Individual Business Travel at Boehringer Ingelheim: A Best Value Procurement Pilot

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Problems in the delivery of construction are supply chain issues in the procurement area, and not caused by the complexity of the construction industry. In order to prove this, Best Value Procurement has been applied in procuring travel services within pharmaceutical company Boehringer Ingelheim. In this paper the authors propose that there are similarities in the procurement of services at BI and the procurement of construction services. It is proposed that the best value PIPS process makes a procurement officer a professional, able to deliver any service. The BVP PIPS test to deliver travel services increased value and performance and minimized the cost of the service. The conclusion is that the best value PIPS process has great potential to increase the value and performance in the delivery of other services.

Introduction

The delivery of construction services has been fraught with low performance (see e.g. Kashiwagi, 2009.) The construction industry has assumed that the solution to its low performance is caused by the following:

- The lack of technical expertise of the vendors requiring the client to have more technical expertise and management capability.
- The lack of understanding and inability to communicate between buyer/client and vendor.
- The complexity of the supply chain.

Construction has reacted to these assumptions by implementing solutions such as construction managers (CM@Risk), partnering, and integrated design and construction. The direction of these solutions increase the flow of information, require more parties to participate, and increases the risk of the client due to increased number of participants. The authors propose these assumptions may not be accurate and that the delivery of construction services may be no different from the delivery of any other service. In this paper the delivery of Individual Business Travel at Boehringer Ingelheim is described.

Boehringer Ingelheim (BI) is a global pharmaceutical company and is constantly in search for breakthroughs and innovation in medicine and treatments that add value to human and animal health and welfare. The BI group of global companies’ objectives and beliefs can be summed up in a single phrase: “Value through Innovation.” This vision has helped BI to build its strengths and make the most of its distinctive character. In a competitive and fast-changing world, the value of products, services and companies is constantly changing. Real customer value today can only be created by constantly developing new solutions and continuing to improve services and performance. Together with the concept "Lead & Learn", this vision drives BI’s corporate
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culture. BI first learned about the testing of Best Value Performance Information Procurement System (BVP / PIPS) from Scenter. While most tests in the Netherlands were being accomplished in construction (see the overview in the introductory editorial of Van de Rijt & Witteveen in this Journal), the authors felt that PIPS was not a technical process but an overall supply chain concept that could be applied to the delivery of any service.

The objective of the authors is to propose that the problems in the delivery of construction are supply chain issues in the procurement area, and not caused by the complexity of the construction industry. In order to prove this, tests need to be conducted in both construction and other service areas. Success of tests in other service delivery areas along with continued successful tests in the construction areas would help to confirm the hypothesis.

The authors first give an overview of Boehringer Ingelheim. Next, the similarities between BI’s delivery of travel services and the delivery of construction services are described, followed by the scope of the pilot project and the objective of the test. The procurement process used by BI (the version of PIPS process) is explained, as not all the PIPS tests in the Netherlands were able to use all the features of the original PIPS process (see papers elsewhere in this Special Issue). This is followed by a description of the pre-award process and implementation. The paper ends with an analysis, discussion and conclusion and recommendations.

Boehringer Ingelheim as a Company: the Need for Supplier Involvement

Boehringer Ingelheim’s business areas are Human Pharmaceuticals, covering the segments Prescription Medicines, Consumer Health Care, Biopharmaceuticals and Operations (Pharma Production and Chemical Production) as well as Animal Health, with core business segments in food-producing and companion animals. BI has more than 41,500 employees in 142 affiliate companies worldwide, research and development (R&D) facilities at 12 sites in seven countries and production plants in 15 countries. R&D expenditure corresponds to 21% of its net sales and its headquarters is at Ingelheim, the German town where the family-owned company was founded in 1885.

