

Internet Negotiations (Online Procurement Initiative)

Objective

Share Intel's present findings in the application of Internet negotiations (I-NEG) for construction services and facilities equipment. Specifically, I-NEG's effect on:

- Procurement pre-work
- Utilization of non-price factors (lowest total cost)
- Overall process transparency

What you should walk away with :

- What is I-NEG's impact on the procurement process
- Why Intel embraces this initiative
- When Intel utilizes I-NEG
- Why the two stage methodology is critical for conducting successful events for equipment & construction services

Intel's Position on I-NEG

We believe I-Neg is going to happen as part of technological advancement – there is no option!

We want to lead by proactively integrating this tool into our productivity improvement tool box.

Intel Attitude on Internet Negotiations for Construction

ÿ 2002

- “Keep this the #&!@# away from my business!”
- “Works for pencils, not for construction”

ÿ 2003

- “Let’s try it, there may be some potential here.”
- “Let’s look at how other owners may be using it.”

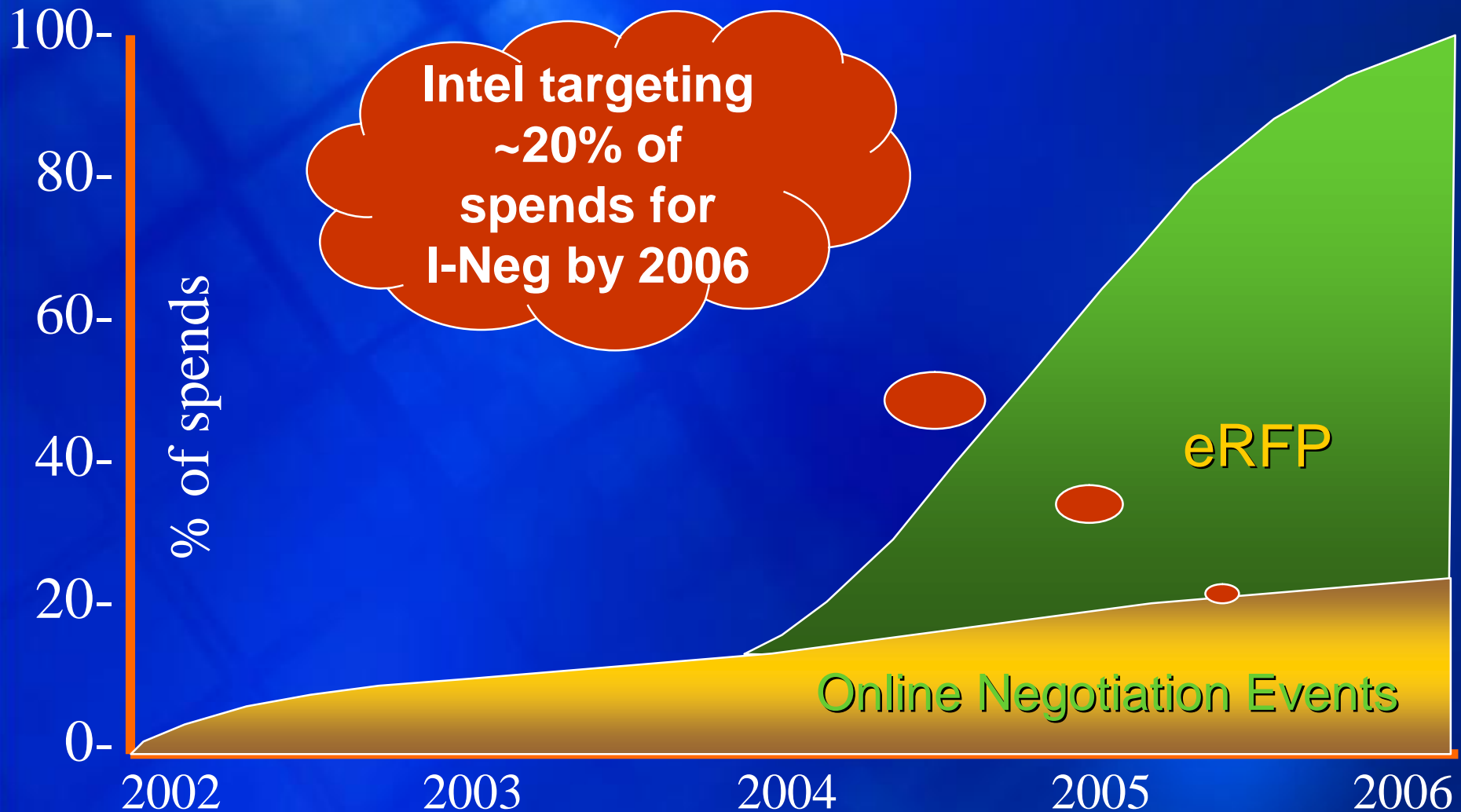
ÿ 2004

- “It’s working, let’s do it more!”
- “It’s another tool to use in procurement”

