Jack Stout

INTERFACE

Contract Competition

Is Your Company Ready?

I recently had the sad duty to inform a well-established and reputable ambulance company that its credentials failed to meet minimum bidder qualifications. It was obvious from the company's reaction, and from the extensive work they had done preparing their bid, that they truly wanted to compete. The owners were upset, perhaps even offended. How was it possible that such an experienced and stable provider of both BLS and paramedic services could be found lacking in organizational credentials?

To understand what happened, and to make sure it doesn't happen to your company, you must learn to see an ambulance service contract from the other side of the deal—from the viewpoints of the city manager, the city attorney, the city comptroller and the elected officials (and their campaign managers). These men and women will be held politically, and perhaps even legally, responsible for the success or failure of the ambulance system they decide to install. The ambulance contractor's performance within that system, though certainly not the only determining factor, is essential to success.

No activity of local government generates as much press interest and controversy as does a proposed change in the ambulance system. Politically, it's high risk business. And as governmental officials learn more about our industry, and many are learning, you can expect to see tougher standards of bidder qualifications, *especially track record requirements.*

Jack Stout has been at the forefront of innovation in the design and implementation of EMS systems for the past dozen years.

If you have a question, a problem, or a solution related to the public/private interface in prehospital care, address your letter to: "Interface" ***jems****, P.O. Box 1026, Solana Beach, CA 92075.*

But I've Got a Right To Bid!

No you don't. You have no "right" to realize your business expectations. And you can be "discriminated against" in favor of more qualified companies. For years, government agencies have offered price advantages to local firms, and while such practices may be "unfair" to other firms, they are perfectly legal.

Cities and counties may establish bidder qualifications as they see fit, and may disqualify bidders who fail to meet those standards. When disputes occur over bidder qualifications, it is usually because the buyer waited to evaluate bidder qualifications until *after* finding out who submitted low bid. Such disputes can usually be avoided by deciding who is qualified to bid *before* price offerings are submitted.

In any case, keep in mind that most governmental buyers of ambulance services will not and should not hire any company that cannot demonstrate adequate financial strength, organizational stability, a solid reputation for honest and humane business practices, management bench strength and a general ability to handle the expansion in question, and above all an *analogous* track record in paramedic service delivery.

Let's Hear Your Excuse

To see the situation from the buyer's point of view, imagine you are the city manager who has recommended a privately operated paramedic system to your own city council. Imagine further that the decision to "go private" was controversial, met with vivid predications of private sector ripoffs, low wages, high turnover, poor clinical performance, bad response times, especially in minority neighborhoods, and an eventual collapse that will leave the city holding the bag (i.e. the standard arguments against private paramedic service).

Mostly on the strength of your assurances that the privatized system will work, the city council votes the system in. The system is established, a contract is awarded, and after a brief honeymoon between the local press and the new contractor, something goes wrong. Imagine you're the city manager, and try these scenarios on for size.

Scene 1: About a year after contract award, the contractor informs you that unless you are able to increase subsidy, by Friday, he can't make payroll. He admits his company simply bit off too much, starting with too little working capital to handle the expansion. They have tried everything, including personal loan guarantees, but time has run out. Imagine how you'll present the emergency request for funding at a public meeting of the city council. When the council asks how this could have happened, try mumbling something about how you required a performance bond.

Scene 2: Several months into the new contract, the husband of the senior editor of your local newspaper has a heart attack and dies. Though your local 9-1-1 number was called, a neighboring provider responded by mutual aid agreement, and response time was poor. Reporters discover that several paramedic units were on duty, but assigned to runs, including some mutual aid and even non-emergency calls. Furthermore, reporters learn that such occurrences are normal due to poor system status management practices. Your contractor says he is trying to learn system status management, and that he had thought it would be easy. He's sorry, too. Imagine explaining to your employers that you thought the contractor already had such expertise since the company had been in the "ambulance business" for over 20 years.

Scene 3: After a stormy system implementation, during which you were lavish in your praise of the private sector, things settle down and you finally relax. But midway through the contract a group of firefighter first responders releases a report claiming clinical incompetence on the part of many of the contractor's paramedics. The report also details equipment deficiencies, dispatching errors and poor control of on-board supply inventories.

At first you suspect it's just sour grapes. The fire department wanted the job. To clear things up you commission an independent evaluation of the charges. Imagine your dismay when the consultant report mostly confirms the firefighters' report. You check with the contractor only to learn that there has been an almost complete turnover of personnel since takeover, and that he can't train new medics fully before they are needed on the streets. Many don't know local medical protocols and aren't fully familiar with local equipment. He has all but stopped replacing equipment because the contract's nearly over and there isn't time to amortize new equipment. He'll look into the inventory control problem. If you could extend his contract, perhaps with slight increase in subsidy, maybe he could. . . .