The history of BI is one of traditions of innovation. BI was founded by Albert Boehringer (1861-1939) in Ingelheim am Rhein (Germany). From its beginnings in 1885 when it employed just 28 people in Nieder-Ingelheim, the company has become a global enterprise. As part of research and development activities for innovative drugs, the company focuses primarily on the therapeutic areas of cardiovascular disease, respiratory diseases, diseases of the central nervous system, metabolic diseases, virological diseases and oncology.

The major goal for procurement within BI involves how to get the market, (i.e. external suppliers) aligned with its business processes in such a way that they are considered truly the “best value”. Market developments tend more and more towards highly specialized business, competing with each other through supply chains or supplier networks. Only those companies having a sustainable competitive advantage over their competitors in the supply chain will survive. In several aspects, procurement can play a strategic role. Two years ago, procurement was still a rather reactive operational department. Since then, it has rapidly changed into a more
pro-active and semi-professional department. In order to further develop towards a truly professional function and due to the limited (financial) resources to develop or to hire professional staff, BI is looking for different options to compensate for the lack of in-house expertise. Broader expertise in process and change management and optimization of innovative power from the market, instead of in-depth product or category expertise, will enable BI to achieve the desired level of expertise and thus support the success of BI’s business.

In view of global market developments, Boehringer Ingelheim will have to professionalize procurement and develop a world-class supply base to keep pace with such trends. Obviously, not all suppliers will contribute evenly to BI’s future and only when procurement differentiates the various business relations properly, will BI be able to focus and succeed. The constant quest for breakthrough innovation and the accompanying search for added value to BI’s business proposition has a direct linkage to a lean approach of the supply chains. In every network of suppliers, a continuous challenge lies in identifying added value to the products and services BI produces and sells and/or removing non-value adding steps from the processes throughout the chain.

Theories and models referred to in this report may be used in practice within BI to support the aim for procurement professionalization. The Best Value PIPS Procurement methodology supports BI in the search for innovative, qualitative and cost-effective suppliers by attaining those suppliers considered the best value in the market. The model supports all this without the direct need for a full-size procurement function with all the usual in-depth expertise.

### Similarities Between the Delivery of Construction Services and Other Services

It was identified by BI that there are the following similarities in the procurement of services at BI and the procurement of construction services:

- The procurement agents were required to have technical expertise.
- The procurement agents were required to make decisions.
- Procurement agents relied on technical expertise and specifications from experts who were not accountable for the performance of the delivered services.
- The specifications used minimum standards and were price based, the effect of which was continual lowered service performance.
- The vendor services did not have accountability for non-performance.
- Performance was defined as meeting minimum standards.
- There was no identification of value.
- There was no motivation to measure or improve value and performance.

As the client/buyer of services, BI was forced to be the decision maker to determine if the vendor services being provided met the conditions of the contract. BI did not want to go in this direction when dealing with Travel Services. Instead they wanted a cadre of “professional” procurement officers who could deliver any service. They also required their procurement agents to be able to optimize the value of the supply chain by identifying the value of the vendors delivering services.
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to BI, and increasing their value and performance over time. The authors’ objective was to take the model of an efficient organization and overlay this onto a supply chain which would:

- Minimize the need to manage and control.
- Minimize the flow of information between buyer and vendor, thus increasing the accountability of the vendor.
- Creating an environment of performance measurement.

The best value PIPS process and structure was thought to be a tool to reach this goal, as it is different from traditional procurement processes in the following ways (Kashiwagi, 2009):

- It minimizes decision making by the procurement agents.
- It forces the vendors to differentiate themselves in terms of dominant value.
- It transfers the risk and responsibility of performing to the vendors.
- It keeps the vendors accountable.
- The contract becomes a performance based contract instead of a specified contract using minimum standards.
- It assumes that the vendor is an expert, who can pre-plan and manage and minimize the risk that they do not control.
- It minimizes the need of the buyer/client to have technical expertise.
- It increases the value and performance of the service in terms of cost, time, quality, and customer satisfaction.

