



Indiana State Library Courier Services

EXECUTIVE SUMMARY

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Executive Summary



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Indiana Department of Administration
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Procurement Division:

Almost every public and private organization across the marketplace today is struggling to secure the best value for products and services, while maintaining high quality to ensure customer satisfaction. In the case of vendor outsourcing services, choosing the right partner is the critical first step in finding the best value and lowest risk solution.

The right partner for the Indiana State Library will be the company that can provide the best fit of people, process, and technology to support their mission, goals, and objectives. Pillow Logistics has a proven track record of providing this service.

Founded in 1988, Pillow Express Logistics is an award-winning logistics and staffing company headquartered in Indianapolis, IN. Pillow Logistics has been nationally recognized in the *Harvard Business Review* as a pioneer in government outsourcing. Pillow Logistics provides same day courier services, warehouse logistics, and mailroom fulfillment services.

We appreciate the opportunity to showcase our ability and know that our team will provide the best fit of people, process, and technology to ensure the continuity of services.

Respectfully submitted

George Pillow

George Pillow
President
Pillow Express Logistics

I. Summary of Ability and Desire to Supply the Required Products or Services

Requirement	Vendor Experience
<p>Approximately three hundred fifty (350) drop-sites are currently served by a single contract using the service of a single vendor.</p>	<p>Pillow services clients all 92 counties in Indiana from its hubs in Indianapolis and Louisville, KY.</p> <p>Pillow will provide the Indiana State Library same day and next day distribution based on its requirements.</p>
<p>On average, the courier will make eight hundred eighty-three (883) stops per week.</p>	<p>With almost 35 years of courier experience, Pillow delivers over 1,000 routed and on demand stops each day.</p> <p>Pillow will provide 100% on time delivery of all Indiana State Library locations.</p>
<p>The courier delivers materials to drop-sites in public, academic, school, institutional and special libraries.</p> <p>Libraries should be visited on the schedule every week.</p> <p>Libraries may have materials to be picked up as well as any materials that may need to be delivered to the library</p>	<p>Pillow Logistics has an active list of education and institutional clients. Pillow provides daily logistics to all campuses of the s Indianapolis Public Schools, Indiana University Bloomington, and Purdue University to name a few.</p> <p>Pillow provides on campus and inter office logistics and will provide its expertise to the Indiana State Library</p>
<p>Pick up times are set to be between 8 AM-5PM Monday through Friday; however, some libraries are not open during these hours and other arrangements need to be made.</p>	<p>Pillow Logistics utilizes state of the art dispatch software that will pre-plan routes based on volume of product, distance, and delivery constraints for on time delivery.</p>
<p>The current system, is a distributed system where items are picked up from the libraries daily, depending on the subscribed schedule, and taken to a geographically appropriate hub where all materials are sorted for redistribution throughout the state</p> <p>Items picked up from one library arrive at the hub the same day and are expected to be on the way to the next stop on the next business day.</p>	<p>Pillow’s hubs include a 20,000 sq. ft warehouse sorting facility in Indianapolis and a 10,000 sq ft facility in Louisville.</p> <p>Pillow is an industry veteran in sort, seg and route distribution. Pillow provides conveyer belt sorting for a retail client with next day statewide delivery.</p> <p>Pillow will use its experience to provide next distribution with 99% accuracy for the Indiana State Library</p>

<p>The vendor must be insured and will accept responsibility for all lost or damaged materials</p>	<p>Pillow maintains cargo insurance and over a \$5 million umbrella policy. The Certificate of Insurance is included.</p>
<p>Couriers that transport library material must close and lock vehicle doors when not physically near the vehicle.</p> <p>The vehicles used to transport library material will be smoke free environments.</p>	<p>Pillow Logistics will provide criminal backgrounds and complete training to all couriers performing courier services for the State of Indiana State Library.</p> <p>All drivers will provide a smoke free vehicle.</p>
<p>Pricing should include all costs in the per stop figure provided in response to this request for proposals. There should not be an additional fee set for fuel or any other charges.</p> <p>Volume.</p>	<p>Pillow will provide a pricing model in the technical proposal that will be based per stop and inclusive of a fuel surcharge.</p>
<p>The volume of materials sent per drop-site varies, generally consistent with library schedules: Fall, Winter, and Spring are heavier than Summer; holiday periods and school breaks are relatively light. Approximately 692,000 packages were shipped in FY 2021-2022.</p> <p>.</p>	<p>Pillow understands the seasonality of the Indiana State Library and will provide appropriate staffing to ensure continuity of services.</p>
<p>Packaging. Materials are currently packaged in a variety of ways; most items are enclosed in reusable courier bags with clear windows (see Attachment N) for pre-printed labels. Others are sent in plain or padded envelopes or cardboard boxes (provided by the library). Labels. Packages are shipped with a standard label showing drop-site destination. The label includes a space for drop-site use and is individually barcoded (See Attachment L). The libraries will print the labels. Materials Shipped. Almost all items shipped are library materials such as but not limited to books, magazines, photocopies, DVDs, video and audiotapes, microfilm, and educational kits, etc. Occasionally oversize materials are shipped, such as folding displays</p>	<p>Pillow will maintain the continuity of packaging requirements and will work with Info Express and the State of Indiana Library to find the most optimal and economical means of packaging and labeling.</p> <p>Pillow supports technology with bar code readers and will provide full chain of custody on all items sorted at its warehouse facilities.</p>
<p>The selected service provider will provide all vehicles, personnel, equipment, tools, supplies, supervision and other items and services necessary to perform courier services for the library, other than reusable courier bags, plain or padded envelopes, cardboard boxes, and pre-printed labels.</p>	<p>If Pillow is chosen to be the sole provider of courier for the State of Indiana Library; Pillow will utilize its full resources; personnel, vehicles, and technology to perform the scope of work to the satisfaction of the State library.</p>