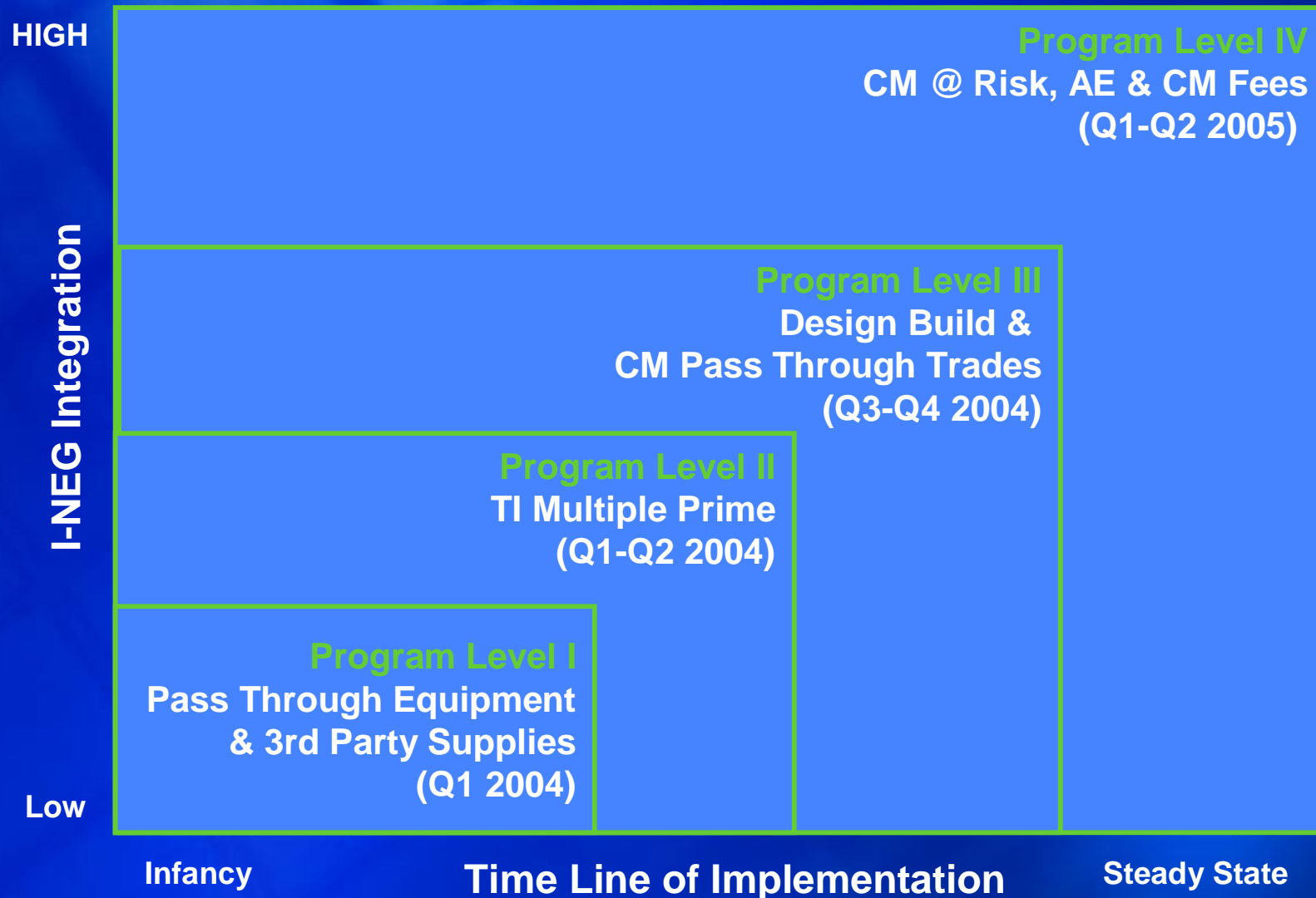
ÿ 2005

- “How do we get more project teams to adopt it?”
- “It’s not just I-NEG but the procurement process that is improved!”

I-NEG Penetration



Intel's Pilot Plan



Focus on direct owner contracted work first; less risk and more control



I-NEG Process Drivers

- Y Pre-work (RFI's and Scope Clarity)
- Y Transparency (Contractors Control Destiny)
- Y Transformation (Total Lowest Cost)

Traditional Pre-work vs. I-NEG

Does RFP discipline impact results?



Pre-Work Objectives:

- More formalized evaluation allows for the inclusion of non-price factors
- Removal of bid secrecy allows for more in depth RFI's
- Expanded focus on bidder selection drives more competitive awards
- Better scope clarity leads to lower risk to contractor and less cost to the owner

I-NEG Pre-work



- Y Expanded pre-work allows for more transparency to the bid process leading to market pricing without extending bid cycle time
 - Higher quantity and quality of RFI's
 - More discipline to the process
 - Better overall scope clarity to contractors

Traditional Sealed Bid

Common Contractor Comments

We were low bid but you chose your favorite!

You're just exercising me to provide pricing!

How can I improve without more information about the quality of my bid?

Post bid feedback never happens!

Common Owner Discipline Issues

We don't have time to finish the scope before award!

I'll complete my technical evaluation after I see how my favorite contractor compares on cost.

Let's include XYZ Company so that we have 3 bidders – they'll never win anyway!

Transparency of I-NEG Process

Common Contractor

The selection process is transparent – the black curtain is pulled back – relevant & immediate feedback provided

We were

ite!

You are just exercising me to provide pricing!

How improve with more information about the of m

Post bid feedback

Common Owner Discipline

Visible/transparent process forces desired level of due diligence and discipline

the time the scope award!

complete my technical

my favor compares on co

Company have 3 b they'll

intel

Contractor Evaluation Cycle



Process Flow

Pre-qualification. <ul style="list-style-type: none">- Safety- Financial- Technical	RFP Proposal <ul style="list-style-type: none">- Safety- Experience- Schedule- Mgt Systems	Award-Transformation <ul style="list-style-type: none">- Safety- Experience-Schedule-Mgt Systems	Report Card <ul style="list-style-type: none">- Safety- Experience-Schedule-Mgt Systems
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Performance Feedback

