

CHAPTER 8

Business Alternatives for Meeting Customers' Needs

OVERVIEW

In the past few chapters, we have discussed the contracting professional's role as a business advisor and how the contracting professional adds value to the acquisition team.

One of the greatest contributions that you bring to the acquisition team is your marketplace knowledge gained through strategic and tactical market research. This knowledge can enable you to help develop and shape the customer's acquisition strategy to provide the greatest mission support value, as defined by the customer. No matter which mission area you support, your in-depth knowledge of the products or services, commercial practices, types of contracts, and other approaches used in your market segment are developed through strategic assessment of market practices, or strategic market research, in your quest for the best possible business alternative.

Equipped with a solid understanding of market practices, how does the contracting professional decide which of the various methods of acquisition will best meet the customer's needs and at what point do you enter the acquisition process? The answer to these questions will be impacted by many factors — the customer, nature of the requirement, dollar value, complexity, urgency, and regulatory requirements, just to name a few.

As described in the teaming chapter, the contracting professional must be involved during the strategic planning in order to truly add value to the process. In this chapter, we will focus on the "big picture" of the acquisition process, several alternatives that do not require a new contract, and when to initiate a new contract when all other means of satisfying the customer's needs have been exhausted. There are many potential solutions to provide mission support — the key is to ensure all are evaluated through each phase of the strategic planning and the best possible business solution or recom-

mentation is made to your customer. The goal is to ensure the customer gets the:

- Right stuff...
- Delivered to the right place...
- At the right time...
- At the right price...
- Using a smart business arrangement.

Learning Objectives

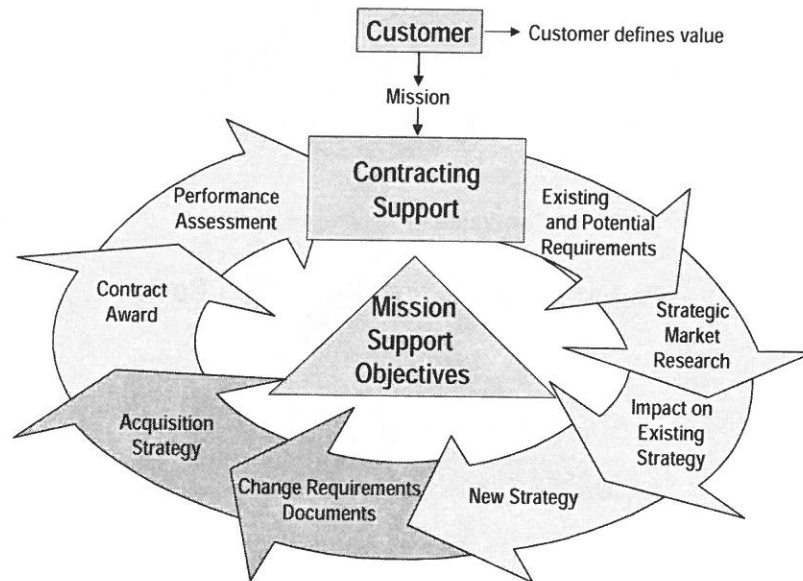
Given acquisition cases and the customer's definition of value, determine the appropriate business alternative so the customer's need is met. Specifically, upon completion of this chapter, you should be able to:

- 8.1 DESCRIBE procedures for various business alternatives other than initiating a new contract.
- 8.2 OUTLINE the steps involved when the business alternative is to initiate a new contract.
- 8.3 DISCUSS how you add value to the acquisition team throughout the phases of the acquisition process.

MISSION AREA SUPPORT

A contracting professional is continuously striving to provide mission support and strategic business alternatives to ensure your customer's mission objectives are met. Your ability to influence an acquisition occurs far in advance of the receipt of a procurement package. In fact, your early involvement in the strategic planning and market research may provide business solutions that do not result in a typical contracting action. As a member of an acquisition team, you may move in and out of and perhaps return to the various phases shown below.

Figure 8-1
Business Alternatives for Meeting Customer's Needs



As the customer is identifying and maturing potential requirements, you will be working with them, identifying alternatives supported by strategic market research. As the requirements are further clarified and solidified by the customer, you will analyze business alternatives and consider the market segment alternatives.

Mission Area Support Strategies

The contracting professional adds value to the acquisition process by developing and maintaining superior knowledge of the market associated with the customer's mission area. This knowledge may provide insight into solutions to the customer's mission requirements early in the strategic market research process.