Principal Contact:

Matthew Straub
Executive Vice President
Pillow Logistics
mstraub@pillowlogistics.com
3024 Ridgeview Drive, Indianapolis, IN 46226
Office: 317-415-4000 Cell: 317-286-0733

Company: Pillow Express Delivery Inc.
FEIN: 35-1970900
Bidder ID: 0000002087
Org. Type: C- Corporation
NAICS: 492110

II. Signature of Authorized Representative



George Pillow
President
Pillow Express Delivery Inc.

III. Respondent Notification

Respondents' emails are included below. This requirement is understood.

- mstraub@pillowlogistics.com
- epillow@pillowlogistics.com



IV. Office of the Secretary of State

CERTIFICATE OF EXISTENCE

To Whom These Presents Come, Greeting:

I, HOLLI SULLIVAN, Secretary of State of Indiana, do hereby certify that I am, by virtue of the laws of the State of Indiana, the custodian of the corporate records and the proper official to execute this certificate.

I further certify that records of this office disclose that

PILLOW EXPRESS DELIVERY, INC.

duly filed the requisite documents to commence business activities under the laws of the State of Indiana on November 09, 1989 and was in existence or authorized to transact business in the State of Indiana on October 25, 2022.

I further certify this Domestic For-Profit Corporation has filed its most recent report required by Indiana law with the Secretary of State, or is not yet required to file such report, and that no notice of withdrawal, dissolution, or expiration has been filed or taken place. All fees, taxes, interest, and penalties owed to Indiana by the domestic or foreign entity and collected by the Secretary of State have been paid.



In Witness Whereof, I have caused to be affixed my signature and the seal of the State of Indiana, at the city of Indianapolis, October 25, 2022

A handwritten signature in cursive script that reads "Holli Sullivan".

HOLLI SULLIVAN
SECRETARY OF STATE

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All certificates should be validated here: <https://bsd.sos.in.gov/ValidateCertificate> Expires on November 24, 2022.

BUSINESS INFORMATION
HOLLI SULLIVAN
INDIANA SECRETARY OF STATE
10/25/2022 01:14 PM

**Business
Details**

Business Name: **PILLOW EXPRESS DELIVERY, INC.**

Business ID: **1989110370**

Entity Type: **Domestic For-Profit Corporation**

Business Status: **Active**

Creation Date: **11/09/1989**

Inactive Date:

Principal Office Address: **3024 Ridgeview Dr, Indianapolis, IN, 46226,
USA**

Expiration Date: **Perpetual**

Jurisdiction of Formation: **Indiana**

Business Entity Report Due

Date: **11/30/2023**

Years Due:

Governing Person Information

Title

Name

Address

President

George E Pillow III

3024 Ridgeview Dr., Indianapolis, IN, 46226, USA

CEO

George Pillow JR.

3024 Ridgeview Dr., Indianapolis, IN, 46226, USA

Registered Agent Information

Type: **Individual**

Name: **GEORGE PILLOW JR**

Address: **3024 Ridgeview Dr, Indianapolis, IN, 46226 - 0000, USA**

V. Other Information

Economics

Can Business Really Do Business with Government?

by Stephen Goldsmith

Harvard Business Review

From the Magazine (May–June 1997)

Over the past five or six years, the people managing municipal governments have grown increasingly eager to make their “machines” run more efficiently—that is, cheaper and better. Why? First, greater competition to attract businesses and home buyers is putting pressure on elected officials to hold the line on taxes. Second, the federal government is returning many responsibilities to local governments but giving them limited funds with which to fulfill those obligations. And third, citizens are demanding a higher level of customer service from government than ever before.

Indianapolis, Indiana, has been a part of the trend toward efficiency in government. Some might even suggest that it has been at the forefront. Since 1992, my administration has opened up more than 70 services to competitive bidding. We have reduced our operating budget by 7%, cut taxes twice, and reduced our non-public-safety workforce (everybody but police officers and firefighters) by 40%. Even as we have decreased the total budget, we have increased the public-safety budget by almost 20%; put 100 more police officers on the street; invested \$700 million to rebuild our roads, sewers, and other parts of the city’s infrastructure; and increased our budget reserves by more than 400%. Along the way, we have notched some successes, made our share of mistakes, and learned a great deal about the pitfalls and possibilities of making government work harder and smarter.