I-NEG Process Evaluation

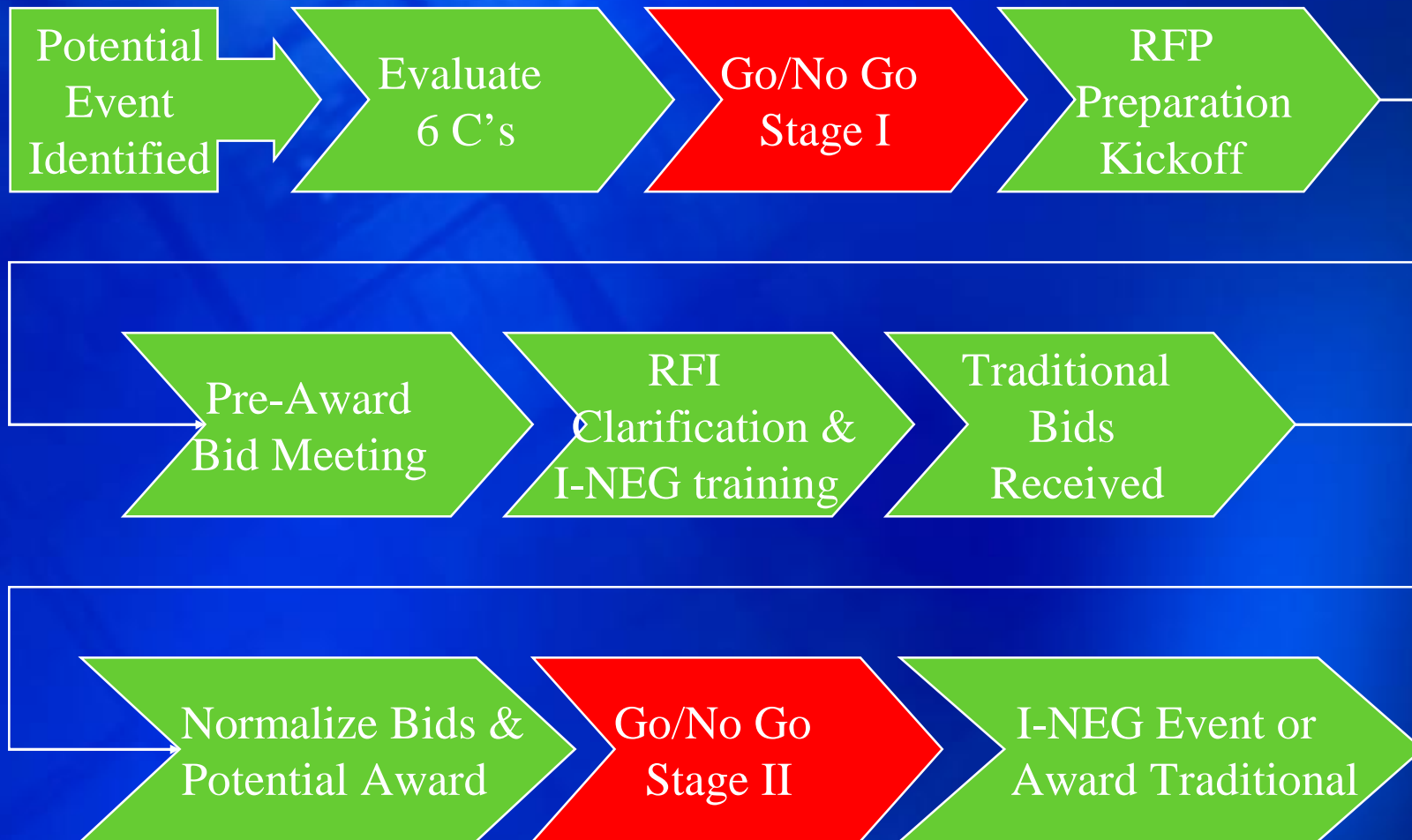
ÿ How do you know whether a construction services or equipment is a good fit for online bidding? GO/NO GO?

When do we use Internet Negotiations (six C's)?

- **C**ontractual Availability
- **C**ommercially Attractive to contractors
- **C**ompetitive Supply Base (> 2 contractors)
- **C**ompressible Margins
- **C**lear Scope Requirements
- **C**ommitment by Project Team

Construction Services and Equipment utilize same go/no go evaluation

I-NEG TWO STAGE EVALUATION



I-NEG Two Stage

Y Two stage methodology keys to success:

- Expanded pre-work and understanding of current market environment prior to the event
- Ensures the playing field is level since all exclusions/scope gaps can be taken into consideration prior to the event
- Allows owner to validate the success of the pre-work prior to committing to an I-NEG event (and abort if necessary)
- Protects the contractor and owner from attempting an event where both parties can be negatively impacted
- Minimal loss of time if I-NEG aborted since award can still be made traditionally