As previously stated, many factors will impact your decisions in developing the best alternative for meeting your customer's mission needs. **You must continually assess the customer's mission and align their contracting support objectives with that mission.**

Figure 8-2
Support Objectives: Foundation for the Contracting Process



BUSINESS ALTERNATIVES

This section will identify and briefly explain alternatives that the contracting professional will consider to support the customer's mission. As a contracting professional, you will constantly coordinate with the customer, either directly or through a liaison, to provide mission support. The ever-present goal is to ensure that the customer gets the right stuff, on time, at the right price, and delivered to the right place, by using a smart business arrangement.

As part of your strategic market research, you will continuously investigate alternatives available to satisfy mission requirements. As a result of this research, you may advise the acquisition team that a required source of supply or service exists that will meet their need. There may be an existing contract or agreement already in place. As part of the strategic market research, you could recommend that an indefinite delivery contract or basic ordering agreement be established. This section looks at various alternatives available to satisfy the customer's requirement, beginning with required sources.

Required Sources

The FAR requires agencies to satisfy requirements for supplies and services from or through specific sources of supply.

Figure 8-3
Required Sources of Supplies and Services (FAR 8.002)

Supplies	Services
1. Agency inventories 2. Excess from other agencies 3. Federal Prison Industries, Inc. (UNICOR) 4. Supplies from the Committee for Purchase from People Who Are Blind or Severely Disabled (AbilityOne Program) 5. Wholesale supply sources: — GSA GSA Global Supply Program — Defense Logistics Agency — Military inventory control points 6. Mandatory Federal Supply Schedules 7. Optional use Federal Supply Schedules 8. Other commercial sources	1. Services from the Committee for Purchase from People Who Are Blind or Severely Disabled (AbilityOne Program) 2. Mandatory Federal Supply Schedules 3. Optional use Federal Supply Schedules 4. Federal Prison Industries, Inc. (UNICOR) and other commercial sources

You will learn about each of these sources in detail in CON 110.

Economy Act

The Economy Act provides authority for agencies to order goods and services from other agencies and to pay the actual costs of those goods and services. It is allowable if the following conditions exist:

- funds are available;
- the head of the ordering agency decides the order is in the best interest of the government;
- the agency or unit filling the order can provide or purchase by contract the goods or services; and

- the head of the agency decides that the ordered goods or services cannot be provided as conveniently or cheaply by commercial enterprise.

Each Economy Act order must be supported by a determination and finding (D&F) that these conditions have been met.

The Economy Act may be used with or without a contractual instrument. It applies when more specific statutory authority does not exist; therefore, it does not apply to acquisitions from required or optional sources of supplies or acquisitions using governmentwide acquisition contracts.

Each Economy Act purchase must be approved in advance by an authorized official and must meet at least one of the following requirements:

- the acquisition will be made under an existing contract entered into by the servicing agency to meet its requirements;
- the servicing agency is better qualified by reason of capabilities or expertise to enter into or administer the contract; or
- the servicing agency is specifically authorized by law or regulation to make such purchases for other agencies.

The order may be placed on any form or document that is acceptable to both agencies. The order should include:

- a description of the supplies or services required;
- delivery requirements;
- a funds citation;
- a payment provision; and
- acquisition authority (as appropriate).

Ordering Instruments

Choosing to use an existing contract to satisfy a requirement can be a smart business decision. Placing orders under these instruments has become a very popular way of satisfying a customer's requirements since they may be used for supplies or services. When ordering **supplies**, the order is called a **delivery order**; if ordering **services**, it is called a **task order**.

In this section, we will explore some of the various ordering instruments that contracting professionals may use to streamline the process and eliminate the administrative burdens associated with initiating a new contract.

Benefits of Using Ordering Instruments

What are some of the benefits of ordering against an existing contract instead of awarding a new one?

- Using existing contracts is faster and saves resources — human resources as well as the costs of travel and other administrative procedures of planning, preparing a solicitation, selecting the best source, and awarding a new contract.
- The prices and terms and conditions for the order are most likely in the contract, so we don't spend time negotiating these business arrangements.
- The prices are usually competitive with prices found elsewhere because we are taking advantage of economic order quantities derived by consolidating requirements and also because, if there are multiple awarded contracts, we compete the order among those who received a contract.
- Competition is maintained after the initial competition and award of two or more contracts.
- Ordering instruments also save time and money for contractors.

If using one of the instruments, an organization must read and follow the ordering instructions that have been included in the contract.

