



Pricing and Source Selection As An Integrated Process

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An Integrated Process

- **Risk Assessment, Source Selection and Pricing**
 - Risk ID & assessment key to method, contract type, evaluation factors
 - Three major methods of source selection in “Best Value Continuum”
 - Pricing receives significant weight in any selection decision
- **Lowest Price/Technically Acceptable**
 - Low risk, well-defined requirements, Price Analysis
 - Lowest Cost/Technically Acceptable (“LCTA”)
- **Performance/Price Tradeoff**
 - Technical factor “go/no go” or “pass/fail”
 - Trades off performance risk against price
- **Full Tradeoff**
 - Trades off price/cost against non-price/cost factors





Risk Assessment

- **Key to selection of procurement method**
 - Precise “specs,” low risk, no need for quality differentiation → LPTA
 - Good specs, some performance risk, no need for technical differentiation → Performance/Price Tradeoff
 - Less precise specs/PBSA or new service, some performance risk, need for technical differentiation → full tradeoff
- **Key to choice of contract type, along with variability of estimates [contract risk, not Government risk]**
 - Classification of cost, technical/performance, schedule risks
 - Economic factors (e.g., inflation, geographic variability)
- **Key to choice of evaluation factors**
 - Risk mitigation through experience, expertise of offerors
 - Key discriminators along dimensions critical to risk mitigation





Non-Price Factors

- **FAR 15.3 requires the following be selection factors**
 - Quality (Some form required)
 - Past Performance (Waivable by KO)
 - Price or cost (Not waivable)
- **Non-price factors/subfactors must**
 - Arise from the risk assessment
 - Discriminate between offerors
- **Must establish *relative* weights (AFARS) of factors/subfactors/elements**
- **Non-price factors may be**
 - Traded off against additional cost (value added)
 - Set at minimum criteria (LPTA) or “pass/fail”
 - May be “graded” with minimum acceptance criteria





Lowest Price/Technically Acceptable Method



- **Two Source Selection Tasks in LPTA:**
 - Determination each offer can (at least) meet minimum requirements of the PWS (technically qualified & past performance receives appropriate risk rating)
 - Evaluation and selection of lowest price offer, if determined reasonable [and realistic if FAR 15.404-1(d)(3) cited]
- **“LCTA” discouraged by OPARC (cost types)**
 - FAR 15.404-1(d)(2) requires cost realism analysis, Most Probable Cost (adjusting proposals as deemed necessary)
 - Cannot award to lowest cost offer if evaluated amount is significantly higher than proposed amount
 - Likely not appropriate to acquisition situation – LPTA based on knowledge of minimum acceptable quality, not suitable to basic uncertainty





Performance – Price Tradeoff

- **Guidance**
 - Not for use with cost-reimbursable types
 - Unnecessary to distinguish levels of technical merit
 - Award can be made to other than lowest price (tradeoff)
- **Approach 1: Determine technical acceptability, assess performance risk, evaluate prices, perform tradeoff analysis**
- **Approach 2: Evaluate prices, evaluate *lowest priced offers* for technical acceptability, assess performance risk, trade off**
- **Approach 3: Evaluate technical acceptability; evaluate prices of technically acceptable proposals; assess performance risk in price order (lowest to highest) until “low risk” proposal found; select that proposal for award**





Full Tradeoff Analysis Method



- **Presumes competitive negotiated procurement**
- **Total price or cost always a significant factor in selection**
- **Factors and subfactors reflect risk analysis and are discriminators – as few and as specific as possible**
- **Government may select other than lowest offer**
 - Allows selection of proposal with value added features for *commensurate* cost; not required to select highest quality proposal or lowest cost proposal
 - Must justify price premium (form of cost-benefit analysis)
 - Price or amount becomes more important as non-price factors are evaluated as closer to equivalent





Pricing Considerations

- **Policy still to determine price reasonableness using minimum necessary data [FAR 15.402]**
- **Emphasis swinging toward data analysis as deemed necessary, getting a “good deal” for the taxpayer**
 - Less emphasis on competition as a “given” or panacea
 - Realism a growing concern, FFP as well as cost-type
 - Crosswalks between technical and cost proposals
- **DFARS PGI 215.403-3 now requires *at a minimum* sales data when non-certified cost and pricing data required (but not determinative by itself)**
- **Contract type justifications tightening up – not just competition, but correct contract type key to efficient pricing**