I-NEG two stage process ensures owner has a good understanding of the market environment which allows the contractors to compete more fairly and effectively

I-NEG Value Proposition

Pre-work:

- ∅ Intel Benefits:
 - Discipline in RFP process
 - Reduced transformation variability (subjective evaluation. vs. objective)
 - Scope clarity
 - Inclusion of change rates during initial award
 - Expanded short list
 - Transparency of bid evaluation criteria

- ∅ Contractor Benefits:
 - Reduced transformation variability (subj. vs. obj.)
 - Scope clarity
 - Expanded short list
 - Transparency of bid evaluation criteria

Event Day:

- ∅ Intel Benefits:
 - Market pricing and benchmarking
 - Pricing compression
 - Removal of bid secrecy
 - More efficient communication (speed of negotiations)
 - Ease of work allocation

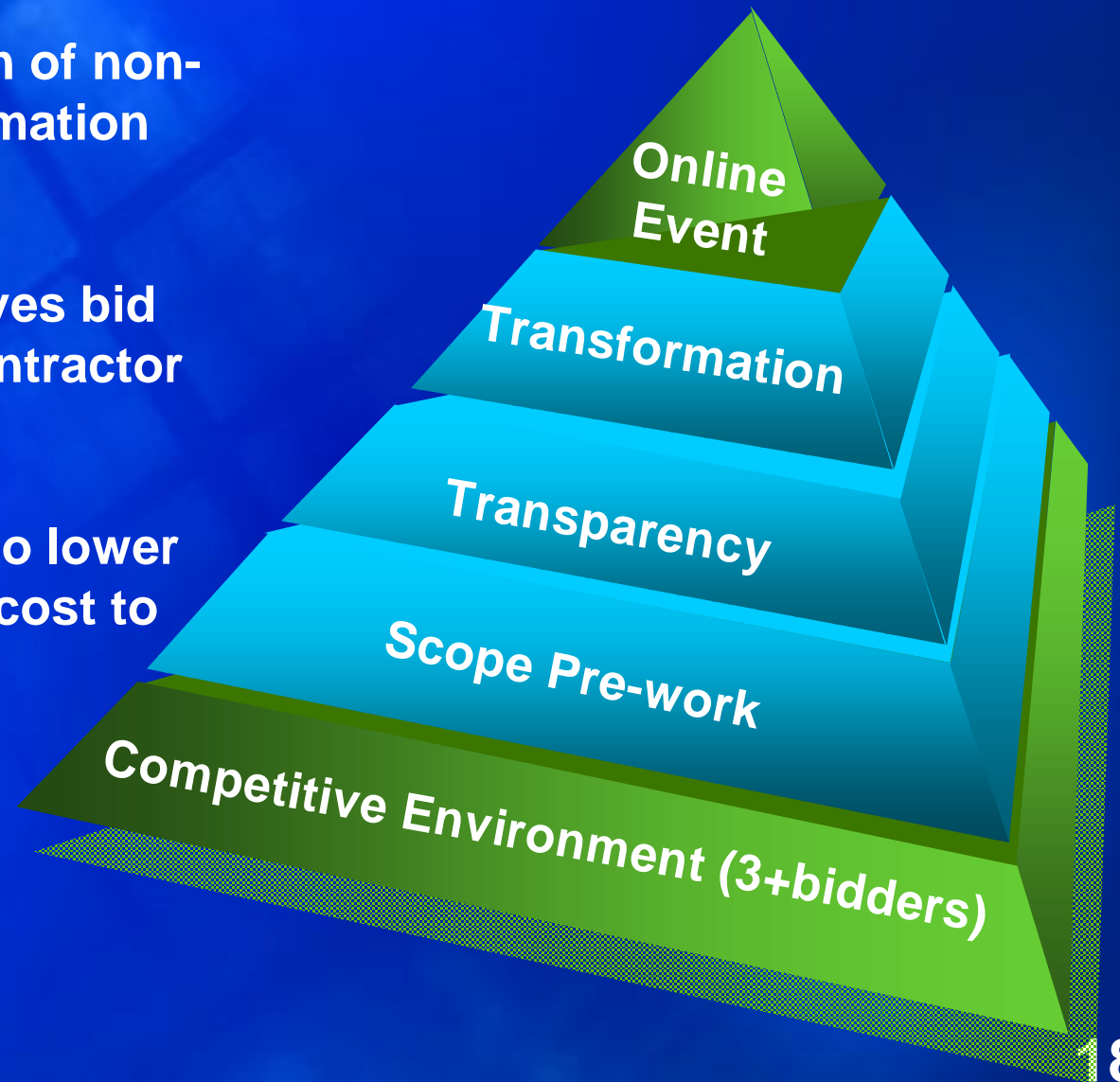
- ∅ Contractor Benefits:
 - Market transparency (control of destiny)
 - Market pricing validation
 - Removal of bid secrecy
 - More efficient communication (speed of negotiations)
 - Ease of work allocation (increased opportunity)
 - Real time feedback (faster reallocation of resources)