Surprisingly, however, the business community in general has been slow to grasp the significance of government’s move toward increased efficiency. Simply stated, abundant opportunities exist for businesses to help municipal governments lower costs and increase revenues. I will not try to tell you that this opportunity is easily harvested; it is old news that the government is a tough customer, largely because of politics and intransigent bureaucracies. But for companies willing to be pioneers on an expanding frontier, I offer seven guidelines on how to manage successfully what could be their next big market. And if Indianapolis is any indication, everyone—the citizenry, government, and business—will gain in this new kind of partnership.

A New Public-Private Connection: Why Now?

U.S. cities no longer compete against one another for businesses and residents. They compete against their suburbs, and they are losing badly. Most suburbs offer lower taxes, better schools, less crime, and fewer environmental risks than cities do. It should be

no surprise that many executives now choose beltway office parks instead of downtown locations for new development. Virtually every large older city has seen its population decline over the past 20 years.

Every time a resident moves out, every time a business relocates, every time a new business starts up in the suburbs, the central city loses a little bit of its tax base. This creates pressure to find other sources of revenue and increases the temptation to raise tax rates. It's an ugly downward spiral, and cities all across the country have succumbed.

Robert Inman, a professor of finance and economics at the University of Pennsylvania's Wharton School, describes the phenomenon in bleak terms. He argues that the households that leave the city as taxes rise are likely to be the wealthiest households. As jobs move out of town and average wages decline, falling incomes create additional pressure for local government services. Increasing demands for services and a falling tax base put more pressure on the city's deficit.

Public officials are only now recognizing that holding the line on taxes is more than a campaign slogan—it is an economic necessity. As they try to continue providing services without raising taxes, they also face the prospect of more responsibilities coming their way from Washington.

For 30 years, the cities' mayors and the federal government dealt with the problems of urban poverty in a perverse way. The mayors complained that their cities were in such poor shape that they needed federal subsidies in order to survive. Congress responded by creating huge, expensive entitlement programs and filling dozens of federal office buildings with bureaucrats to administer them. The federal bureaucrats reimbursed costs without holding local officials accountable for results, so the more poorly administered and inefficient the program, the greater the federal subsidy. In essence, state and local officials had limited accountability and unlimited money.

The 104th Congress began to change that system by giving responsibility for many programs to local officials and providing block grants to pay for them. Increasingly, programs such as welfare, Medicaid, and environmental cleanup must be managed—and paid for—by states and cities. The tables have now turned on local officials: they have maximum flexibility and limited money, and for the first time in decades they must be concerned about efficiency and performance.

Elected officials face another, more subtle change. Americans have always joked about their government's inefficiency: witness the debate over national health care, which, according to some pundits, would combine the efficiency of the post office with the compassion of the Internal Revenue Service. But there is an important issue here. Private enterprise and government share patrons. The customers of one are the voters for the other. As private organizations respond to customers' demands with more speed and precision, people will begin to expect better service from government as well.

Customers apply for bank loans at automated teller machines but still endure slow, one-size-fits-all service at the motor vehicles bureau. Construction companies order supplies over the Internet but still lose time and money waiting for permits at city hall. People can call 24-hour help lines at most service companies, but government is still strictly 9 to 5. Voters will tolerate some inefficiency and unresponsiveness from government, but their patience is wearing thin. They are demanding better value for their tax dollars from those they elect.

It is little wonder that making government more efficient is suddenly a top priority in city halls and statehouses around the country. We are talking about major change here—in attitudes and

aptitudes. Businesses can stand back and wait. Or they can participate and grab the gains that go along with the growing pains.

Making government more efficient is a top priority in city halls around the country. And businesses can do much to help.

If you give a fool lemons, the saying goes, he complains of their bitterness. The wise make lemonade instead. Municipal governments have done their share of complaining, but judging from the dozens of elected officials who visit Indianapolis each year eager to learn about our city's efficiency efforts and partnerships with business, most public-sector managers would rather make lemonade. To do that, they need the private sector's help and guidance.

Of the following seven guidelines, the first two illustrate how the private sector can create a climate—and thus an opportunity—for innovation within local governments. The next three describe different types of opportunities to improve government services and offer suggestions on how to make the sale. And the last two address some of the political hurdles of the new partnership between public and private.

Help Government Identify Its Business Units and Their Costs

When I took office in 1992, Indianapolis enjoyed a AAA bond rating and the slickest four-color financial reports of any city in the United States. The Government Finance Officers Association regularly gave us its Excellence in Financial Reporting award. Yet no one in city government could tell me how much it cost to fill a pothole, process a permit, or plow a mile of snow.

Like most city governments, ours did not think in terms of business units or costs. We used standard government accounting principles that prevented our managers from stealing money, but we did nothing to stop them from wasting it. We tracked the amount of money spent on salaries, equipment, capital investments, and professional service contracts but did not break down any of those costs by individual activities. As a direct result, city employees neither knew nor cared about their costs of doing business. As the leader of one street-repair crew told me about the old days, "We didn't give a hoot what anything cost."

In the past, city employees neither knew nor cared about the impact of their operations. As the leader of one street repair crew said, "We didn't give a hoot about what anything cost."