The authors propose that the best value PIPS process makes a procurement officer a professional, able to deliver any service (see also Kashiwagi, 2009). Under this assumption, the delivery of travel services becomes no different than the delivery of construction or other services. This hypothesis requires two steps: to prove that the best value PIPS process works in delivery construction services, and works in delivering other services. The best value PIPS system has been tested successfully in the U.S. on construction, professional services, and other services (Kashiwagi, 2009.) Other clients are testing PIPS to deliver construction services in the Netherlands (see papers in this Special Issue.) The purpose of this pilot project within BI is to test it on other services to confirm that the previous case study resultants can be reproduced in the Netherlands.

A major motivation for this test is that the tests of PIPS in construction are being run in the public sector and cannot use the full capability of the PIPS (see papers of Van Leeuwen and Apostol in this Special Issue). The PIPS process has been modified to fit the perceived requirements of European law. As in all cases, the interpretation of the law leads to various conclusions (as seen in the different approaches by different organizations of the PIPS tests in the Netherlands). The PIPS process used in this pilot project resembles 100% the pure methodology of Kashiwagi (2009). During the award process (known as selection process in the US) the following criteria were used:

- Past Performance
- RAVA plan
Planning
Interview
Price

The pre-award period was used after the ranking to make the selected supplier pre-plan the whole project delivery. Next, the vendor was invited to write the contract. Below the scope of the project is described after which the procurement process is outlaid in more detail.

The Scope of the Pilot

“Individual Business Travel (IBT)” was chosen as a first pilot for applying BVP PIPS. The main reason for this choice was an internal analysis which had already showed possible process improvements. BI has a process implemented for IBT that goes back as far as the 1990’s. No optimization has taken place these last years and the employee involved will reach her pensionable age shortly, making this an ideal show-case for an innovative procurement process. The scope involves some 450 tickets annually of which 90% have an EU destination. Minor services such as hotels and train tickets are also included. Total value of the services and travel costs combined are approximately € 375K per year, (based on previous months) including management fees for the travel agent. A special project team was created to do the selection and shown the full presentation on BVP PIPS. This team included a Senior Buyer, the current Travel Coordinator, an employee of the Group Travel department and a frequent traveller. The author was the Contracting Officer of the project.

Procurement process

A short market survey led to a selection of 5 potential suppliers, who were invited for an educational meeting at BI on November 12th, 2009. Upon arrival of all parties, one could feel some tension in the room. Despite the explanation upfront, parties were not used to entering a selection process plenary; seeing and knowing each competitor was a very different experience.

At the opening of the session, the Contracting Officer explained to all that the BVP method was also new for BI, which helped to break the ice a little and take away some tension for an unknown selection method. The theory of Best Value Procurement was explained. When asked their first impression, two of the suppliers confirmed they had some experience with selection based upon “value” for the Dutch government (EC-tender) based upon “Economically Most Favorable Offer” (in Dutch EMVI) where aspects beside price were taken into account (see also the paper of Van Leeuwen in this Special Issue).

Although all suppliers were enthusiastic, the project team was a little surprised that no questions were raised at the end. While this could mean the process was clearly understood, a more probably explanation is that questions about the method and procedure would surface after additional thought and discussion. The suppliers did confirm, however, that they had never seen a method explained as clear and transparent.
According to the methodology, various criteria were used to evaluate the different proposals. The weights of the different criteria that were used were as follows in Table 1:

Table 1

| Proposal Criteria | Weights |
|-------------------|---------|
| RAVA              | 30%     |
| PPI               | 5%      |
| Interviews        | 30%     |
| Planning          | 5%      |
| Price             | 30%     |

The suppliers had until the 12pm on the 28th of November to submit their RAVA plan, a price, a plan and references (past performance). Although all of the suppliers seemed enthusiastic, two of them raised some questions during the preparation period. The first raised a number of detailed questions on the current process within BI. For the project team the goal was not to simply look at the current process but rather to identify the “best valued process” for BI from the proposals. The other supplier raised a question about details in our travel policy. The reply for this concern was that this would be relevant only in the pre-award phase, where this specific supplier would have an opportunity to influence or revise the travel policy. As previously suspected, these questions revealed a lack of complete understanding of the PIPS process.

