

You Get What You Pay For

Reforming Procurement Systems in Naperville, IL

Educator Guide

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Overview

This Educator Guide is designed to assist instructors in teaching this case to students and practitioners. It is based on [case pedagogy](#), which invites participants to put themselves in the shoes of the protagonist(s) of the case and imagine how they would respond to the circumstances. Participants should read the teaching case in advance and identify key issues as a preliminary step toward meeting the learning objectives. Instructors may then use the time in the classroom to guide participants in exploring the issues and examining the challenges in the case; to introduce key concepts, tools, and frameworks; and to assist participants in applying their learning to their own environments and challenges.

This guide includes learning objectives, a synopsis, key questions, a roadmap for discussion, and appendices with additional pedagogical information and theoretical applications. The roadmap and appendices are offered to initiate meaningful conversation but are by no means the only way to teach the case. Each educator or facilitator should feel free to design their own teaching plans; both the structure and the time allotted for each component are suggestions.

Learning Objectives

This case, “You Get What Your Pay For: Reforming Procurement Systems in Naperville, IL,” will help students and city leaders:

- Analyze the benefits and drawbacks of distributive and interest-based, integrative negotiation in the city government context.
- Examine the role of process changes in shaping negotiation outcomes.

Case Synopsis

Naperville, Illinois is a suburb of approximately 150,000 people in the Chicago metropolitan area. Traditionally, the City focused on price for all procurement negotiations, but it often had few vendors applying for key contracts and struggled to negotiate on both price and quality.

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Naperville's original procurement process was called Quality-Adjusted Cost (QAC). This process sought to simplify a myriad of concerns and variables (including price, quality, timeline, and scope, among others) into a single metric, so that the City could easily and objectively evaluate bids. Although QAC attempted to incorporate quality into the evaluation, there were instances when it seemed the best vendor was not selected.

In an effort to improve the quality of City services, Naperville adopted a new procurement approach called "Cost as a Component." This revamped process allowed the City to negotiate with vendors on more than just price for technology upgrades and aimed to ensure long-term partnerships with relevant firms, creating value for both vendors and the City. This case illustrates the trade-offs between QAC and "Cost as a Component" for Naperville and prompts participants to apply negotiation concepts to the broader process of city procurement.

Key Questions

1. What were Naperville's goals in choosing a technology services vendor?
2. How did Naperville's new "Cost as a Component" process change the City's target and reservation points, available alternatives, and Zone Of Possible Agreement from the status quo?
3. Did the Naperville IT support services contract best lend itself to distributive or integrative negotiation?
4. How did shifting Naperville's procurement process away from the table and back to the drawing board shape outcomes at the table?

Roadmap for Discussion

Introduction (5-10 minutes): Briefly state the goal of the session in reference to the case, cite specific major conflicts facing the protagonist, and foreshadow broader learning objectives.

Exploration (20-30 minutes): Use class discussion, "buzz groups," and board work to examine the issues and options confronting the protagonist.

Diagnosis (30 minutes): Introduce key concepts, frameworks, and tools to help participants pinpoint possible solutions to major conflicts in the case.

Application (15 minutes, optional): Ask participants to relate the concepts and frameworks to their own organizations' challenges.

Wrap-Up and Takeaways (15 minutes): Review the learning objectives and discuss insights most relevant to your organizations' challenges.

Introduction (5-10 minutes):

In your introductory remarks, briefly describe the case and frame the primary subject of the session: applying and analyzing introductory negotiation concepts of distributive and integrative negotiation to the city government context. Participants with a background in city government may be tempted to turn this into a discussion of procurement reform. Remind them that the focus is on negotiation concepts applied to a city context, with procurement as the scenario for analysis.