I entered office committed to the belief that Indianapolis could deliver better services at a lower cost by bidding out much of our work to the private sector. Governments are inefficient because they are monopolies, and I hoped that a good dose of free-market competition would allow the city to provide better services for less money, freeing up precious resources. But without a set of financial tools, we could not begin to launch such a process intelligently or judge its effectiveness. We needed to know what businesses we were in and how much we were spending.

We started by hiring the accounting firm KPMG Peat Marwick to assist us in moving to activity-based costing. KPMG consultants developed models for determining costs and trained our administrators in their use so that we could capture such data on our own. At the same time, we recruited nine of the most entrepreneurial members of the city's business community to serve on the

Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC). Their mandate was to identify every business that city government was in and find opportunities to open up services to competition. Supported by scores of volunteer lawyers, accountants, and M.B.A.'s, they rummaged through government, creating enormous pressure for action.

The immediate result was the elimination of several egregious cases of waste. When managers in our Department of Public Works analyzed their costs of picking up trash, for instance, they discovered that, over four years, they had spent \$252,000 on repairs to a garbage truck that sold new for \$90,000. The city garage, with a separate budget, maintained the truck and had no reason to care how much money it spent to fix the same truck. When we loaded in all the costs associated with it, we found that the truck was costing Indianapolis taxpayers \$39 per mile to operate.

Dozens of other cases surfaced. An employee of the Department of Parks and Recreation identified stacks of chalk to line softball fields that had been purchased at year's end by a buyer fearful of having his annual budget reduced if he had any money left over.

We owned enough chalk to line all the softball fields in the city for five years—even though we had recently switched to spray painting the lines!

While eliminating government waste is always good news and makes great headlines, good information about costs is important because it sets the stage for competition and privatization. After reviewing their newly developed cost information, employees from the Department of Public Works told me that it didn't make sense for them to pick up litter along city streets anymore. They presented a detailed business matrix showing that they should be involved in only two of the four activities they had analyzed. The workers concluded that their union wages were too high for them to be cost-effective at such a simple job as clearing litter from streets and that their inadequate equipment prevented them from being productive in installing roadside fencing.

However, the workers concluded that, because of their skills and specialized asphalt equipment, they could outperform anyone in filling potholes and sealing cracks. They proposed outsourcing litter removal and fencing so that they could concentrate on their core business of maintaining streets. Today those city employees repair streets for 25% less money than before, and private sector companies provide many of the services that city workers no longer perform. Once government has good information about costs, private businesses need not wait for exceptional public managers to identify opportunities. They can charge ahead and demonstrate their ability to provide services at remarkable savings to the municipality.

Consider Indianapolis's printing and copying business. Before 1993, the city spent \$1.4 million annually to run three print shops and operate more than 200 copiers. The print shops operated independently: each made its own decisions about personnel, purchased its own supplies, and maintained its own equipment. No coordination existed at all.

After we opened up our printing and copying to proposals from the private sector, we reduced our costs by \$400,000 per year, or nearly 30%. The winning vendor, Pitney Bowes Management Services, consolidated the print shops into one copy center. It established 120 drop-off locations throughout city offices for large orders. Today 78% of all the city's copying is done by the Pitney Bowes center, producing additional savings in clerical and secretarial time. Pitney Bowes generated further unexpected savings when it offered its expertise in helping us conduct a "red tape" initiative to reduce the number of forms produced by city departments.

Pitney Bowes Management Services secured Indianapolis as one of the first customers for its on-site government-service division. Since 1993, the division's revenues have increased by 400%. The local office says that its revenues from private sector clients have increased by 75% as a direct result of its contract with Indianapolis.

Acquiring accurate information about costs is the biggest hurdle for any public official trying to save money and improve service. It is the key to making virtually every other initiative possible. Yet only a handful of U.S. cities have good information about costs, and few are able to develop it on their own. In some cases, politics get in the way; in others, public managers are simply unsure of what to do.

In such situations, the private sector—if it wants to reap the eventual rewards—must jump-start the process itself. There are several ways it can do so. For accounting and consulting firms, there is a direct opportunity to sell services; activity-based costing should become part of the basic service they provide their government clients. But even businesses in other professions would do well to lobby their elected officials for improved accounting, either through the local chamber of commerce or individually. I would even suggest that businesses make enthusiastic offers to lend executive talent to their local governments to get these initiatives under way. In fact, executives on loan from Indianapolis companies have played a substantial role in our efforts.

The private sector may have to jump start the process itself if it wants to reap the rewards.

And if all else fails, individual businesses can identify opportunities on their own. Consider the case of George E. Pillow. Early in my first year as mayor, Pillow, who ran a local courier service, informed me that he had looked at our operations and determined that he could save the city money by taking over the courier service. He had observed that some of our departments employed their own mailroom employees while others relied on clerical staff to deliver mail. And the police department was using uniformed officers to take packages from one district office to another. But no one had ever thought of the city as being in the courier business.

Pillow's comments prompted us to think of those activities as one business unit, to determine our costs of delivering internal mail, and ultimately to open up the entire service for competitive proposals. No one was surprised when Pillow Express won with the low bid. Since then, George Pillow has persuaded several of the companies on the receiving end of his deliveries for the city to hire him as well. Not only has his company grown by 25% as a result of the city contract, but, in addition, his efforts to "awaken" us have set an example for other entrepreneurs, encouraging them to approach—and enlighten—city government.

