

**PREFACE/CLASS OUTLINE**  
**ACQUISITION AND LOGISTICS EXCELLENCE WEEK 2001**

**TOPIC: Price-Based Acquisition**

**LENGTH/TYPE:** 1 hour – Lecture/Discussion

**SCOPE:** This presentation outlines the basic concepts of the price base acquisition initiative. The module discusses the transition from Cost-Based to Price Based Acquisition. The transition toward Price Based Acquisition (PBA) is integrated with the requirement for Price Reasonableness and the determination of whether Cost or Pricing data are required per the Truth in Negotiations Act. A timely report from the DoDIG sheds light on the challenges DoD faces in this effort. PBA addresses new skills required of all acquisition professionals to determine the value of goods and services over their useful life without depending on DoD accounting standards or supplier provided cost data. All acquisition professionals will benefit from this workshop.

**LEARNING OBJECTIVES:** Given information provided in the workshop,

1. Students will be familiar with the benefits of using Price-Based Acquisition.
2. Students will be able to recognize PBA key concepts so that future acquisition decisions can more effectively o implement Price-Based Acquisition techniques.
3. Students will recognize potential settings that favor use of Price-Based Acquisition.

**MATERIALS:**

Briefing Charts

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# Implementing Price-Based Acquisition



A&LE  
Acquisition  
&  
WEEK  
Logistics  
Excellence

September 10-15, 2001



## DoD Guidance for Price-Based Acquisition

**“...we must change over to price-based acquisition practices--to establish contractual relationships that use price analysis as compared to cost analysis (either incurred or anticipated). This is the primary way the commercial world functions. This will be the primary way we must function too. Priced-based acquisition must become the norm--with cost-based the rare exception...”**



**USD (AT&L), December 2, 1998**



## PBA - “Government” History

- **FY98 Nat’l Def Auth Act directed SECDEF review organizations and functions of DoD acquisition**
- **PBA Study Group established by USD(AT&L) 10/98 - analyze implementation of PBA in DoD**
- **Study Group - not whether DoD should do PBA, but “how to make it happen”**
- **12/98 Government/Industry Roundtable explored industry’s use of PBA best practices. (Office of SECDEF Def/Ind PBA Roundtable)**
- **Study Group initial report 4/99**
- **11/15/99 PBA Report released**
- **11/29/00 USD (AT&L) publishes study group findings (with cover-sheet caveat) and urges further implementation of PBA DoD-wide.**





## Study Group Outcomes: PBA Report

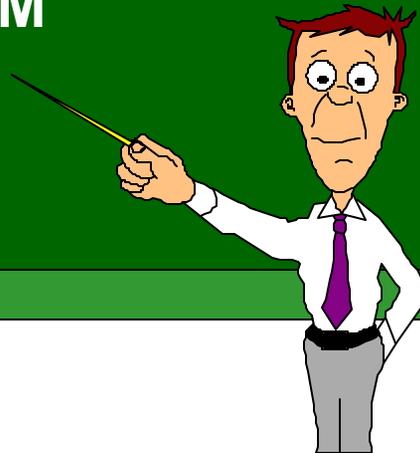
- “Increase access to leading edge technology in the commercial sector,
- Reduce Government infrastructure
- Get better prices for what we buy.”





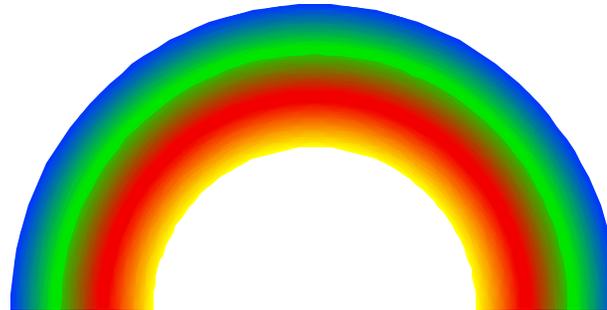
## Where We're Headed... .

- Where have we been?
- Before we can fully understand Price Based Acquisition as a fundamental shift in acquisition, we need to understand what it is a **SHIFT FROM**





## The Cost/Price Continuum



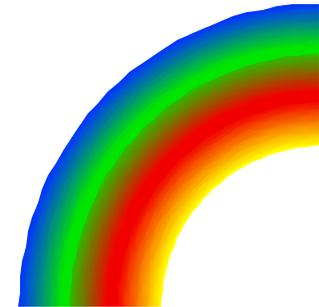
**Cost-Based**

**Price-Based**

- We've all heard of the Best Value Continuum
- But there's another continuum: **THE COST/PRICE CONTINUUM**
- Shift from CBA to PBA along this continuum
- **Cost analysis vs price analysis**



## CBA: One End of the Continuum



CBA

### What is Cost-Based Analysis??

- Acquisition approach that relies heavily upon “cost or pricing” data
- Serves as foundation for contract amount
- Contract Administration focus on cost incurred or expended
- NOT results oriented