Image explaining to your employers how it happened that, on the strength of your recommendation, long-term damage has been done to the paramedic system. Imagine choosing between a high-priced contract extension with your clearly unqualified contractor vs. an even more embarrassing and expensive "contractor-ectomy." More importantly, imagine who you'll manage to blame for all this when you are interviewing for the job of assistant city manager in Poduck, Utah.

These scenarios, and worse, have happened in cities and counties throughout the nation. Increasingly, city and county officials are coming to understand that, while a well-structured private system with a good operator can far out-perform the best of the socialized systems on a dollar-for-service basis, the political risks are high and the pitfalls are many. If you can put yourself in the position of the responsible local official, you will quickly see why you can expect increasingly higher standards of bidder qualifications.

Getting Your Company Ready

Last month we discussed how a private provider should go about evaluating a contract expansion opportunity. Knowing what not to bid on will eventually separate this industry's winners from its losers.

But anticipating what smart buyers will be looking for in bidder credentials is nearly as important as being able to tell smart buyers from the kind that may drag you down with them. When that ideal contract comes up for bid, it may be too late to close your credential gap. Anticipate. Begin now to build the kind of corporate credentials that will qualify you to compete for the most desirable service contracts. Besides building in a variety of powerful performance security, lame duck and emergency takeover provisions, my municipal clients take the position that the actual use of such provisions is probably an admission that the contractor selection process failed. My clients simultaneously prepare for the possibility of contractor failure, and take every possible step to see that the contractor does not fail. The most important of these steps is the establishment of five types of minimum bidder qualifications.

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1. *Financial Strength.* From my own experience reviewing bids for numerous cities, it seems financial criteria are the easiest to meet.

Given that fact, it is somewhat surprising that so many bid proposals focus upon financial credentials to the near exclusion of other issues. Perhaps many of you believe your competitors are going broke. For the most part, they aren't.

The amount of financial strength required is, of course, related to the size of the contract in question. Try to be realistic in matching your aspirations to your balance sheet, or perhaps more importantly, your income statement. There are no firm rules of financial stability, but, in general, smart buyers get nervous if your landing their contract would double your gross sales, if your available working capital is less than 200 percent of your own estimated start-up costs, excluding capital equipment, or if your reserve borrowing power would be nearly eaten up if you got the contract.

In general, don't expect a smart buyer to give you a shot at a contract that would double or triple your gross sales, unless your analogous track record (discussed below) is as strong as goat's breath and you've got a sugar daddy willing to bail you out of a temporary financial bind if things don't go exactly as planned.

On the other hand, if your company is small but can demonstrate an air-tight analogous track record, start now to develop your financial backing, rather than wait until you're in the middle of a battle with the big guys. A small ambulance company that can demonstrate high-performance production expertise should have less trouble securing financial backing for expansion than a much larger provider of traditional ambulance services.

2. *Organizational Stability.* Again, there are no firm rules for demonstrating organizational stability. Even having been in business for 20 or 30 years, by itself, isn't enough. Financial stability, of course, contributes to organizational stability, but there's more to it than that.

Smart buyers get nervous if they find out that your company's two biggest contracts are about to expire within a few months of each other, and that your chances of renewal are 50/50. They get nervous if your best-credentialled line managers have just been hired, or worse, if you intend to hire them upon award of the contract.

Ideally, the company has several years of providing paramedic services to the same communities, and those communities are clearly happy with the service they have received; the company's best-credentialled line managers have been with the company for several years; the company's service areas are diverse enough that loss of any one or two contracts or franchises wouldn't create a financial crisis; and the company's financial situation is such that if problems should develop with the new contract, the company would have the resources and will to spend its way out of those problems at its own expense.

Few ambulance companies can demonstrate the kind of organizational stability described in the paragraph above. But by understanding what smart buyers are looking for you can take steps now that will deliberately move your company closer and closer to that ideal position.

3. *Reputation.* Your company may have what you feel is a good business reputation, and yet that reputation may be irrelevant to a smart

buyer of paramedic services. You pay your bills on time. You pass every Medicare audit easily. The owners have no criminal records. You even chair the United Way campaign, are active in the Jaycees, and have been a deacon of your church since before you were born. Nice, but nowhere near enough.

You are asking the buyer to entrust your company literally with the lives of its citizens. This is not a contract for garbage pickup or cable TV service. A mistake in contractor selection, even if corrected later, may actually kill someone, perhaps several. Conventional contractor screening processes and performance security provisions don't go far enough in this business, because the damage done by a mistake cannot be restored. The *cause* of damage can be corrected, but not the damage itself.

What sort of reputation is the smart buyer looking for? Does your company have the reputation of recruiting the best field personnel in the industry, or do you hire the first applicant off the street who meets minimum licensure requirements and will work at your rate of pay? Does your coordinator of in-service training publish regularly in the industry trade journals and often speak to industry groups, or do you rely entirely upon some local training program to meet your in-service training needs, perhaps free of charge?