Tear Down the Wall Between Public and Private

As the example of the print shops demonstrates, governments operate many businesses with direct private-sector counterparts. Yet both public officials and the business community continue to think of those services as somehow different when government provides them. That artificial barrier inhibits innovation and opportunity, and smart managers will recognize that tearing down the wall can be productive and profitable. A case in point is the largest privatization in U.S. military history.

In early 1995, the Department of Defense put Indianapolis's largest military installation on its list for closure. The Naval Air Warfare Center (NAWC) produced advanced aviation equipment for the navy, from the Norden bombsights that were used in World War II to the guidance technology for the Patriot missiles used in the Persian Gulf war. It was the only military facility in the country with the ability to design, model, and manufacture equipment on-site.

Losing NAWC would have been a devastating blow to our city. The base employed more than 2,500 people and pumped millions of dollars into the local economy. Yet it was philosophically inconsistent for us to complain about federal downsizing when we were committed to the same principle locally. It was unrealistic as well: no community had ever successfully lobbied the Pentagon to remove a base from the closure list. Our prospects looked bleak. As long as NAWC remained a government military installation, it was not going to stay in Indianapolis.

But what would happen, we wondered, if we stopped thinking of NAWC as a government problem with a government solution? Something quite exciting, we reasoned. We asked the Department of Defense to proceed with its plan to close the base but to allow private companies to compete for the right to take over its operation. We would spin off NAWC into a private company that could sell its products and services back to the navy.

After President Clinton endorsed the Indianapolis approach in July 1995, we had what we needed to move forward. Seven companies submitted proposals to assume control of the facility, and in May 1996 a selection committee chose Hughes Technical Services.

The result was an all-around win. The federal government achieved its goal of divesting itself of a military base and avoided a \$180 million expense in the process. Indianapolis saved 2,000 jobs—and gained 700 more. And finally, Hughes scored big: it gained a piece of new business that should be worth \$1.5 billion in revenue over five years. All this occurred because the artificial barrier between public and private was removed—and replaced by innovative and profitable solutions.

When Hughes took over the operation of a military base, the result was an all-around win.

Opportunities for privatization are lost when governments delude themselves into thinking that they are efficient by benchmarking their activities only against similar activities performed by other governments. Ironically, many consulting firms that operate separate divisions for their government customers unknowingly perpetuate this misunderstanding, as the example of our city's wastewater-treatment plants shows.

Indianapolis operated two advanced wastewater-treatment plants generally considered among the best run in the country. The plants' staffs had won numerous national awards in competition against the staffs of other cities' plants. Yet it was our intention to open up every possible service to competition with the private sector, and our wastewater plants were no exception. As our review committee began to prepare a request for proposals, several members of the City-County Council asked that we first hire an outside firm to conduct an efficiency audit. We did, and the Big Six accounting firm we employed confirmed our belief that the plants were among the most efficient of any government operated plants in the country. Its report concluded, however, that we could reduce

operating costs by 5% if we really buckled down. We shelved the report and decided to test the market instead.

A Big Six accounting firm said the city could reduce the costs of operating its wastewater-treatment plants by 5%. But a private company slashed costs by 44%.

We received five proposals from a variety of private sector companies with international experience in treating water. (We had learned that, whereas most wastewater-treatment plants in the United States are government run, a healthy private marketplace for wastewater treatment exists in Europe. So our initial analysis comparing ourselves only with other *government* operations was valueless.) The winning proposal came from a company called the White River Environmental Partnership (WREP)—a consortium of the privately owned Indianapolis Water Company, the French-owned Lyonnaise des Eaux-Dumez, and JMM Operational Services, based in Denver, Colorado. WREP’s proposal would reduce our operating costs by 44%, or \$65 million over the five-year life of the contract.

WREP produced such remarkable savings because, as our director of public works observed during the evaluation process, “These firms have resources our guys in city government only dream of.” WREP started by reducing the plants’ staffs from 322 to 196. And it brought us some of the best technical experience in the world: the companies making up the partnership employ more civil engineers with Ph.D.’s than the city of Indianapolis has employees. WREP performs preventive maintenance better than the government did, and its experienced engineers recognize signs of trouble more quickly. The city’s contract with WREP also gives it access to cutting-edge technology. WREP is currently evaluating the possibility of changing the plants’ treatment system from ozonation and chlorination to ultraviolet disinfection, which is better at killing bacteria and also cheaper.

If we had allowed “good enough for government work” to be our standard, we would have lost millions of dollars in savings and technical improvements. And the private sector businesses that are now our partners would have lost the opportunity to grow with us.

Question Government RFPs

In every privatization effort in Indianapolis, the best results have occurred when businesses used their expertise to offer new ideas rather than to perform the same old tasks with marginally improved efficiency. In short, these companies went beyond our requests for proposals—which basically asked them to do business as we knew it—and told us how business could be done. Pitney Bowes offered more than just printing; it offered suggestions for reducing the number of forms and putting documents on-line. WREP is literally changing the way we treat wastewater. George Pillow taught us how to use faxes and modems more effectively to reduce our courier costs. Hughes Technical Services redrew the line between public and private. In case after case, the most valuable items we have purchased from the private sector have been new ideas and management expertise.