BI had decided to incorporate filter 1 (Past Performance) into the proposal to be received during filter 2 (rating the RAVA plans & planning) and to make the references an integral part of the proposal, which would help to minimize the risk of an unjustified supplier being chosen. The combination of filter 1 and 2 into one step would save BI sometime in the process. The reference format was predetermined by BI and a maximum of 2 references (to be completed by their clients) was allowed per supplier.

Four proposals were received on time on Friday the 28th of November with one received late. After an internal discussion and check with the respective supplier, the BI team decided to accept this last late proposal anyway because BI is looking for the best (not only the most timely) supplier. Additionally, BI recognizes this is a new process for all involved, including the project team. All proposals contained a maximum of 7 pages (2 for references, 1 for price & planning and 4 for RAVA-plan), in accordance with the templates.

Evaluation and scoring forms were also prepared upfront to standardize the internal rating process. The price was known exclusively by the Contracting Officer and kept confidential. Individual scorings of the project team members on “planning” and “RAVA plans” had to be completed by the 18th of December, after which an average score for all suppliers was calculated. In this meeting the next step (the interviews) also was discussed.

Three suppliers really understood the principle and used the RAVA-plans to elaborate on the potential risks and opportunities, while two suppliers had a different approach. One of them explained in the cover letter that they could not really put their Unique Selling Points in our format and that they would be glad to explain verbally why they were supposed to be the best-in-
class”. This explanation is antithetical of the methodology of this format, which excludes “marketing-smooth-talk” and instead promotes plain and simple explanations of their values. This supplier scored far lower scores than the others and was excluded from further steps.

The other supplier submitting a different RAVA-plan explained in rather “general” terms that they were the best, had the best staff, the best systems and services and that they foresaw just one risk at that moment, which was a credit risk of BI paying them late. Because of their highly suitable references which were comparable to the BI business, the supplier scored average. The BI team decided to keep them in the race and invite them as the first supplier for the interviews (whereas the other three had the possibility to choose out of three timeslots).

Based upon the RAVA-plans the BI team prepared the questionnaires for all interviews. This questionnaire contained a list of questions, which would be raised in each interview, regardless of the position or supplier. Furthermore, some questions were supplier-specific because of issues found in their respective RAVA-plan. Obviously, this questionnaire was not disclosed to the suppliers until the interview itself. Interviews with two key persons were identified upfront, one to be with an account manager who would cover the general process of the contractual cooperation and sales options and another with a booker from within the team that would be assigned to BI to cover all details about the booking process itself.

Within the team it was quickly decided the lead interviewer would be the Senior Buyer involved. Not only did this person have the most experience with “talking” to suppliers, he has the “advantage” of being inexperienced in the field of (coordination of) travel bookings itself, making him an ideal interviewer to clarify the process. The BI-team decided also that the other three team-members (two people involved in bookings and one traveller) would be allowed to interfere when necessary on a specific topic. After a very brief introduction by the Contracting Officer on the interview set-up, the Contracting Officer wasn’t involved in the actual interview, instead watching the process, making notes, keeping the time and assisting and guiding the candidates about the logistics of the interview process.

All interviews went smoothly and did not take more than 30 minutes on average. Candidates were very frank and open in answering the questions, which confirmed to the BI-team the setting was “safe” enough, especially for those candidates who normally are not in direct (face-to-face) contact with their customers. Very open replies varied from “I was not involved in the RAVA-plan, I heard only 2 days ago I was supposed to join today” to “I would not use our option offered for a dedicated team (at an extra cost) because the rest within the team are just as quick or even quicker in answering all of your questions anyway.”

All scores were discussed in a meeting with the whole team on the 21st of January. Figure 1 shows all scores of all suppliers.