Is your maintenance program not only respected by your own field personnel, but recognized by your competitors as worthy of imitation? Is a third of your employee handbook devoted to improving your collection rate, or are collection issues relegated primarily to clerical personnel? Is your company known for using state-of-the-art equipment, or does your work force have to destroy a piece of gear to get it replaced? Is your response time and service to the poorest minority neighborhoods equal to that which you provide to your banker's part of town? I could easily go on, but you get the idea.

A stack of glowing letters from community leaders, creditors, and local physicians should be included, but by themselves aren't nearly enough to establish the truth of your reputation. Smart buyers will check you out on all of the points discussed above, whether you assist in that effort or not. In fact, if you can't withstand such scrutiny, you may be better off not to bid, for in the process of checking you out, the buyer's representatives may inadvertently teach your present clients things you'd rather they didn't know.

4. *Bench Strength and Capacity.* This one's pretty obvious, but is often overlooked by inexperienced buyers. At this early stage of our industry's development, only a precious few privately operated paramedic services can demonstrate true high performance production capability. (See "Stout's Standards of Excellence," January 1983 *jems.*)

This lack of widespread capability is mostly due to the fact that only a few large cities have learned to create system structures that will allow a good paramedic provider the opportunity to develop and demonstrate real performance capabilities. But whatever the reason, a relatively small number of people possess proven line management capability in the delivery of the kind of system performance that is usually the subject of a smart buyer's procurement.

Smart buyers know that and aren't comforted by bidders' assurances that they will "recruit qualified key personnel after award of the contract." In general, if you intend to expand by bidding successfully on high performance service contracts offered by smart buyers, you'll probably have to groom your own future key personnel in-house.

Of course, this implies that you hire bright and motivated personnel for field positions in the first place, so you'll have some real raw material to work with. It also implies low turnover, at least among those with management potential. And it implies that you have managers qualified to train others, and at least one existing operation good enough to serve as an example of how things ought to be done. And that brings us to the last and most important credential of all—an analogous track record.

5. *Analogous Track Record.* So you've "been in the business for 20 years." Maybe you even "learned it" from your dad. Your company has hauled over 200,000 patients in the last 20 years, and according to your records, none have ever died while

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Easy. Most of the experience you've got is irrelevant, or worse. Some of the same operating practices (e.g. dispatching methods, staffing patterns, maintenance procedures, record keeping systems, etc.) that made you successful in the old ambulance industry are irrelevant or even counterproductive in the new ambulance industry.

Smart buyers insist upon an *analogous track record* before they'll even look at your bid. And if you declare that you don't have such a track record, but can easily develop or hire the required expertise, they know for certain you don't know what you're talking about. Nothing is as dangerous as a contractor that underestimates both the complexity of the job and the abilities of those competitors who have done it successfully.

In the case of a full-service paramedic contract, an analogous track record is easy to define. You'll have to demonstrate that your company has delivered clinically sophisticated paramedic services, with response time reliability similar to that which will be required by the buyer, to a defined population, and that you have been the *primary* emergency provider for that population, and except for occasional mutual aid support, have been held exclusively responsible for serving those people.

What won't fly? Delivering a combination of BLS and paramedic emergency services, if what the buyer wants is 100 percent paramedic emergency work; saying you back-up non-transporting fire department paramedic first responders, but that you are almost always there on time; saying that you operate in a multiple provider system which allows you to refuse calls when you're unable to respond, but that for the calls you accept you're almost always on time. In each of these cases the provider is unable to offer any solid evidence of ability to perform under the far more stringent requirements of a full-service paramedic contract.

Owners of the disqualified company mentioned at the beginning of this article complained that, in the region where they currently operate, local governments rely mostly upon fire departments for primary ambulance services. The owners argued that, under those conditions, it is impossible for the company to develop and demonstrate an "analogous track record."

The owners are right. To develop an analogous track record they will probably have to move outside their present service area. (That's what I meant in last month's Interface column when I warned against being in the wrong places at the wrong times.) Most likely they'll have to buy out a smaller provider who already provides primary ambulance service to a community of at least 80,000 to 100,000 people, preferably larger. And then furnish that community with gold-plated paramedic service whether they appreciate it or not. You've got to start somewhere.

But It's My Money At Risk

I've heard it more than once. An admittedly unqualified company is well financed, willing to risk the working capital, willing to put up performance security, even willing to lose money buying the talent necessary for success. When disqualified, the act is though their inalienable rights as American businessmen have been violated.

Perhaps if we were talking about contracting for the city's parking lot concession they would have a point. But we aren't and they don't. City officials may be willing to let them risk their money in pursuit of new business opportunities, but they cannot be allowed to risk citizens' lives.

Years ago, my father would take me with him to the racetrack in Omaha. In checking out the horses before betting, he would always look for past performance, among other things. He told me, "Son, just because a horse has run fast before doesn't mean he'll run fast today. But at least we know he *can* run." An analogous track record is the closest thing to a guarantee of successful performance. Without it, your company presents an unreasonable and unnecessary risk to the community. □

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