Consider what happened when our planning department hired a private engineering firm to speed up its process of issuing permits.

I spend some time each week alongside municipal employees in various jobs. Working behind the construction-permit counter one afternoon, I discovered that turnaround times were awful. After my visit, one energetic manager tried to anticipate my reaction by outsourcing the review work for drainage permits—the slowest part of the process—to a private engineering firm. But one year later, the turnaround time for issuing the drainage permits had improved only slightly and the cost had increased considerably.

I complained to the firm, Christopher B. Burke Engineering, about its performance. Its response permanently changed the way Indianapolis issues RFPs. Burke pointed out that we had outsourced a bad system without providing any opportunity for creativity, and the firm had merely responded to our request.

We then rephrased the proposal and asked Burke for its help in redesigning our entire permit-issuing system. The firm helped us eliminate some permits entirely, collapse the steps required to issue others, create a system of case managers, and improve our technology. Today Burke operates under a new contract. Even though the annual number of applications for permits has increased by 25% as a result of our city's growth, the cost of issuing permits has been reduced by 40% and the turnaround time has been chopped from an average of about four weeks to an average of 4.3 days. Our private-sector partner even allows us to offer a new service—"expedited permitting"—which for an additional fee guarantees a 48-hour turnaround.

And if this change has been good for Indianapolis, listen to what it has done for our service provider: since redesigning our permit issuing system, Burke has expanded its Indiana office from four employees to ten, sold its service to several other local governments, and added a number of new private clients as a result of the exposure it received doing work for the city.

Sell the Hamburger, Not the Cow

Okay, not literally. But think about how government views the world. As anyone who has ever observed a political campaign understands, candidates tend to think in terms of inputs. Those who want to be viewed as tough on crime will propose spending more money on prisons; those who want to be seen as compassionate will offer more money for social programs. This preoccupation with inputs does not end with the election. Following the lead of campaign rhetoric, and using government accounting systems, government managers generally think in terms of how to purchase inputs. Hungry for a hamburger, government buys a bun, some ketchup, and a cow.

The best opportunity for government to achieve big savings, and therefore for business to earn the best return, occurs when government purchases the private sector's creativity and management expertise. In other words, both parties benefit the most when government purchases outputs instead of inputs. So smart businesses are well advised to sell the hamburger. Let me explain with a couple of examples.

Both the public sector and the private sector benefit the most when government purchases outputs instead of inputs.

Like most large cities, Indianapolis suffers from an overcrowded jail. Our jail is approximately 300 inmates over capacity. The traditional, and very difficult, public debate is about how large a jail to build. The larger the jail, the higher the cost and the more unused capacity. The smaller the jail, the quicker it fills up. When Indianapolis opened up the construction of a new jail to private proposals, Corrections Corporation of America (CCA) submitted a winning idea that completely changed the terms of the public debate.

Corrections Corporation of America submitted a winning proposal that completely changed the terms of the public debate about jails.

In the traditional approach, private companies might design the jail or build the structure. They might sell janitorial services or food services or even private corrections officers. CCA sells the output, which in this case is housing for a specific number of inmates each day. The local community still sets all corrections policy, but CCA can bring its superior management expertise to bear in the integration of all the services that constitute running a corrections facility.

CCA will design, build, and operate a 670-bed jail. The city will contract to rent 264 beds over the short term, with the option to rent additional beds in future years. CCA will have the right to rent the city's unused capacity to other governments and will pay the city \$3 per day for each bed it rents to someone else. Further, CCA guarantees to pay the city for a minimum of 240 rented beds per day, whether it actually rents them or not. CCA's proposal will save city taxpayers approximately \$20 million in construction costs and \$1.4 million in annual operating expenses.

CCA is a good example of the opportunities in the new government market—if you sell the hamburger instead of the cow. In 1986, CCA was asked to take over the operation of a county jail system in the western United States. The county jail had for some years been overcrowded and dangerous. The threatening environment had caused a considerable number of employees to resign, increasing the workload of the remaining employees. The result was that forced-overtime payments had gotten out of control.

CCA cured the overcrowding by building additional cell space, and it eliminated the overtime by raising the wage rate to attract more employees. Finally, CCA added enough extra cell space to provide for the county's needs ten years into the future. In the intervening years, the excess beds are being rented to surrounding counties at a premium. The combination of these steps has allowed CCA to cut the county's annual jail budget by 50% while generating 12% pretax margins for CCA's shareholders.

Today CCA operates jail and prison facilities nationwide with capacity for 41,000 inmates. This makes the corporation larger than every county system in the United States and larger than the systems of all but five states and the federal government. Over the past five years, CCA has been able to increase its earnings per share at a 70% compounded annual growth rate and its market capitalization to \$3 billion.

There are opportunities to sell outputs even in social services. A few years ago, I informed our not-for-profit service providers that the city would henceforth pay for performance instead of simply disbursing cash to organizations. Until then, social service providers billed for the number of clients seen or the hours of job training provided. Whether the client actually got a job was irrelevant to their compensation. Predictably, none of the providers were thrilled about accepting the risk of my proposed system, even if it meant the possibility of more money.