## Cost or Pricing Data, What Is It?

All facts that, ... buyers and sellers would reasonably expect to affect price negotiations significantly. Cost or pricing data are data requiring certification. Cost or pricing data are factual, not judgmental; and are verifiable. While they do not indicate accuracy of contractor's judgment about estimated future costs or projections, they do include data forming basis for judgment. Cost or pricing data are more than historical accounting data; they are all facts that can be reasonably expected to contribute to soundness of estimates of future costs and validity of determinations of costs already incurred. They also include such factors as: vendor quotations; nonrecurring costs; information on changes in production methods and in production or purchasing volume; data supporting projections of business prospects and objectives and related operations costs; unit-cost trends such as those associated with labor efficiency; make-or-buy decisions; estimated resources to attain business goals; and information on management decisions that could have a significant bearing on costs.

FAR 15.401



## Cost or Pricing Data and Its Certification

“When cost or pricing data are required, Contracting Officer shall require submission of (1) cost or pricing data, and (2) CERTIFICATE that “to the best of its knowledge and belief, the cost or pricing data were accurate, complete and current...””



Part 15.403-4



## DoDIG Report: Determinations of Prices Reasonableness where Cost or Pricing Data were not Obtained

### Results:

- ✎ Lack of valid exceptions from cost or pricing data
- ✎ Failure to obtain required data
- ✎ Price analysis did not adequately support price reasonableness
- ✎ Items categorized as commercial were not challenged
- ✎ Prices accepted based on contractor catalogs without analysis
- ✎ Questionable competition as a basis for accepting price
- ✎ Reliance on unverified prices from prior contracts as a basis for determining that current prices were reasonable

[www.dodig.osd.mil](http://www.dodig.osd.mil). Report D-2001-129, May '01



## Invalid Exceptions, Inadequate Price Justifications, Overpriced Actions

<b>Exception Used</b>	<b>Contract Actions</b>	<b>Invalid Exception</b>	<b>Inadequate Price Justification</b>	<b>Data Sufficient To Compute Overpricing</b>
<b>Commercial</b>	<b>46</b>	<b>11</b>	<b>42</b>	<b>12</b>
<b>Competition</b>	<b>16</b>	<b>9</b>	<b>9</b>	<b>9</b>
<b>Waiver</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>1</b>
<b>No Exception</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>5</b>
<b>Threshold</b>	<b>59</b>	<b>6</b>	<b>53</b>	<b>25</b>
<b>Total</b>	<b>145</b>	<b>46</b>	<b>124</b>	<b>52</b>



## So How Does Industry Do It?

### Vast majority of commercial business

- Not based on cost or pricing data
- Not certified
- Invoice based on performance





## Does CBA & C/P Data Come with a Price???

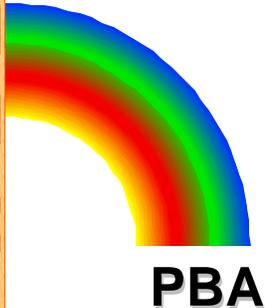
### Yes, Yes and Yes

- Cost to prepare/provide data (systems, sweeps and maintenance) if business is CAS compliant
- The “hidden cost” of requiring CBA & C/P data
  - The “no bid” decision. Results in:
    - Reduced competition (ultimately higher prices)
    - Reduced access to good technology/solutions
    - Reduced access to great business ideas/practices





## Defining PBA



- **Streamlined Definition -**  
Price-based acquisition is a way for DoD to buy goods and services that does not rely primarily on a supplier providing cost data
- **Detailed Definition -**  
PBA - way of doing business that begins with identification of need and flows through post-award activities. Decision to use price-based approach is driven by choices made during Requirements Definition process, is heavily dependent on risk mitigation and the chosen acquisition strategy, and is aided by competition or alternatives. In its purest form, PBA results in a firm-fixed-price (or fixed-price with performance incentives) contract and a fair and reasonable price is established without obtaining supplier cost data.



## Price Analysis & Techniques

- **Price Analysis**: Process of examining and evaluating proposed price without evaluating separate cost elements and proposed profit (FAR 15.404-1(b))

- **Price Analysis strongly supports PBA**

- **Price analysis techniques include**
  - price comparisons- proposed and/or previous prices
  - parametric estimating methods
  - competitive price lists and market prices
  - comparison with IGE
  - comparison of proposed price to prices obtained through market research \* for the same or similar items
  - analysis of pricing info provided by offeror



## Commercial Items: Price Analysis Techniques

**Commercial items are excepted from requirement to obtain cost or pricing data and from FAR Cost Accounting Standards applicability. Includes awards and mods**

- **Price Analysis Techniques described earlier, plus more Part 15 input**
- **Information other than Cost or Pricing Data**
  - Contractor format
  - Sales data for similar items
  - Limit scope of information request to that regularly maintained by offerors
  - Information exempt from disclosure shall not be disclosed outside government
  - Information shall contain pricing data adequate for determining reasonableness



## Non-Commercial Items Price Analysis Techniques

[But, why are you buying non-commercial in the first place?] Review FAR Part 2 definition of Commercial Item

[But if it really is non-commercial, what should you use?]