Exploration (20-30 minutes):

Divide the class into three- to four-person groups to address the questions below:

- *What was the story in this case? What problem was Schmidt trying to solve?*
- *Who were the key stakeholders? What were the key considerations?*
- *Define distributive and integrative negotiation.* (See Appendix 2, Board Plan 1.)
 - If participants have also discussed the case “In the Weeds: Securing a Grass Mowing Contract in Stockton, CA,” clarify the differences in how this case considers “distributive negotiation.” While QAC does incorporate factors other than price, participants will analyze the process as a distributive negotiation since decisions are ultimately made using a rigid, calculated metric that incorporates quality metrics but places significant weight on price.
- *What was QAC? Specifically, what was good about it, and what was holding Naperville back? What was “Cost as a Component”? Specifically, what was good about it, and what was holding Naperville back?* (See Appendix 2, Board Plan 2.)
 - Half of the groups should discuss QAC and half should discuss “Cost as a Component.”
 - Remind participants that Appendix 1 and Appendix 2 provide additional detail about the QAC and “Cost as a Component” processes, respectively. They may want to use the appendices to inform their analysis.

Diagnosis (30 minutes)

In small groups or plenary, have participants go deeper into the case’s key concepts and frameworks and apply those tools to pinpoint possible solutions. Suggested questions:

- *What aspects of the QAC process prevented good agreements?*
- *Looking at the “Cost as a Component” approach, how did the process change how Naperville prepared for and conducted contract negotiations?*
- *The case ends with a question about two projects (EPA certification and traffic calming) for which Kim Schmidt and her team were considering putting out RFPs. In small groups, consider one of the projects. Which procurement process would you advise Schmidt to use, and why?*

Application (15 minutes–optional)

Have students work in groups or in plenary to apply the concepts and frameworks to their own organization’s challenges. Suggested questions:

- *There are pros and cons to using both distributive and integrative negotiation approaches. However, we often assume that things are simply distributive when the situation is more*

complex than that. Can you think of a time when you have been forced to use a distributive model where it was not appropriate?

- *What opportunities are there in city government to reassess whether a distributive or integrative model would be most useful? What are barriers to changing the way cities approach these negotiations?*

Wrap-up and Takeaways (15 minutes)

Discuss insights most relevant to participants' organizations' challenges. Some sample, high-level takeaways to review after a productive session may include:

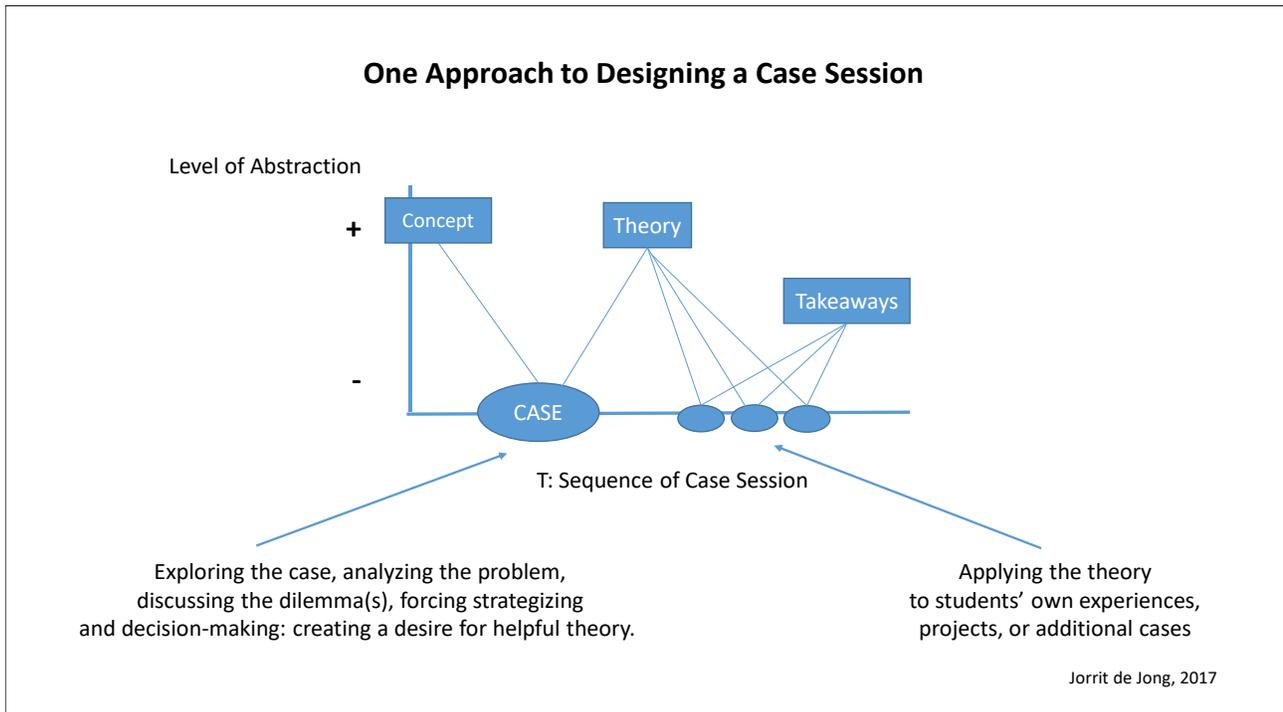
- There are scenarios where a distributive negotiation is the best approach. This typically occurs when there are simple transactions, low stakes, and one-shot deals.
- There are scenarios where a negotiation approach akin to "Cost as a Component" is more strategic. This typically occurs when there are areas for mutual gain between counterparts (opportunities to "expand the pie" or "create value") or when negotiations are higher stakes, multi-party, and relationships matter.
- Advance preparation and process considerations that structure a negotiation "away from the table" shape outcomes "at the table."