Types of Ordering Instruments

There are many types of ordering instruments available to the contracting professional. In the subsequent pages, we will briefly explore the following contractual vehicles that can be used to streamline and eliminate some of the administrative burdens associated with the contracting process:

- GSA ordering instruments;
- indefinite delivery contracts;
- multiple award contracts; and

- multi-agency contracts (MACs) and governmentwide acquisition contracts (GWACs).

GSA Ordering Instruments

GSA has ordering vehicles in place for everything from office supplies and paper products to advisory and assistance services (consulting services).

GSA awards and administers the Federal Supply Schedule (FSS) program using the authority granted under Section 201 of the Federal Property and Administrative Services Act of 1949. Under this program, GSA enters into governmentwide contracts with commercial firms to provide commercial products and services, at stated prices, for given time periods. Federal agencies place orders directly with the schedule contractor, and the contractor makes deliveries directly to the customer. The FSS Program closely mirrors commercial buying practices. It provides customers with literally millions of state-of-the-art, high-quality commercial products and services at volume discount pricing on a direct delivery basis. All customers, large or small, even those in remote locations, are provided with the same services, convenience, and pricing. The FSS Program also offers the potential benefits of shorter lead-times, lower administrative costs, and reduced inventories.

Similar systems of schedule-type contracting are used for military items managed by DoD. These systems are not included in the FSS Program. The DoD is not required to be a mandatory user of any schedule unless individual DoD activities elect to provide annual requirement estimates to GSA and become mandatory users. Examples of areas where this approach may be applied are:

- gases and chemicals;
- pneumatic tires and rubber;
- maintenance, repair, and rehabilitation of personal property; and
- “just-in-time” arrangements for delivery of material directly from vendors to users.

Federal Supply Schedule awards may be a single award schedule (SAS) or a multiple award schedule (MAS). Under a SAS, GSA establishes a contract with a single supplier for a specific product at a stated price for delivery to a specific geographical area defined in the contract. Few, if any, SASs still exist in favor of MASs. For MASs, GSA awards contracts to multiple suppliers

offering products or services in the same general category. These contracts are indefinite delivery, indefinite quantity (ID/IQ) contracts available to all federal agencies worldwide. Once GSA makes an award, federal customers buy direct from the schedule vendor that offers the best value for the particular requirement.

Another GSA ordering instrument is *GSA Advantage!*, which is an online electronic ordering system that allows ordering activities to search through all GSA sources of supply and select the item that is the best for their requirements, without any complex paperwork or logistics. The web address for *GSA Advantage!* is:

<https://www.gsaadvantage.gov>

GSA has taken this a step further by adding a capability called e-Buy that allows the ordering official to obtain competition by sending a request for quote to selected vendors listed on *GSA Advantage!* via email and receiving their quotes electronically. This system works not only for supplies but also for services where a statement of work is required. E-Buy can be accessed at:

<https://www.ebuy.gsa.gov>

Indefinite Delivery Contracts

When a contracting professional requires an acquisition method that makes the best possible use of resources, provides for a formal contract that meets statutory requirements, and also incorporates flexibility, the use of an indefinite delivery contract might be an excellent method for consideration. Indefinite delivery contracts have become very popular in recent years because they can save time and effort. They are generally the preferred method in lieu of soliciting and awarding of a new contract. Awarding a new contract can take months; however, an order under an indefinite delivery contract can be accomplished in only a week to a month or two, depending on the method of pricing used and the complexity of the requirement. These contracts help to streamline the contracting effort by reducing the repetitive application of contracting procedures and result in greatly expanded productivity of the acquisition workforce.

An indefinite delivery contract provides various combinations of indefinite elements that provide the desired flexibility to best meet the government's needs. It is not always possible to predict how much of something we will need over a period of time. Other times, we can predict how much will be

needed, but not precisely when or when funds will be available. These vehicles give the contracting professional the flexibility to place orders when and where needed and provide for funding when available.

This flexibility has many benefits, including:

- the ability to award a contract with variable quantity and delivery parameters;
- providing a funding minimum at time of award and then each order as accomplished;
- a structure that allows a variety of agencies or organizations to order against the contract; and
- reducing the required stock levels by shipping direct to ordering offices.

Indefinite delivery contracts may be initially awarded when the precise time of delivery desired is not known. If the quantity is known, it will be fixed. When requirements become known and defined, they may be put under the contract as an order.