I-NEG Cost Savings Impact

∅ Formalized inclusion of non-price factors (transformation process)

∅ Transparency removes bid secrecy and allows contractor to control destiny

∅ Scope clarity leads to lower risk to contractor and cost to owner



I-NEG Key Take Away's

Traditional

- Bid normalization may not be as extensive as I-NEG (Less RFI's)
- Works for both equipment and services with greater flexibility
- Requires more controls to ensure consistency of evaluation during the award process
- Contractor debriefing may be more time consuming

I-NEG

- Extended pre-work drives cost savings by lowering commercial risk to both contractor and owner
- Transformation can be formalized reducing owner bias
- A tool to add to your existing procurement process, but not a replacement
- Transparency provides contractor with validation of fairness during selection process

Q & A



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Back-Up

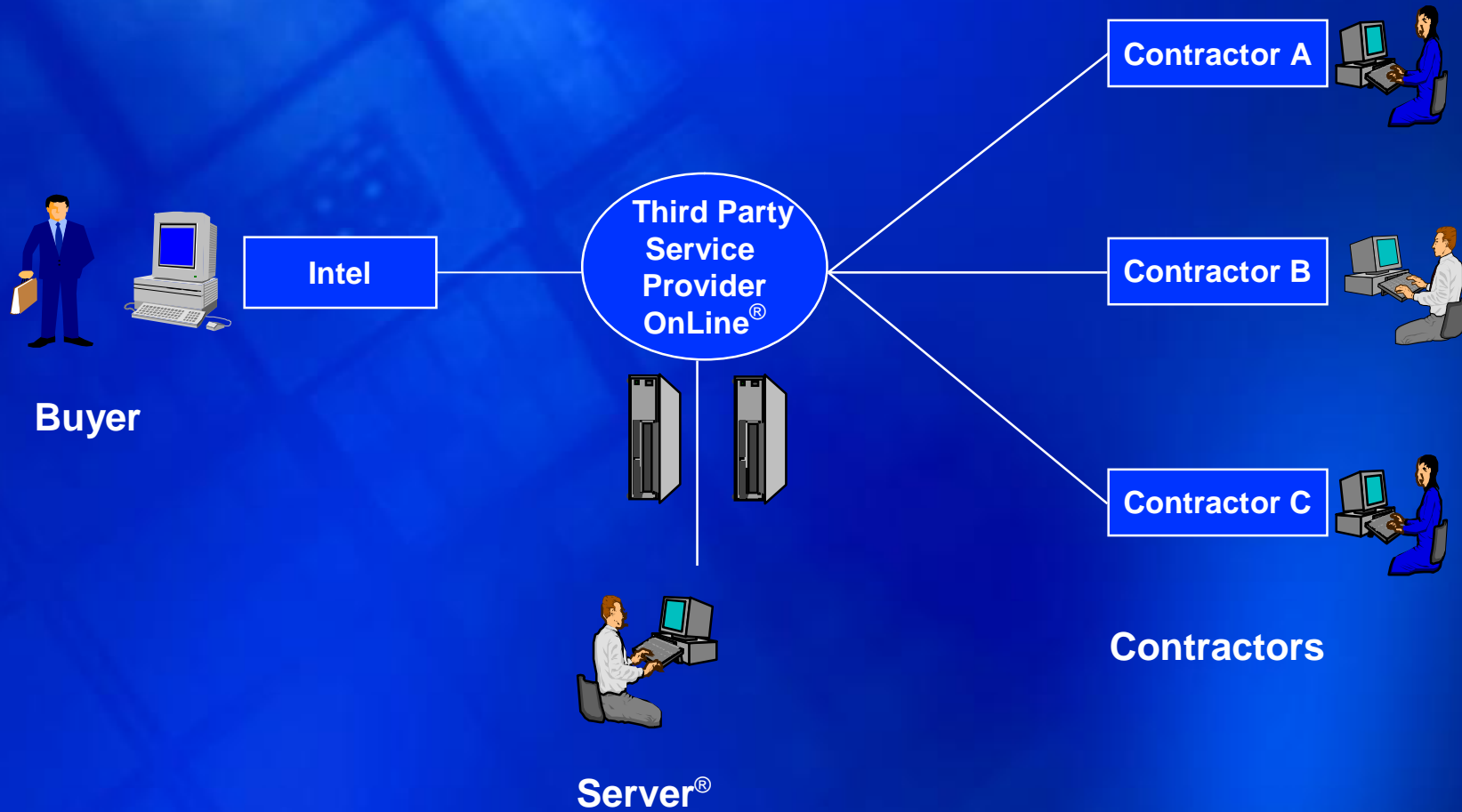
Intel's Milestone Timeline

2002

Lots of "Discussion"



Transparency of I-NEG



Internet Negotiations Defined

- ÿ Internet-based, real time bidding
- ÿ Contractors and suppliers submit pricing via the Internet with real-time feedback regarding their relative position

Transparency of I-NEG

Bidding Console - Microsoft Internet Explorer