With regards to the planning criterion, the team decided that as long as the implementation would be proposed within a month, all suppliers would receive the same points, mainly because BI had no pressing deadline and plenty of time to choose and prepare for a possible switch of supplier. Proposals varied between two to four weeks implementation time, thus no dominant “distinctive” information was derived from this criterion.
It was surprising for the project team to discover that despite the different angles of the suppliers, the interview scores were quite similar. One of the suppliers was absolutely number 1 in the ranking. Numbers 2 and 3, although close to each other, were distinctly different from number 1. Supplier number 4 was also clear and unanimous.

The preferred “best value” supplier (without price effect) was clear and unanimous after all qualitative criteria. Including the price effect, this preferred supplier was still the best overall. Although at first not the cheapest, they remained clearly within the predetermined acceptable price variation of 10% (in fact: the best value vendor was 4.7% more expensive than the next vendor). This acceptable price variation was set up front to confirm to all suppliers that BI was indeed willing to choose the “best value” as long as this supplier would be within budget and not more than 10% more expensive then the cheapest supplier. When suppliers 1 and 2 of the ranking were both corrected on price (with a minor expected variable cost factor for excluded and difficult to calculate services) it was even clearer because the preferred “best value” supplier was now also the cheapest. Thus it became an easy choice, acceptable for all.

Based upon the total scoring model the BI team produced a so-called “selection advice”, a document sent for approval to the steering committee. This document closes the selection stage and asks for approval to enter into the contracting stage (i.e. pre-award phase). Once approved, discussions started with the selected “best value” supplier on commercial issues like the “contract”, the SLA and KPI’s, reporting, invoicing, etc. Also more practical topics have been discussed within the teams involved, such as the implementation plan, the communication plan, mutual contact persons, training of users for the On-line Booking Tool and an introduction of the supplier within BI to facilitate and smooth out the transfer of the IBT-services from one supplier (the current one) to the new one.
Potential savings are estimated at approximately € 85K for a 3-year contract, which is almost 70% savings compared to the original budget for the indirect services only, excluding actual ticket costs. Although one could say the budgeting was not very accurate, several people within BI confirmed this would be a fair budget. So in that sense, this method has proven to be not only a qualitative success (identify the “best value”) but also a commercial success.

**Pre-Award Period**

After the choice for the best value offer was made, that supplier moved on to the pre-award phase and was given some time to elaborate all the required details of the project. This was not to look for possibilities to charge extra costs, but merely to preparing themselves for a smooth and best possible implementation of the contract. In this stage, the supplier was also confronted with a list of all possible risks from the RAVA-plans (including those from other suppliers), for preparation. This stage has resulted in a Pre-Award document by the supplier as a basis for the contractual execution.

Another important topic in this stage is the actual drafting of the contract between parties involved. In accordance with the methodology, (and despite some fierce internal discussions), BI had chosen to allow the supplier to draft the contract document. Upon close examination of the contract, BI concluded that all major legal issues were appropriately covered. Although these issues were identified and described from the supplier’s perspective, this contract was deemed acceptable for the relationship. Here also, the initial reluctance to leave the drafting of the contract to the supplier has proven to be a more theoretical obstacle. In practice, the ‘best value’ supplier is also capable to draft a proper contract document, best describing the services agreed upon whilst taking into account mutual interest, risks and obligations.

Finally, a visit of BI personnel to the supplier’s premises has taken place to meet the respective booking team members of the supplier. This meeting covered both operational and commercial topics to be clarified before signing the contract to provide involved personnel of both parties a better understanding of the open points. For the Contracting Officer it was good to hear practical points on the booking process and for the booking teams it was good to hear where commercial or contractual issues lay. Instead of separating the commercial from the operational issues, the joint discussion helped to give all involved a better understanding of the intertwined aspects of the relationship.

These mutual talks between operational and contractual persons helped especially to maintain the feeling of a joint effort. Instead of operational staff talking about contractual staff (and vice versa), one could now immediately talk to the other stakeholder in the process.