Each order is handled as if it were a separate contract for purposes of management, pricing, delivery, payment, and closeout. Indefinite delivery contracts can be awarded using either negotiated or sealed bidding methods.

There are three types of indefinite delivery contracts:

- **Definite quantity.** These contracts provide for delivery of a definite quantity of specific supplies or services for a fixed period, with deliveries or performance to be scheduled at designated locations upon order. Funds for the total quantity are obligated at the time of award.
- **Requirements.** These contracts provide for filling all actual requirements for supplies or services during a specified contract period, with deliveries or performance to be scheduled by placing orders with the contractor. Requirements contracts are used when the government anticipates recurring requirements, but cannot predetermine the exact quantities that will be needed during a definite period. An estimated total quantity may be stated, but is not required. This contract is unique in that the government promises that all purchases that fit

awarded w/
no funds

within the contract's identified requirements will be met through the specific requirements contract. If there are no requirements, the government is not required to order a minimum quantity. Funds are obligated by each delivery order.

- **Indefinite quantity.** These contracts provide for an indefinite quantity, within stated limits, of supplies or services during a fixed period. These contracts should be used only when a recurring need is anticipated. In this case, minimums and maximums are included in the contract along with parameters for issuing orders. Funds for the minimum are obligated on the contract at time of award; requirements above the minimum are obligated on each delivery order. These type contracts are usually referred to as ID/IQ contracts.

Fixed
Price

first
source

There is a statutory preference for making multiple awards of ID/IQ contracts when the government needs the flexibility of placing orders for supplies or services. However, the following must be true:

- there are two or more contractors able to provide the supply or service;
- the terms will be more favorable than a single award;
- it is more cost effective considering the administrative cost; and
- the requirement is severable and more than one contractor can accomplish the separate parts.

Contracts awarded as a result of this preference are called multiple award contracts.

Multiple Award Contracts

Multiple award contracts occur when a contracting agency awards two or more contracts from one solicitation for comparable supplies and services where the award to a single supplier would be impractical or fail to satisfy the total requirements. The awards are for the same generic types of items at various prices.

The use of multiple award contracts can result in advantages for both the government and the contractor. For the government, the advantages are:

- ability to procure supplies or services more quickly;

- increased competition;
- competitive pricing; and
- ability to limit the government's liability to the minimum quantity stated in the contract (especially important when dealing with a contractor who is a poor performer).

Establishing these contracts give contractors increased opportunity to do business with the government.

Just as there are advantages to establishing these contracts, there are also some disadvantages for both parties. For the government, these contracts result in the use of additional personnel to administer them, thereby resulting in higher overall administrative costs. For the contractor, there is a possibility of having to compete twice — once to get the initial contract and a second time to win the order. The cost of competition, commonly referred to as bid and proposal costs, cannot be recovered if the contractor is unsuccessful in winning task or delivery orders.

Multi-Agency Contracts and Governmentwide Acquisition Contracts

Contracting professionals also have multi-agency contracts and governmentwide acquisition contracts that can be used to satisfy a requirement without initiating a new contract. Just as with the previous instruments, MACs and GWACs have become a popular way of satisfying customers' requirements for supplies or services.

MACs are indefinite quantity contracts established by one agency that can be used by other government agencies to obtain supplies and services, consistent with the Economy Act.

GWACs are task order or delivery order contracts for information technology (IT) established by one agency for governmentwide use. Each GWAC is operated by an executive agent designated by OMB pursuant to Section 5112(e) of the Clinger-Cohen Act. The Economy Act does not apply to orders under GWACs.

The host (owning) agency establishes the maximum value of the contract based on their requirements plus an additional quantity for other agencies. Normally, the host adds a small administrative fee for use of the contract. There is also a limit on how much of the total contract value one agency can use.

Agreements

Agreements are another vehicle that can be used for establishing an ordering instrument. This section will describe the following types of agreements:

- basic agreement;
- basic ordering agreement (BOA); and
- blanket purchase agreement (BPA).

These documents are **not contracts**, but they can be used to save time and resources when an agency awards a substantial number of separate contracts to a contractor during a particular period.

Basic Agreement

A basic agreement is a written instrument of understanding, negotiated between an agency or contracting activity and a contractor, that:

- contains contract clauses applying to future contracts between the parties during its term; and
- contemplates separate future contracts that will incorporate those terms by reference or attachment.

A basic agreement is extremely beneficial for contracting professionals and contractors who have experienced significant negotiation problems when initiating new contracts.