#1718: Surgical Gauze Official Time Markets 2001

Supplier: Supplier Training Company (all Times US-PA) 10/31/2001 8:20 PM

Lot: 1: Diesel Fuel Current Status: Open

Bid: 37,000.00 **Submit Bid** Close Time: 10/31/2001 8:30 PM

My Last Bid: 37,000.00 Time Remaining: 0 Days 0 Hours 10 Minutes

Market Lead: hidden	Bid Decrement: 500.00	Starting Price: 37,000.00	Pricing Type: Extended
My Bid Vs. Market: hidden		Reserve Price: 25,000.00	Currency: USD

My Current Position: 2

Administrator Message Prev | 0 of 0 | Next

Sent

Contractor sees only current market rank

Rank – No Price

Transformation - How It Works

Goal – Allow contractors to compete on more than just price by formal inclusion of non-price factors for online award

1. Define Non-Price factors

3. Determine Baseline

4. Determine multipliers

	Quality	Safety	Tech	Past Avail	Geo	Raw Score	Total Score	Multiplier	Adder	Raw Bid Values	Actual Bid Values	
	30%	20%	10%	20%	10%	10%	100%					
Contractor A	60	40	18	38	15	20	200	38.9	Baseline	\$ -	\$ 1.00	\$ 1.000
Contractor B	60	30	20	35	18	20	200	36.8	1.05	\$0.10	\$ 1.00	\$ 1.153
Contractor C	60	30	17	35	20	20	200	36.7	1.06	\$0.05	\$ 1.00	\$ 1.105
Contractor D	60	35	16	36	20	20	200	37.8	1.03	\$0.03	\$ 1.00	\$ 1.058

2. Score Contractors

5. Assign an Adder, if needed

6. Use total transformed bid for online pricing