But America Works, a for-profit company based in New York City, was. It agreed to be compensated by outputs: lasting jobs secured for people on welfare. The company gets paid only if its clients obtain and hold a job for six months. America Works recognizes that every welfare recipient has a different set of needs, and it tailors its services accordingly. In some cases, that means providing job training. In others, it means teaching interpersonal skills, personal grooming, and punctuality. In yet others, it means arranging child care and transportation during the first months of employment.

Peter Cove, the founder of America Works, says that his company's margins compare favorably with those in the temp industry and that revenues are growing at an annual rate of about 20%. He also claims that this combination of growth and profitability, coupled with the enormous national opportunities available as a result of federal welfare reform, have made America Works an attractive target for acquisition by several large investors.

Seek Out Untapped Sources of Nontax Revenue

Elected officials who are convinced that they cannot raise taxes will seek ways to increase non-tax revenues. The private sector can offer several skills in this effort, including expertise in billing, collections, and customer service.

Businesses can offer government expertise in billing, collections, and customer service.

One of the first services in Indianapolis to be opened to competitive bids was the billing of the city's sewer users. The Department of Public Works was spending \$2.9 million per year collecting annual sewer bills of \$40 million. Sewer bills were based on the amount of water used as determined by a privately owned local utility, the Indianapolis Water Company, which also turned off water lines for the city when sewer users did not pay their bills. For those reasons, we approached the company about taking over sewer billing. It offered to do the job for 5% less than our cost. We rejected the offer and decided to test the marketplace.

Competition forced innovation. The Indianapolis Water Company came back with a proposal to collect sewer bills for \$2 million annually, or a savings of about 30%. More impressive from our perspective, the company committed itself to finding previously unbilled or underbilled sewer users. It offered the first \$500,000 in collections to the city and proposed sharing additional collections evenly. In the first two years of the contract, which began in 1992, the city and the water company split more than \$11 million in new revenues.

Where government employees see only expenses, the private sector can often identify revenues. That is exactly what happened when we opened up for competition the towing of abandoned vehicles.

Most urban areas have a problem with stolen or junked cars that have been abandoned on public property—usually the streets of poor neighborhoods. These vehicles not only are eyesores but also can be safety hazards for children. In Indianapolis, city inspectors used to respond to complaints by tagging the vehicle with a notice giving the owner 72 hours to move it. After 72 hours, the car was impounded and towed to a lot; and after a grace period, the city could dispose of it.

In 1993, Indianapolis towed 900 abandoned vehicles— representing approximately one-tenth of the complaints it received from neighborhood residents. Even after selling unclaimed automobiles, it cost the city \$174,000 to tow, store, and dispose of the vehicles.

In 1994, we accepted proposals from private companies for the towing and disposal of unclaimed vehicles. Adesa Auctions, a private company that knew a great deal more about selling automobiles than we did, won the contract by proposing to pay us for the right to dispose of the cars.

During the contract's first year, Adesa towed nearly 2,300 vehicles. Police officers tell me it was common for residents to stand on their porches and applaud when some of the cars were finally hauled away. In the first two years of the contract, the city earned \$500,000 from the sale of abandoned vehicles—while dramatically improving the service provided to neighborhood residents. And Adesa got a large, loyal new customer.

Governments also can raise revenues by increasing the use of discretionary services supported by user fees. Again, creative businesses can share in the earnings if they help government provide more attractive services. The best opportunities of this kind often lie in the area of parks and recreation, as our 12 municipal golf courses illustrate. Of the many things that government does not know much about, running golf courses ranks near the top. For years, our golf courses were in terrible condition. Golf pros ran the clubhouses, but employees of Indianapolis's Department of Parks and Recreation mowed and maintained the courses, and the Department of Public Works maintained the equipment. The city did not know—or really care — but we now guess that it spent \$500,000 annually to subsidize the operation of the courses. In an effort to increase revenues from the golf courses, the city requested proposals from companies in the business and negotiated turnkey contracts granting private managers responsibility for all aspects of the courses. The city retained the right to set greens fees and now receives a 20% share of gross revenues from the courses.

Indianapolis's golf courses have been transformed. In a recent customer-satisfaction survey, 96% of regular golfers said that the courses are in better shape today than they were four years ago. Rounds of play are up, and a "secret shopper" program implemented by those who monitor our contracts shows that the condition of the courses continues to improve. The city now makes a profit from its golf courses, which can subsidize recreational facilities such as swimming pools in inner-city neighborhoods. The managers of the courses do not release their financial information, but one professional tells me that his gross revenues have increased by 25% in the three years that he has been running the course.

Reduce the Political Risk for Your Customer

Big savings from privatization can offer elected officials a way out of sticky political situations. Smart private-sector managers can enhance their opportunity to close the deal with government by taking the time to understand the political environment. If the government customer is debating a specific tax increase or struggling with a wage freeze or needs more police officers on the street, a company should go ahead and phrase the advantages of doing business with it in those terms. It

might say, for example, Cost savings from our services will keep 20 extra police officers on the street. Or, Buying our services will mean that the proposed tax increase will be 10% less. When the deal is presented in those terms, it's much harder for government to say no.