Each contract incorporating a basic agreement must include:

- scope of work;
- price;
- delivery;
- other appropriate terms that apply to the contract; and
- clauses pertaining to subjects not covered by the agreement.

Basic Ordering Agreement

The BOA is a written instrument of understanding, negotiated between an agency, contracting activity, or contracting office and a contractor, that contains:

- terms and clauses applying to future contacts (orders) between the parties during its term;
- a description, as specific as practicable, of supplies or services to be provided; and
- methods for pricing, issuing, and delivering future orders under the BOA.

This agreement may be used to expedite contracting for supplies or services when specific items, quantities, and prices are not known at the time the agreement is executed, but a substantial number of requirements are anticipated to be purchased from the contractor.

Under the appropriate circumstances, the use of the BOA can result in economies in ordering parts for equipment support by reducing administrative lead-time, inventory investment, and inventory obsolescence due to design changes.

A contracting professional representing any government activity listed in a basic ordering agreement may issue orders for required supplies or services covered by that agreement. Before issuing an order under a basic ordering agreement, the contracting professional must complete the steps in Figure 8-4.

Figure 8-4 Steps in Using a Basic Ordering Agreement	
Step	Action
1	Obtain competition.
2	If the order is being placed after competition, ensure that use of the BOA is not prejudicial to other offerors.
3	Sign or obtain any applicable justifications and approvals and any determination and findings, and comply with other requirements as if the order were a contract awarded independently of a BOA.
4	Issue orders under BOAs on Optional Form (OF) 347, Order for Supplies or Services, or on any other appropriate contractual instrument.
5	Incorporate by reference the provisions of the BOA.
6	If applicable, cite the authority to limit competition in each order.
7	Comply with synopsis timeframes when synopsis is required.

Blanket Purchase Agreements

A BPA is a simplified method of filling anticipated repetitive needs for supplies or services by establishing "charge accounts" with qualified sources of supply.

The government establishes BPAs for use by an organization responsible for providing supplies for its own operations or for other offices, installations, projects, or functions. Such organizations, for example, may be organized supply points, separate independent or detached field parties, or one-person posts or activities.

Contracting professionals may establish BPAs under the following circumstances:

- A wide variety of items in a broad class of supplies or services generally are purchased, but the exact items, quantities, and delivery requirements are not known in advance and may vary considerably.
- A need exists to provide commercial sources of supply for one or more offices or projects in a given area that do not have or need authority to purchase otherwise.

- Use of this procedure would avoid writing numerous purchase orders.
- No requirements contract exists for the same supply or service that the contracting activity must use.

BPAs also may be established with federal supply schedule contractors in accordance with the ordering procedures of FAR 8.4. All schedule contracts contain BPA provisions. Such BPAs should address the frequency of ordering and invoicing, discounts, and delivery locations and times.

Individual orders against a BPA must not exceed the simplified acquisition threshold. However, agency regulations may establish a higher threshold consistent with the following:

- The simplified acquisition threshold and the \$5.5 million limitation for individual purchases do not apply to BPAs established with contractors under Federal Supply Schedules.
- The limitation for individual purchases for commercial item acquisitions is \$5.5 million.

Using Ordering Instruments and Agreements

Because ordering instruments streamline the acquisition process and eliminate the administrative burdens associated with the process, it is easy to understand why their use is a good sound business decision for the contracting professional. However, since these vehicles are used across agencies and organizations, it is important of know where to find them and how to use them.

Locating Ordering Instruments

Locating the appropriate ordering instrument should be one of the first considerations for the contracting professional. To facilitate location of suitable vehicles, contracting activities have been required to input information online for MACs, GWACs, FSSs, BPAs, and other instruments intended for multiple agency use. This online database (www.contractdirectory.gov) has been temporarily suspended pending the move to the Federal Procurement Data System-Next Generation (FPDS-NG). In the meantime, a list of GSA GWACs is available at <http://www.gsaelibrary.gsa.gov/> and clicking on the "View Technology Contracts" link.

Instructions for Use

Once an appropriate instrument is found, an organization must read and follow the ordering instructions included in the contract.

Often, a direct placement of orders is allowed by the requiring activity. At other times, the requiring activity can send funds to the activity that awarded and manages the contract. Since there may be a surcharge for using the contract, contracting personnel wishing to use it should contact the servicing organization for assistance.

In keeping with the government's e-business goals, many of the ordering instruments do allow for electronic ordering.