**Results and Analysis of the Hypothesis**

The test was successful due to the following:
BI increased its value while simultaneously lowering the cost of the service with a saving of 70%, while improving value (more responsive, easier to use, less steps taken, improved usage of new technology, etc.). This is an outcome that could not have been reached when using a traditional procurement process.

The procurement function minimized the need for technical expertise of the procurement officer.

The time spent was lower than normal for the procurement agents. Although the other stakeholders in the pilot had to spend some more time (e.g. in interviews) than they were used to, their effort has helped to get buy-in and acceptance of the selected supplier.

Improved transparency to better align all parties involved in the supply chain. Internally, instead of a procurement “black-box” with an unexpected outcome, this selection process was very transparent to the internal stakeholders as well.

The structure of PIPS allowed non-technical participants in the supply chain to participate in the selection of the vendor, thus integrating the supply chain functions and making the performance of the vendor more transparent. Internal stakeholders were involved during the full selection and implementation process and all aligned in the final choice of the ‘best value’ supplier.

The use of the pre-award period was very successful. The steering committee was not required to make a final decision between contradictory requirements and interests of different stakeholders; instead everyone was aligned.

Allowing the vendor to write the contract did not increase the risk of the client.

The results of the BI travel services infer that:

- Procurement of services is not a technical issue.
- Risk can be transferred from the client to the vendor.
- Management, direction, and control can be minimized by minimizing technical decision-making and using dominant performance information.
- An environment can be created that forces vendors to improve value and performance through efficiency rather than cutting cost to meet minimum standards.

The results of this test give evidence that the best value PIPS concepts can be implemented in the delivery of services. This confirms the test results in the U.S. in non-construction areas. This test of procuring Individual Business Travel also shows the potential value of the pre-award period, and in allowing the vendor to define their own contract.

**Conclusion and Further Implementation at Boehringer Ingelheim**

The BVP PIPS test to deliver travel services increased value and performance and minimized the cost of the service. The process also:

- Increased transparency.
- Allowed participants in the supply chain to participate.
- Minimized the need for technical expertise of the procurement officer and the selection group.
- Measured the vendor in terms of performance and price.
- Transferred the risk and accountability to the vendor.

Due to the above results, the authors propose that the best value PIPS process has great potential to increase the value and performance in the delivery of other services. The authors also recommend the use of the pre-award period and to have the vendor write their own contract. In this way the need for the client/buyer to manage, direct, and control the vendor is minimized. These test results confirm that the results from the U.S. can be duplicated.

BI is currently expanding the use and testing of best value PIPS in other areas. The success of this first pilot project on IBT has resulted in BI now starting more BVP projects, in areas such as corporate training (for HR), highly specialized temporary project staff (for the Medical division) and possibly also for Point of Sale materials (for the Marketing and Sales division). These projects have already started and again the suppliers and internal stakeholders involved all appear to be very enthusiastic about the methodology. With an accumulated spend value of approximately 2.2M€ these projects have a direct impact to BI’s business in the Netherlands, not only with regards to its indirect processes (IBT and training) but also, (and therefore all the more interesting for professional procurement) within its core business processes (execution of medical studies by means of specialized external project expertise and the co-design and supply of Sales materials).

More and more people within BI are getting introduced to the methodology of BVP. Pending the final results of such tenders/projects, BVP is expected to become a standard procurement tool used to further professionalize BI’s procurement function and thereby contribute directly to bottom-line results. Because of its innovative method and support to the business goals of BI, the BVP methodology will enable procurement to grow from an operational/tactical level to a more strategic level within the business.

Finally, BI has to report its performance, goals and successes to Corporate Office. The BVP method will most probably be reported as an additional and powerful tool to support further professionalization of procurement within BI globally. Hopefully this will lead to further opportunities for the Dutch procurement team to present or show the methodology and results achieved in an international BI setting.

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