Everything we've covered so far plus what ever else makes sense to demonstrate or document a fair result.





## 5 “K’s” To A Fair & Reasonable Price

- Use these 5 “K’s” to help: (a) obtain a fair and reasonable price, and (b) make your acquisitions Price-Based:

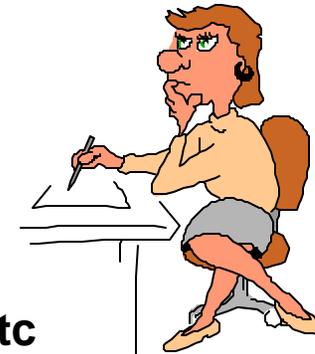
**K**now what you buy - products, services

**K**now where you buy - the marketplace

**K**now how you will buy - approach, criteria, etc

**K**now how to use competition - actual or perceived

**K**now how to negotiate - look out for yourself & build effective relationships





## Value-Based/Worth-Based

- Inherent and operative in most all commercial marketplace buy/sell and sell/buy transactions. Opportunity to use in Government procurements as well
- What sets the final price? Value/worth to customer plus vigorous negotiations
- Determining worth/value to Government: homework, market research, team effort





## PBA - A Change in Focus

- From cost to price
- From cost capture, tracking and containment to performance
- **BUT there's more to it. PBA EQUALS change in focus, PLUS performance outcome perspective, PLUS employment of smart business initiatives, decisions and approaches**





## Some Initiatives & Approaches

- PBA is more than just price analysis!!! It's a way of doing business in more "commercial-like" fashion.
- Some ideas/recommendations from the PBA study group:
  - > Don't automatically use cost plus for high risk efforts - manage risk, use incremental, evolutionary approaches
  - > Create market research organizations: DoD & service -wide; make buyers smarter
  - > ORDs should include the value to the user- should discourage unaffordable approaches
  - > Past performance eval factor at least equal to highest factor over 1MM
  - > In settling claims, large programs have ADR to avoid cost data issues
  - > New termination clause for non-commercial contracts





## All Acquisition Approaches Should ...

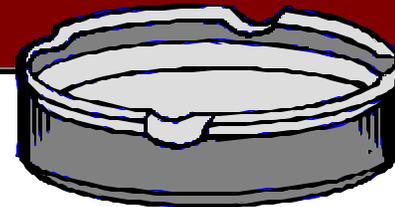
- Lead to a fair and reasonable price
- All approaches have the same “bottom line” in mind - fair and reasonable price
- How we get there is different. PBA - more direct, efficient, appealing, sensible. CBA - sometimes circuitous, inefficient, limiting, exclusionary





## Another Reason Why PBA

- **Cost Based Contracting - The story of the ashtray.**
- **Cost based approach: reasonable, allowable and allocable may have said “ok”.**
- **Common sense (i.e., value and worth-based Price-Based Acquisition) would have said “no”**





## What PBA Can Allow Us To Do

- **What PBA can allow us to do:**
  - Access commercial technology - products and services**
  - Expand industrial base supporting DoD - make it equal to entire output of top-notch firms**
    - Reduce Government infrastructure
    - Reduce cost of ownership - up front and on-going [better prices]
    - Increase acquisition efficiency- while maintaining public trust
- **Objectives support one another**





## PBA: Reaching the Marketplace

- Access technology by expanding marketplace from which products/services acquired. The “good news” & “bad news”
- Most companies do not have Government “compliant” accounting systems
- “When in Rome ....” (We’re in Rome now)





## Performance-based Payments

- **The preferred Government financing method- FAR 32.1001**
- **Link contractor payments to**
  - performance
  - reaching a milestone
  - other quantifiable measure of results





## Major Elements of PBA

- Use commercial practices
- Maintain competitive environment -
  - multi-level competition
  - readily available alternatives
- Focus on OUTCOME value
  - tradeoff performance, cost, schedule, etc.
  - what does customer “really” want?
- Performance based (i.e. Milestone) payments
- Pay for the Value (the Worth) instead of the Cost of fulfilling the requirement





