

Value for money



Kevin McGuinness



Stephen Bauld

Transparency” in the public contracting process requires that assessment criteria be explicit, and be applied in a manner consistent with the Request for Proposal (RFP) documents. But in reality, some element of subjective assessment is implicit in most evaluation criteria. It is also implicit that the proponents will be treated in like manner. These concerns are particularly important when dealing with value for money (VFM) criteria, the use of which must be clearly indicated in the RFP. Generally, only when products are fully exchangeable or replaceable is price the sole indicator of value. In other cases, a VFM assessment must be made to compare the alternatives.

VFM is a broad concept encompassing a range of concerns, only some of which are quantifiable. To apply VFM criteria correctly, one must understand the concept and its implications. A VFM assessment requires a sophisticated and thorough analysis and evaluation of all cost and qualitative factors associated with each competing offer of supply. In the public sector, it also entails consideration of the contribution to be made to advancing government policies and priorities, as well as achieving the best return and performance for the money being spent.

VFM considerations may cover: full life costing (purchase price adjusted for life expectancy, maintenance and operating costs, training and transaction costs, plus the internal processing costs of acquiring, using, maintaining and disposing of the good or service, and the estimation of risk exposures) as well as other factors such as fitness for purpose, quality, service and support. Although VFM criteria often seem self-explanatory, assessing the VFM offered can be difficult where the subject matter is technically complex, requires sophisticated understanding, and there is no universally accepted methodology to follow.

Proper specifications are the first step in optimizing VFM. Proper evaluation of the proposals received is also important. Commonly, evaluation tends to focus around “objective” information – often mere surrogates of a simple price comparison and with possibly little bearing on the suitability of a product for the purpose intended. Fitness for purpose entails considering which goods or services will meet the organization’s requirements. A poor fit may mean that a second product may need to be purchased to meet the unsatisfied performance need. That second purchase has cost implications that are not reflected in the initial price.

Technical performance requires a user assessment of the ‘duty’ or ‘duty cycle’ of the item that is to be purchased. It requires a fair technical comparison of competing products to determine which best suits the organization’s need. Although a product offering superior capacity or capability might intuitively seem the best buy, this is not true if that superior performance does not meet a real (or anticipated) need, especially if the cost of the superior product is significantly greater than the alternative.

Understanding of the performance conditions in which a product will be expected to operate is essential. The assessment process should be as objective as possible, e.g., carrying out testing under similar (preferably controlled) conditions, and by relating the assessment process directly to the job demands. The people

employed to carry out the testing should know how to use the product properly.

When dealing with maintenance, cost is not the only consideration. Ease of maintenance may be more important where the product must be used in an isolated situation, e.g., field maintenance may be the only practical option. Operating costs are a further concern, e.g., when energy was cheap, construction costs were kept low by not installing insulation. In construction, what is “adequate” in terms of insulation is largely driven by the cost of energy – not simply the current cost, but the projected cost over the full life cycle of the facility that is being built. Focusing mostly on current cost can lead to a poor purchase decision.

The degree to which an item meets an organization’s expectations in functionality and performance under real world operating conditions is also key. Although no good should be expected to perform when abused, the durability of a product and tolerance for changes in operating environment are important factors. Field reliability must be supported by good warranty service of a reasonable duration. Other considerations include a product’s potential for deterioration, sensitivity to environmental conditions, risk of technological obsolescence where the product’s technology becomes outdated, and social or legal obsolescence (e.g., where statutory restrictions may prevent continuing use of the product after a given point).

Repair costs determine the economic life of a product – where it is more economical to replace it rather than maintain it. Economic life of a product must be distinguished from functional obsolescence, which arises once a product is no longer required to meet the organization’s needs. Acquiring a product with a long economic life may take a backseat to other considerations where the product concerned must meet only a short-term need.

Supplier capability is at times a neglected aspect of the VFM calculation. Issues to consider can include the supplier’s management capability, financial viability, technical expertise, methodology, systems, previous performance, capacity to complete the supply requirement as and when specified, and an understanding of the purchaser’s requirements. The susceptibility of a supplier to business failure is also an aspect of managing risk exposure.

Optimizing VFM requires effective supplier management. Initiating a supplier development program (a performance monitoring and management regime) fosters the growth of supplier capabilities enhancing the value derived from a relationship, and may also facilitate building the capability of local suppliers, which may be an organizational priority. The relative importance of each of these elements flows from the supply strategies developed as part of the organization’s procurement planning process. ~~~

Steve Bauld spent many years as purchasing manager at the City of Hamilton. Kevin McGuinness is a lawyer with Ontario’s Attorney General. Together they have collaborated on several books about procurement and leadership.