Suggested Reading

- *3-D Negotiation*
David A. Lax and James K. Sebenius, *3-D Negotiation: Powerful Tools to Change the Game in Your Most Important Deals* (Boston: Harvard Business School Press, 2006).
- *Dealmaking* (See part I)
Guhan Subramanian, *Dealmaking: The New Strategy of Negotiations* (New York: W.W. Norton & Company, 2010).
- *Negotiating Rationally*
Max Bazerman and Margaret Neale, *Negotiating Rationally* (New York: The Free Press, 1992).
- "Characteristics in Distributive and Integrative Negotiation"
Bruce Barry and Raymond A. Friedman, "Bargainer Characteristics in Distributive and Integrative Negotiation," *Journal of Personality and Social Psychology*, Vol. 74, No. 2 (1998): 345-359. DOI: 0022-3514/98/.
- "Good For You, Great For Me"
Lawrence Susskind and Mark Raffan. "Good For You, Great For Me," 2019, in *Negotiations Ninja*, podcast, <http://www.negotiations.ninja/podcast/good-for-you-great-for-me/>.

Appendices

Appendix 1 Designing a Case Session



Source: de Jong, Jorrit, "One Approach to Designing a Case Session," *Bloomberg Harvard City Leadership Initiative*, 2017.

Appendix 2 Board Plan

Board 1: Distributive vs. Integrative Negotiation

	Positional Bargaining / Distributive Negotiation	Interest-Based Bargaining / Integrative Negotiation
Key Characteristics	<ul style="list-style-type: none"> - Win-Lose frame - Divide the pie - Typically open with extreme positions, then gradually meet in the middle 	<ul style="list-style-type: none"> - Focus on areas for mutual gain - Expand the pie - Create value before you claim value
Pros	<ul style="list-style-type: none"> - Quick/efficient - Requires little prep 	Explores interests, avoids arbitrary outcomes, maintains relationship, promotes joint gains
Cons	Rewards bad behavior, discourages creativity, risks relationship damage	Requires preparation, takes longer, may require more skill, requires creativity
Best used in situations when...	Simple transactions, low stakes, one-shot deals	High stakes, multi-party, when relationships matter

Under what conditions do you recommend distributive versus integrative approaches in city government?