## Performance-based Payments

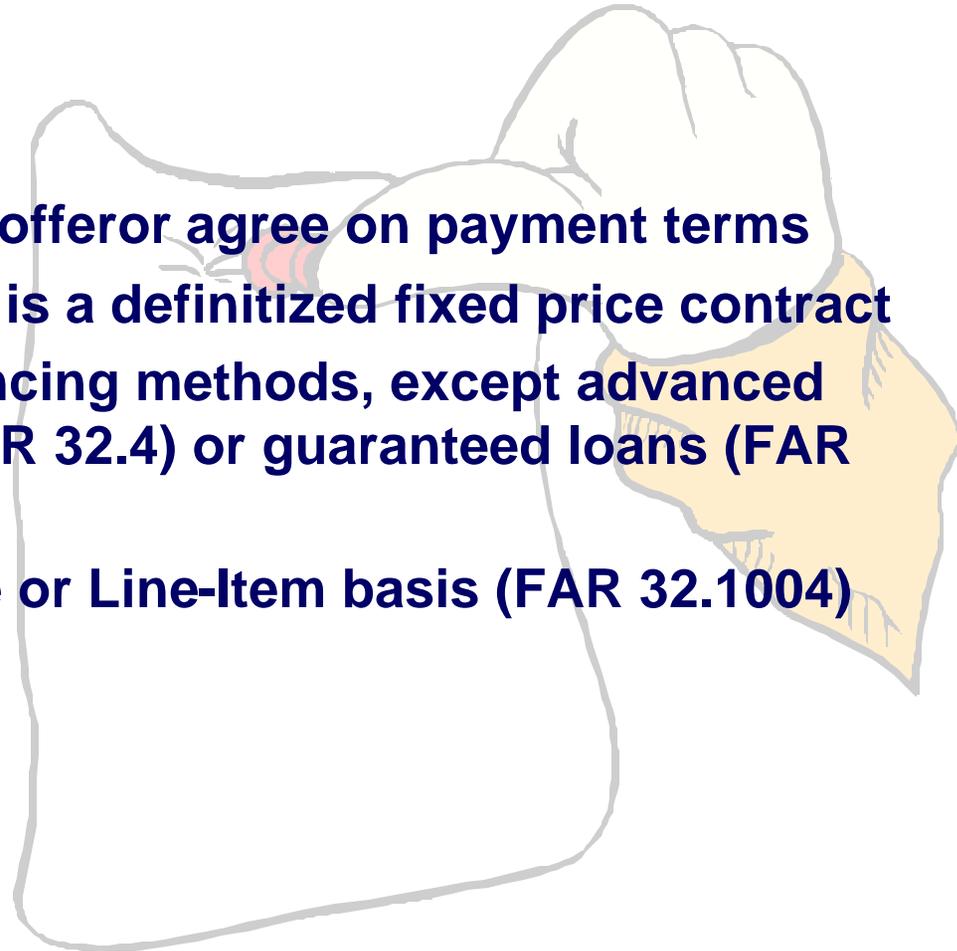
- Focus on performance of meaningful and measurable technical or schedule objectives
- Broaden contractor base
- Reduce costs of administration and oversight
- Program office can link financing to performance





## Performance-based Payment criteria

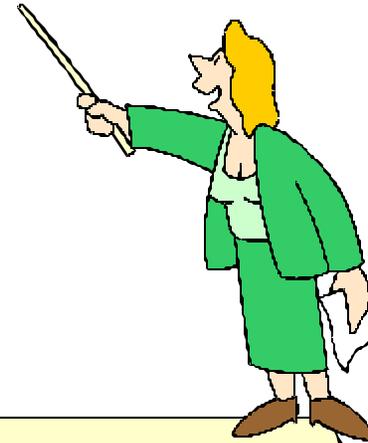
- The PCO and offeror agree on payment terms
- Contract type is a definitized fixed price contract
- No other financing methods, except advanced payments (FAR 32.4) or guaranteed loans (FAR 32.3)
- Contract-wide or Line-Item basis (FAR 32.1004)





## PBP procedures

- Establish performance bases
  - Specifically described event
  - Measurable criterion of performance
  - Events may be severable or cumulative
- Establish payment amounts
  - Complete schedule of payments
  - Not to exceed 90% of contract (or delivery item) price



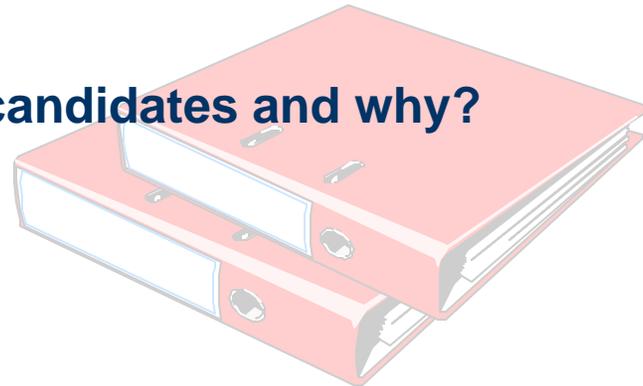
**Contracting Officer must ensure that the total contract price is fair and reasonable**