At the same time, private sector managers need to understand and address the political risks involved in competition and privatization. In the private sector, bad decisions often can be written off; but voters and the media can make one bad decision fatal for an elected official.

Understandably, elected officials are cautious about transferring any responsibility to the private sector. So if a company wants to win the heart of the public, and therefore have a better shot at doing business with the government, it should refine its proposal by guaranteeing results.

If a company wants to have a better shot at doing business with government, it should guarantee results.

When we invited proposals for the private management of Indianapolis International Airport, we put virtually no constraints on what could be suggested. As a result, the five companies that participated offered a series of brilliant suggestions for redesigning our airport. One recommended that the airport drop its plan to build a new terminal, redesign the operation of the existing terminals, and use the land for commercial development instead. Another proposed using part of the airport's real estate for a golf course.

Those innovative proposals also presented risks, particularly because the deal would be the largest airport privatization in U.S. history. Indianapolis residents already recognized that the airport was exceptionally well run. They were not, in other words, clamoring for change.

BAA, the British company that runs Heathrow and seven other airports worldwide, won the contract when it proposed a combination of cost savings and revenue enhancements. BAA's strategy is to rethink the role of airport retail outlets. Instead of viewing airline travelers as a captive audience for overpriced goods and services—a very government way of looking at things—the company negotiates with its merchant tenants to provide an expanded range of goods and what it calls “street pricing.” BAA treats airline travelers as customers who should pay the same price for a pack of gum or a pair of shoes at the airport as they do elsewhere.

BAA's approach has paid off with huge increases in revenues at its other airports. The company estimates that it will save Indianapolis \$100 million over the ten years of the proposed contract; but it sealed the deal by actually guaranteeing \$32 million in savings and producing a letter of credit to back up its guarantee. This made the deal a virtual no-lose situation for the city.

Address the Fate of “Downsized” Public Employees

One of the toughest political issues stemming from privatization is the loss of public-employee jobs. This problem can be mitigated, however, if government and its private-sector partners work together to ensure the least pain and the most gain for those individuals who have been displaced by efficiency efforts. The loss of jobs is a serious issue that must be dealt with openly, compassionately, and comprehensively. Indianapolis has reduced its non-public-safety workforce by 40% since 1992, yet not a single frontline union worker has lost a job as a result of privatization.

How did we do it? The example of our wastewater-treatment plants provides a road map. The privatization of the plants resulted in the largest displacement of employees of any of our competitors. Naturally, our public-employee union vigorously opposed the deal, packing hearings of the City-County Council and picketing city hall with signs suggesting that private managers would pollute the water and endanger public health.

The White River Environmental Partnership understood the sensitivity of the situation and decided to recognize the local union, making the consortium one of the few private companies in the nation to bargain with a public-employee union. With WREP's energetic assistance, we placed every single displaced employee who wanted a job. Of the 322 employees working at the plants at the time of the transaction, WREP hired 196—20 more than it needed to run the plants—and relied on attrition to reach its target workforce. The company also funded outplacement services that helped most of the remaining employees find other available city jobs or jobs in the private sector.

Two years later, when the city decided to open up the maintenance of the sewer system to competitive bidding, WREP and the local labor union joined forces to submit a successful proposal.

Not every transition to privatization will go as smoothly as that of Indianapolis's wastewater-treatment plants. But if business wants to do business with government, it must think long and hard about the following questions and then address them publicly:

Can we hire the displaced workers to continue doing some of the jobs?

Can we offer them positions in another part of our company? Can we fund job-placement and job-training services for them?

Can we and the local government fund a temporary “job bank” that uses displaced workers in a constructive way until attrition creates openings in other government agencies or in our company? These are all opportunities to soften the impact of entering into a partnership with the public sector. Even though accommodating this issue might initially reduce the savings available to the government customer, minimizing the short-term trauma of displacement brings long-term benefits.

An Experiment in Process

In late 1992, while speaking in New York about our efforts, I was asked whether there were any limits on what services could be privatized. Exaggerating to make a point, I said that city government could be run with a mayor, a police chief, a planning director, a purchasing director, and a handful of contract monitors. My comment found its way into a national magazine, where it was read by an official of our city's police union. Not surprisingly, he did not share my enthusiasm for the idea.

The point remains, however, that while government must ensure the provision of certain services, there is no reason why government must also produce those services. In all our experiences with competitive bidding, we have not only saved money and improved service but also increased

accountability. The process of writing contracts, establishing performance measures, and measuring costs and results creates a level of accountability to the public that never existed before. Citizens of Indianapolis have access to more and better information about the way their government operates than they ever did in the past. And at the end of the day, the city still sets policy for the delivery of all services, so that important issues beyond the cost of providing the services can always be addressed.

The new government market for brave businesses is as big as America. Local officials from both parties and from every corner of the country are on the same quest for new ideas and efficiencies. How far can privatization go? The answer is certainly an experiment in process. But the opportunity, like the capacity of the free market to innovate and improve, is boundless. A version of this article appeared in the May–June 1997 issue of *Harvard Business Review*.

SG

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