Board 2: Applying to Naperville’s Procurement Processes

	Positional Bargaining / Distributive Negotiation	Interest-Based Bargaining / Integrative Negotiation
In the Naperville case	QAC	“Cost as a Component”
Benefits in Naperville case	Ensures low contract price for city and taxpayer, more flexibility for cities to engage vendors for different work orders	Incentivizes city cultivating relationship with vendor(s), focuses on more variables than price alone
Drawbacks in Naperville case	May strain relationships with vendors, may be open to only larger vendors	May take too long for Naperville or may undermine their flexibility to choose different vendors

Appendix 3 Evaluate Core Negotiation Dynamics Using a 3-Dimensional Framework

[Optional: integrate this case with “In the Weeds: Securing a Grass-Mowing Contract in Stockton, CA.”]

For those with an understanding of the “3-D Framework” of Negotiation (Lax and Sebenius), this optional teaching plan applies negotiation fundamental concepts (BATNA, ZOPA, Target Point, Reservation Point) to Lax and Sebenius’s “3-D Framework.”

	Aspirational Negotiation Dynamics	Stockton	Naperville
Preparation and Set Up (“Away from the table”)	<p>Ensure the right scope (parties, issues, and no-deal options)</p> <p>Sequencing</p> <p>Deal architecture and basic process choices</p>	<p>Did not creatively solicit vendors</p> <p>Timing of contract vis-à-vis others was haphazard</p> <p>Deal architecture deals with constraints of LRFP, Stockton City Leaders do not manage</p>	<p>Used transparent process and advanced communication to increase vendors</p> <p>Three-stage sequence ensured baseline vendor qualifications</p> <p>Parallel work-order negotiations in stage 3 allows value to be claimed throughout</p>
Design of process (“On the drawing board”)	<p>Invent and structure value-creating agreements</p> <p>Values, substance, and outcomes</p>	<p>Pairing down scope allowed for an agreement better than City’s BATNA</p> <p>Outcome poor for city services, city residents, though good for long-term fiscal health</p>	<p>Deal reached involved local attention, high vendor quality, and follow-through, and streamlined evaluation process for procurement staff</p> <p>Process gave city <i>fantastic</i> value, and vendors acceptable value</p>
Moves to solve problems and claim value (“At the table”)	<p>Improve communication and build trust</p> <p>Counter hardball tactics</p> <p>Culture (i.e. cross-sectoral)</p>	<p>New flexibility between vendors and city discovered</p> <p>Did not counter hardball tactics</p> <p>Cultural barriers remain</p>	<p>Naperville now seen as communicative, trustworthy, transparent</p> <p>Countered hardball tactics</p> <p>Broke down perceptions of public sector, seen as nimble</p>

Source: David Lax and James Sebenius. *3-D Negotiation: Powerful Tools to Change the Game in Your Most Important Deals*. Cambridge: Harvard Business Review Press, 2006.

Endnotes

Bruce Barry and Raymond A. Friedman, "Bargainer Characteristics in Distributive and Integrative Negotiation," *Journal of Personality and Social Psychology*, Vol. 74, No. 2 (1998): 345-359. DOI: 0022-3514/98/.

Max Bazerman and Margaret Neale, *Negotiating Rationally* (New York: The Free Press, 1992).

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Robert H. Mnookin and Lawrence E. Susskind, *Negotiating on Behalf of Others: Advice to Lawyers, Business Executives, Sports Agents, Diplomats, Politicians, and Everybody Else* (Thousand Oaks, California: Sage Publications, Inc., 1999).

Mark Moore, *Creating Public Value: Strategic Management in Government* (Cambridge: Harvard University Press, 1995).

Bruce M. Patton, "The Seven Elements of Negotiation," in *The Handbook of Dispute Resolution*, ed. Michael L. Moffitt and Robert C. Bordone (Jossey-Bass Publishing, August 2005).

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Lawrence Susskind and Mark Raffan. "Good For You, Great For Me," 2019, in *Negotiations Ninja*, podcast, <http://www.negotiations.ninja/podcast/good-for-you-great-for-me/>.

Leigh Thompson, *The Mind and Heart of the Negotiator: Fourth Edition* (Upper Saddle River, New Jersey: Prentice Hall, 2001).