## In-Class Exercise: Which Settings May Favor Use of PBA?

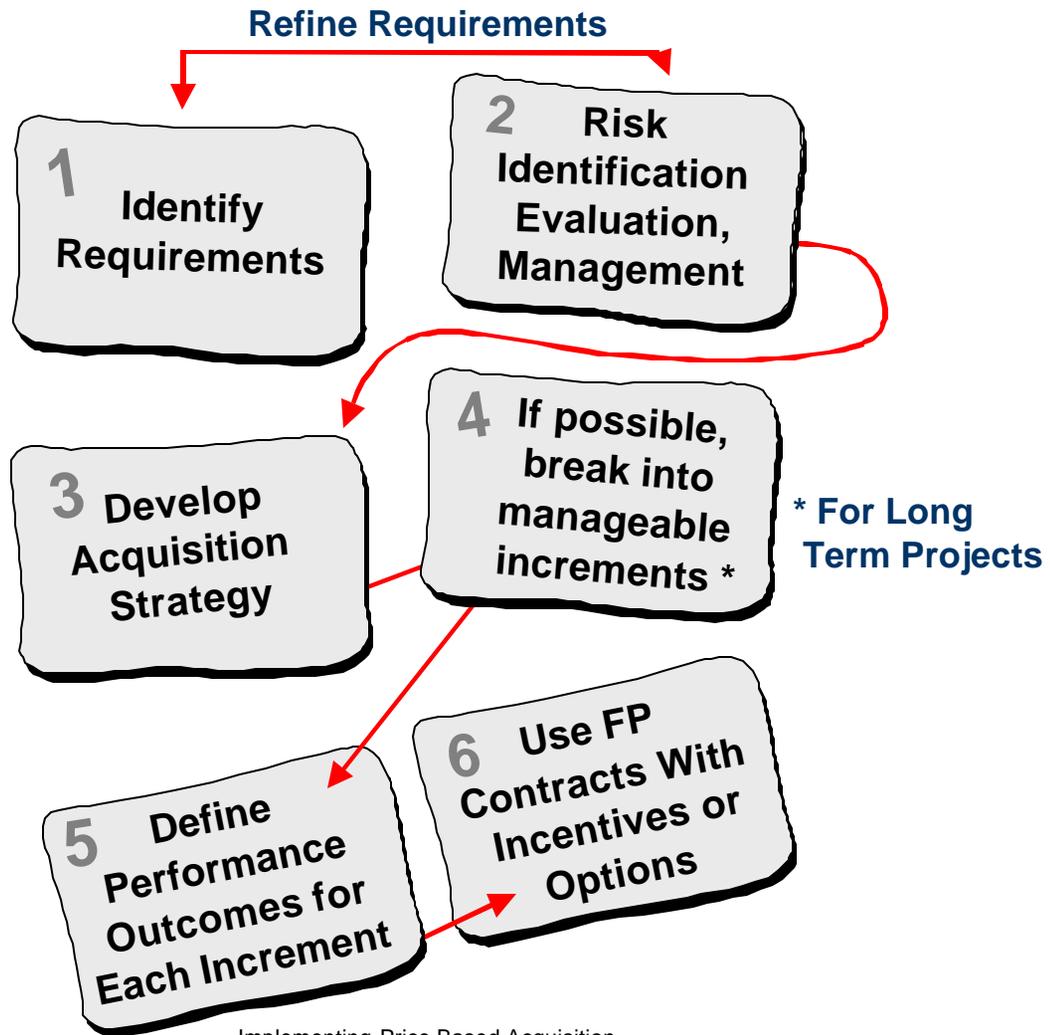
- Commercial items - supplies or services
- Repeat buys - history available
- Complex, high dollar value acquisitions
- Competitive procurements
- Procurements with or where performance outcomes can be ascertained
- Sole source - with commercial items, history, benchmarks, etc
- R&D, concepts

**Which ones are good PBA candidates and why?**





# A Process To Stimulate PBA Use in Long Term Projects



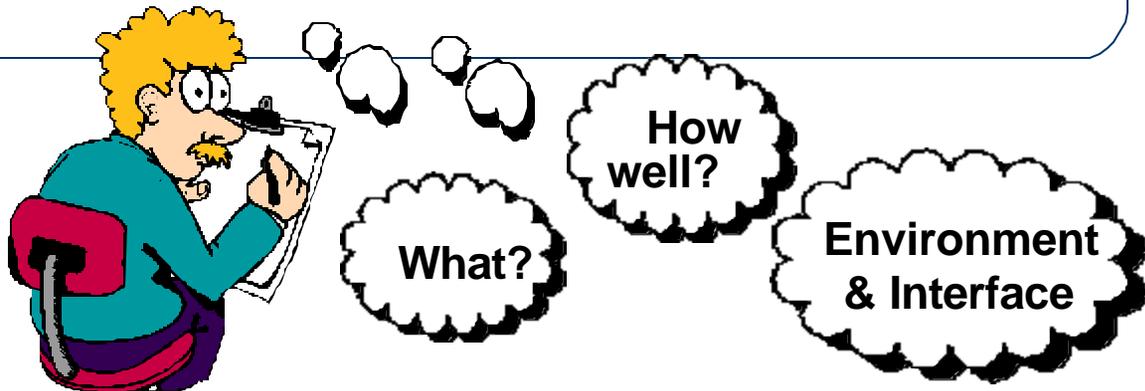


# Step 1. Process: Identify Requirements

**Key! PERFORMANCE-BASED**

## Once Identified:

- Requirements must be stated in terms of functions to be performed, performance required, and essential physical characteristics.
- Requirements must be defined in terms that encourage the acquisition of commercial items to satisfy the need.