Crosswalk

- **Cost Realism Analysis: three variances**
 - Technical – cost variance
 - PWS – technical variance
 - PWS – cost variance
- **Crosswalk intended to evaluate all three variances**
- **Crosswalk requires coordination between TEB and Cost Committee**
 - Not only staff number (FTEs), but skill mix, cross-utilization plan
 - Not only squaring technical and cost proposals, but developing a realistic staff for minimally adequate performance





Cost or Price Reasonableness



➤ Fixed Price

- Reasonableness established through price analysis, especially if commercial in nature
- Realism widely evaluated, but OPARC is challenging
 - Question of “due diligence” in regard to SCA, D-BA
 - GAO rulings in regard to “price realism”
 - Issue of omissions, errors in proposals

➤ Cost-reimbursable

- Cost realism analysis required even for competitive negotiated procurements [FAR 15.404-1(d)(2)]
- Cost reasonableness determined by comparison to appropriate benchmarks (BLS, Salary.com, DCAA)
- Most Probable Cost adjustments - appropriate benchmarks, Tech Eval Board input





“Adequate” Competition

- **FAR 15.403-1(b) exception to Cost or Pricing Data**
- **Contracting Officer must determine fair & reasonable price; not a mechanical application of FAR “definition”**
 - Exception to certified cost or pricing data, not to cost-level data as necessary to the reasonableness determination
 - Fixed price – largely concerned with reasonableness
 - Competition not a panacea for realism, if realism a concern (cost-reimbursable, occasionally fixed price)
- **Concern for sufficient data to determine adequate price competition, hence price reasonableness [FAR 15.403-3(b)]**
- **FAR 15.403-1(c)(1)(i)(B), (ii)(B) part of competition exception to certified CPD – finding of reasonableness**
- **Next slide gives competition “picture” typical of many OPARC reviews – some raise questions of further data**





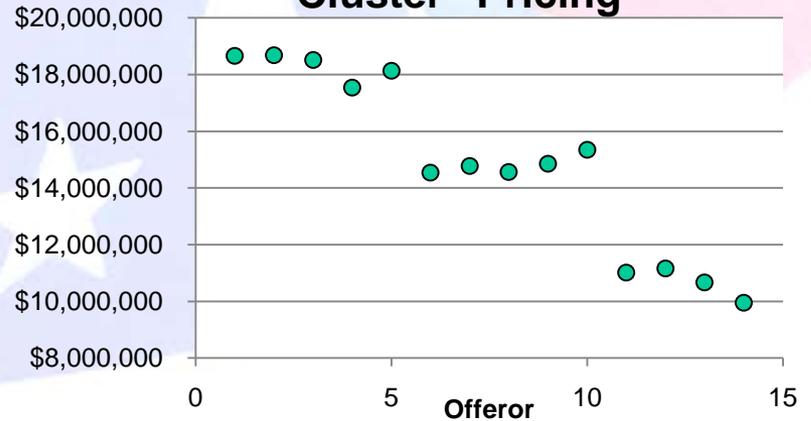
Types of "Competition"

"High-Low" Conundrum



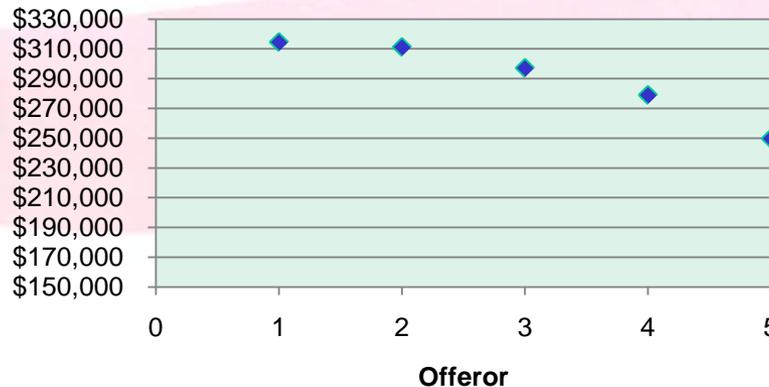
Which is reasonable? Realistic?

"Cluster" Pricing



Competitive, but in clusters. Which is fair and reasonable?

Adequate Price Competition



OPARC Reviews have also noted this pattern.





Questions

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