

# **Price-based Acquisition**

**Presented to: NARSOC**

**by Mr. Bill Stussie  
DASN (Air Programs)**

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# Overview

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- **Cost-based vs. Price-based Acquisition**
- **Objectives**
- **Team Members**
- **Concepts**
- **Challenges**
- **Summary**

# CBA vs. PBA

## (There is Room for Both)

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<b>Cost-based Acquisition (CBA)</b>	<b>Price-based Acquisition (PBA)</b>
<ul style="list-style-type: none"> <li>• Fair and reasonable price largely based on estimated or actual costs plus profit</li> </ul>	<ul style="list-style-type: none"> <li>• Fair and reasonable price largely based on competition, value analysis, and price information (both industry averages and company specific)</li> </ul>
<ul style="list-style-type: none"> <li>• Does not preclude use of price-based estimating methodology</li> </ul>	<ul style="list-style-type: none"> <li>• Limited, non-certified data may be requested</li> </ul>
<ul style="list-style-type: none"> <li>• Cost plus and FPI type contracts</li> </ul>	<ul style="list-style-type: none"> <li>• FFP contracts</li> </ul>



# PBA Objectives

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- **Access to commercial technology**
- **Reduce government infrastructure**
- **Better contract prices**
  - **Civil military integration**
  - **Increased efficiency**

**While maintaining the public trust**

# PBA Team

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- **Team Leaders**

- **Focus Group 1 - Acquisition Strategies**

- Terry Little - Air Force
    - Jan Young - Navy

- **Focus Group 2 - Pre-award**

- Dina Hyde - Navy
    - Sue Hunter - Air Force

- **Focus Group 3 - Post-award**

- Dave Ricci - DLA

- **Other Members**

- Navy
  - DoD IG
  - OSD
  - DCAA
- Army
  - DLA
  - NASA
  - CODSIA
- Air Force
  - J8/RAD
  - OGC
  - Defense Procurement

# Concepts

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(Examples from each Focus Group)

# Acquisition Strategies Summary

The Acquisition Strategy used and success of PBA are undeniably linked

Strategy	<u>Applications</u>		# of Awards
	Phase	Degree of Competition	
Two phase	Pre-EMD, Services, Other	Competitive or Sole Source	1 or more
Evolutionary	EMD/Production	Competitive or Sole Source	1 or more
Incremental	EMD	Competitive	1 or more
Dissimilar	System/Subsystem Production	Sole Source	1
Value-based	S&T, Pre-EMD	Competitive or Sole Source	1 or more

# Market Research

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**Issue:** DoD does not have the same level of market and “make” knowledge as industry

**Concept:**

- **Establish a DoD Market Research Center of Excellence (some ties to academia)**
  - **Must be JIT, staffed with multi-functional, competent personnel, potentially organized by product**
  - **For example, knowledgeable of past performance, industry price and profit ranges, state of technology, customary practices by sector**



# Source Selection

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Issue: Industry has more flexibility in selecting sources, discussing issues informally, and exploring alternatives

## Concepts:

- **Elevate the importance of past performance in source selection to no lower than the highest ranking of other factors**
- **Specifically permit best proposal for the price**
- **For R&D/S&T best effort, price does not have to be a factor**
- **Change the source selection process to allow successful offeror(s) to “win” the right to negotiate with the Government**

# Truth in Negotiation

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**Issue:** Appearance that price-based should be used on an exception basis rather than seriously considered as a viable alternative

## **Concepts:**

- **Improve the waiver process by eliminating words “in exceptional cases” and “without delegation” to permit waiver authority at lower level**
- **New TINA exception for efforts that can be adequately priced solely with price analysis**
- **Raise threshold for all contracts**
- **Eliminate TINA for modifications to contract awards not originally subject to TINA**

# Financing

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**Issue: Progress payments based on incurred costs**

## **Concepts:**

- **Greater use of current performance based payments**
  - New “price-based financing”
  - Match payments to supplier’s prospective expenditure profile
  - Not 100%
  - Validate through pacing events or supplier’s progress tracking system

# Value Engineering

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**Issue: DoD's VE program is seen by suppliers as too difficult and time consuming. Savings estimates subject to TINA and audit**

## **Concept:**

- **Replace current VE program with a new incentive program modeled after successful corporate programs, e.g., Chrysler's SCORE program**
  - **Speed, feedback, high expectations**
  - **New TINA exception**

# **Terminations for Convenience**

**Issue: Terminations for Convenience generally use cost-based approach that takes a long time (over a year on average)**

## **Concepts:**

- **Use the termination clause for commercial items for all buys (or, at least, low dollar value contracts)**
  - **Percentage of the contract price payable equates to the percentage of the work completed prior to the termination plus other reasonable charges associated with the termination**
- **For contracts with milestone billing, negotiate termination charges up-front**

# Challenges

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- **Incentivizing, getting buy-in**
  - Government acquisition workforce
  - OSD Staff
  - Industry
  - Congress
- **Coming to a common understanding of what PBA is (and is not) -- it is not an absolute**
- **Implementation**

# Summary

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- **Work still in progress**
  - Draft report on/about 2 April 99
  - IPR (3) - 22 April 99
- **Success of PBA is dependent on changing culture**
  - Training of acquisition workforce
  - Workforce incentives