## Performance Based & Price Based, A Difference?

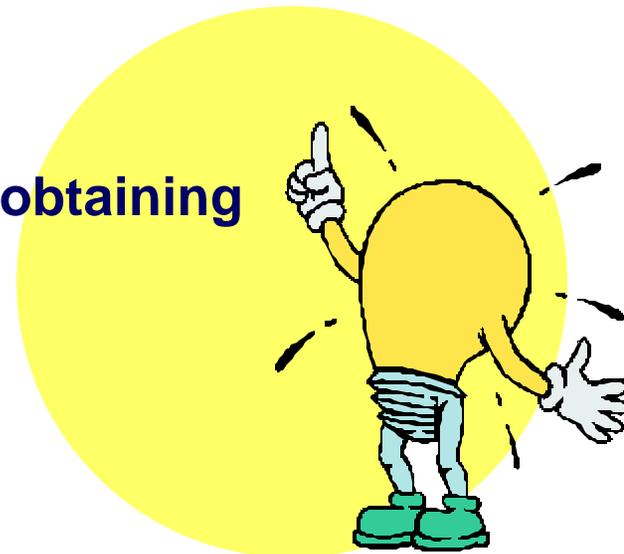
- Performance-Based Acquisition & Price-Based Acquisition; certainly sound alike
- Where does Performance-Based fit with Price-Based? Is there a link?





