purchases that are cutting edge or otherwise novel, where both procurement and the customer are at an information disadvantage to the potential suppliers.

Conclusion

The CPC is not intended to be magic bullet for IT procurement, however, in the right circumstances it can provide the public sector the speed and flexibility needed to keep pace with innovative new solutions. The CPC gives agencies an opportunity to pilot under a structured process, instead of doing a free trial and then demanding a contract be issued without a solicitation because "it works." Piloting solutions in real world environments minimizes the risks of purchasing mismatched or defective solutions. The process also matches reality for customers who are used to free trials in their personal lives and do not care how well they fit with procurement policies and statutes.