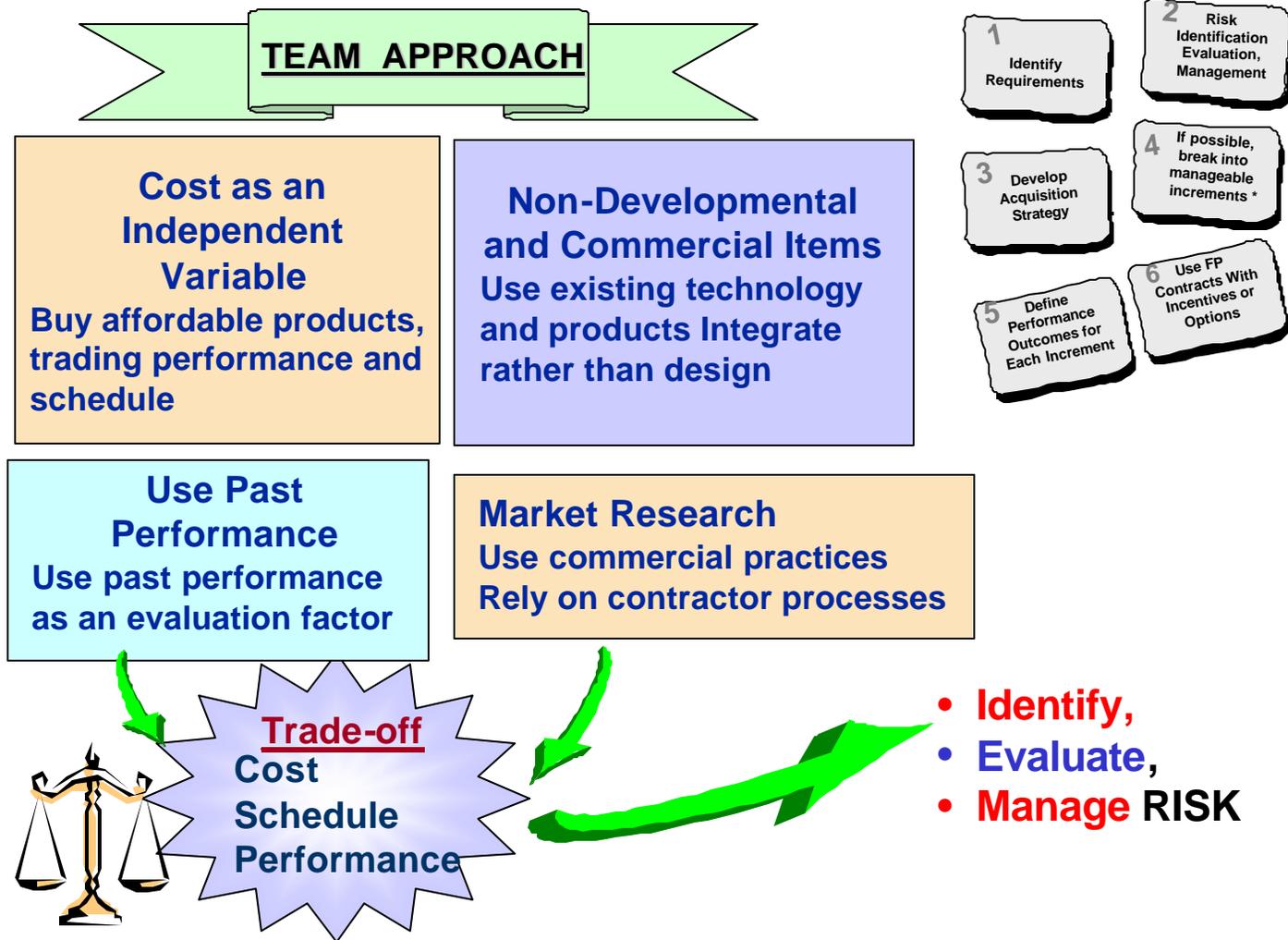
## Value Drivers

- What does this product or service do?
- How much have we paid in the past?
- What alternatives to accomplishing this exist?
- What else about this is important to our mission?
  - Time criticality
  - Mission need
- What is the cost of not obtaining this product/service?





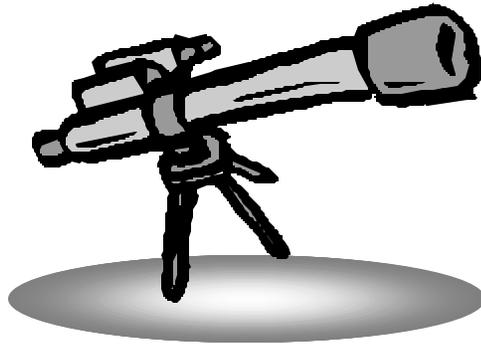
## 2. How Does Risk Factor in?





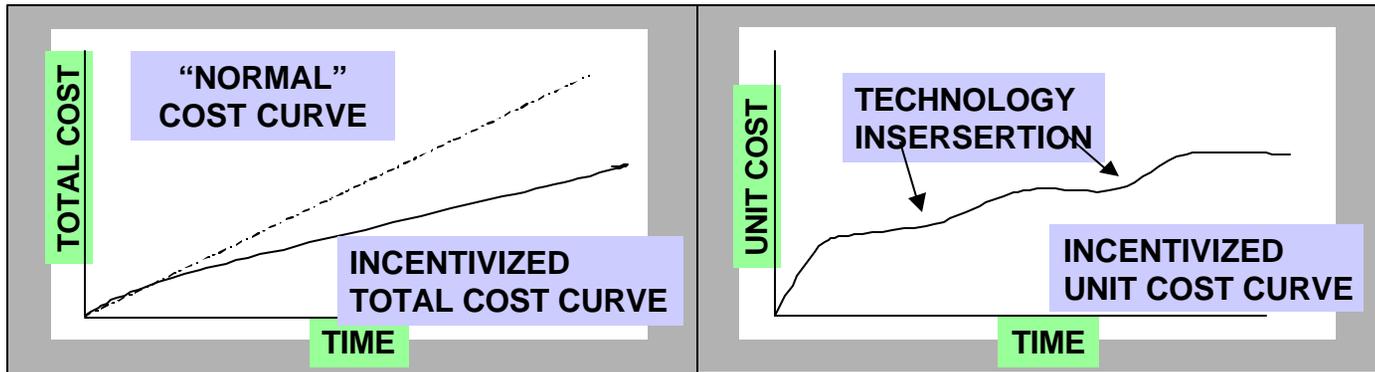
### 3. Developing the Acquisition Strategy

Look Long Term



- 1 Identify Requirements
- 2 Risk Identification, Evaluation, Management
- 3 Develop Acquisition Strategy
- 4 If possible, break into manageable increments \*
- 5 Define Performance Outcomes for Each Increment
- 6 Use FP Contracts With Incentives or Options

Consider Total Ownership Cost and creative ways to reduce it using PBA





## 4. Try to Break Requirement into Manageable Increments

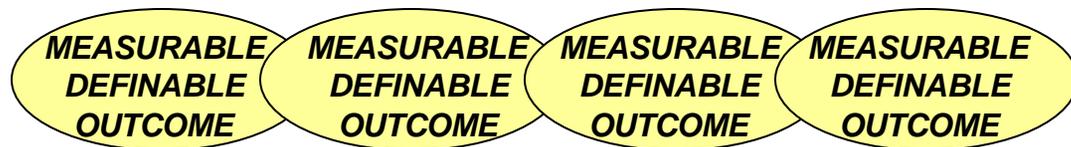
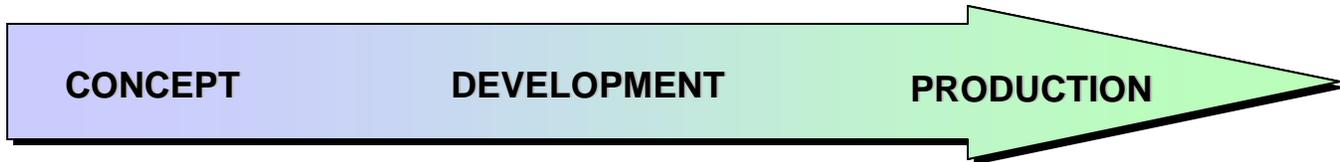
Fixed Price  
Developmental  
Contract

Developmental  
Contract Fixed  
Price Option 1

Fixed Price  
Production  
Contract

Production  
Contract Fixed  
Price Option 1

- 1 Identify Requirements
- 2 Risk Identification Evaluation, Management
- 3 Develop Acquisition Strategy
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**Manageable Increments lend themselves more easily to a PBA approach.**

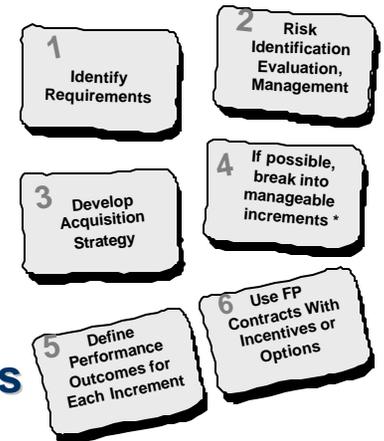


## 5. Define Performance Outcomes & Standards

What are desired Performance Outcomes for:

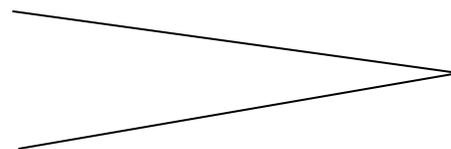
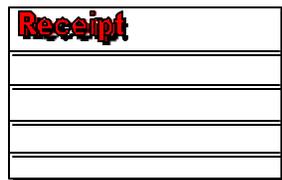
- Each increment, when broken down, or
- Total contract

Outcomes must be measurable - so success is discernable



“The item should do the following: \_\_\_\_\_”

“The service should result to the following: \_\_\_\_\_”

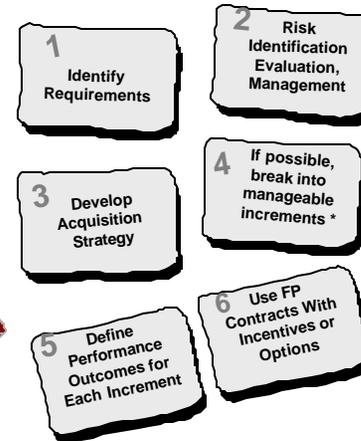




## 6. Use Fixed-Price Contracts

### Contract Type Affects:

- Contract Performance
- Contract Price
- Competition



### Fixed Price, if contractor knows:

What it's getting into (size, complexity of effort)

What is criteria for judging success of effort





## Final Thought

- PBA is more than just “Buy Commercial”
- DoD wants to deal with “Dual-Use” capable commercial firms - to produce **MILITARY UNIQUE** items alongside commercial items
- Flexible manufacturing techniques
- **BUT** firms won’t go for it unless we use PBA not CBA and require information other than C/P Data





## Overview - Summary

### Price-Based Acquisition -

- Common sense approach often found in commercial marketplace
- Can attract more industry players
- Can streamline acquisition process
- Can reduce costs and obstacles



## Recommended Reading and Resources

### *Price-based Acquisitions:*

- “Price-Based Acquisitions,” Dr. J.S. Gansler, Under Secretary of Defense for Acquisition, Technology, and Logistics, Nov 29, 2000.
- “Paving the Way for Price-Based Acquisitions,” Edward L. Will, Acquisition Review, Fall 1999, Vol. 6, No. 4. Pages 369-381.
- “Office of the Secretary of Defense / Industry Price-Based Acquisition Roundtable, Executive Report,” Office of Secretary of Defense, December 1998.
- “Report of the Price-Based Acquisition Study Group,” Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, November 15, 1999.
- “Price Based Acquisitions,” Vernon J. Edwards, Where in Federal Contracting, <http://www.wifcon.com/analpricebased.htm>, 1999.
- “DCMA- Price-based acquisitions,” <http://www.dcms.mil/reference/pba.htm>

### *Performance-based payments:*

- “Performance Based Payments,” Director, Defense Procurement, Eleanor R. Spector, 9 November 1998.
- “Use of Performance-based Payments,” Dr. J.S. Gansler, Under Secretary of Defense for Acquisition, Technology, and Logistics, Nov 13, 2000.
- “Performance Based Payments,” <http://www.dcms.mil/onebook/9.0/9.3/PerfBasedPay.htm>, revised May 2001.