The following chart outlines general steps for issuing orders against indefinite delivery contracts, MACs, GWACs, and other multiple award contracts.

Figure 8-5 Steps for Issuing Orders	
Step	Action
1	The contracting professional does not synopsise orders.
2	Individual orders must clearly describe all services to be performed or supplies to be delivered. Orders must be within the scope, performance period, and maximum value of the contract.
3	If the contract is for services, performance-based work statements must be used to the maximum extent practicable.
4	Orders may be placed using any medium specified in the contract.
5	Orders must contain the following information: ■ date of order; ■ contract and order numbers; ■ contract item number, description, quantity, and unit price or estimated cost or fee; ■ delivery or performance schedule; ■ place of delivery or performance (including consignee); and ■ any packaging, packing, and shipping instructions.

If the existing contract does not establish prices for the supply or service, the contracting professional must establish prices for each order.

The contracting professional must document in the contract file the rationale for placement and price of each order.

Fair Opportunity

Under multiple award contracts, the contracting professional must provide each awardee a fair opportunity to be considered for each order exceeding \$3,000 for supplies unless one of the following exceptions to the fair opportunity rule applies:

- the need is so urgent that providing a fair opportunity would result in unacceptable delays;
- only one awardee is capable of providing the supplies or services because the supplies or services are unique or highly specialized;
- the order must be issued on a sole-source basis in the interest of economy and efficiency as a logical follow-on to an existing order; or
- it is necessary to place an order to satisfy a minimum guarantee.

For DoD, Section 803 of the National Defense Authorization Act for 2002 requires each order for services exceeding \$100,000 to be placed on a competitive basis unless the contracting professional waives this requirement, based on one of the exceptions above or a statute expressly authorizes or requires that the purchase be made from a specified source.

INITIATING A NEW CONTRACT

The ongoing strategic market research, which is a continuous process, has enabled you to evaluate all of the alternatives and, in some cases, reconsider some based on changes in mission or market conditions. The focus of the contracting professional is to satisfy the customer's needs by selecting the best business alternative that, when all other business solutions have been considered and dismissed, may be to initiate a new contract. If this is the case, then as the business advisor, it is your responsibility to develop a contractual arrangement that will protect the interests of the government and the contractor. In this section, we will introduce and briefly explore the technical contracting processes that will impact contracting professional's decision to initiate a new contract.

Method of Procurement

When the contracting professional decides to award a new contract, the first step is to decide the most appropriate method of procurement:

- simplified acquisition procedures;
- sealed bidding; or
- contracting by negotiation.

$\leq 100,000$
 $> 100,000$ but
 ≤ 5.5 million if
commercial
or
modified
commercial

Simplified Acquisition Procedures

SAT
Simplified acquisition procedures are procedures for the acquisition of supplies and services, including construction, research and development, and commercial items, the aggregate amount of which does not exceed the simplified acquisition threshold of \$100,000. This threshold has been raised to \$250,000 for purchases made and performed in the United States and \$1 million when purchased and used overseas when in support of a contingency operation or to prevent or recover from a terrorist attack. These procedures can be used for the acquisition of commercial items exceeding the simplified acquisition threshold but not exceeding \$5.5 million, including options. This threshold is \$11 million for terrorism-related acquisitions of commercial items.

There are two main simplified acquisition procedures used to initiate a new procurement:

- governmentwide commercial purchase card; and
- request for quotation followed by placement of a purchase order.

These simplified procedures represent streamlined methods, which translate into reduced paperwork and lower cost.

Governmentwide Commercial Purchase Card

The governmentwide commercial purchase card is a procurement method that provides streamlining and responsive customer service. This is the preferred method to buy and pay for requirements at or below the \$3,000 micro-purchase threshold.¹ The micro-purchase threshold has been raised to

¹ The micro-purchase threshold is \$2,500 for services subject to the Service Contract Act and \$2,000 for construction subject to the Davis-Bacon Act (FAR 2.101).

\$15,000 for purchases made and performed in the United States and \$25,000 for purchases made and performed overseas when used to prevent or recover from a terrorist attack. Purchases using this authority must have a clear and direct relationship to defense against or recovery from terrorism or nuclear, biological, chemical, or radiological attack.

In addition to being used to purchase supplies and services at or below the micro-purchase threshold, the card can be used as a payment vehicle against contracts that have funds already obligated. The contractor that has the established contract is given the card number and charges the appropriate amount to the card, and the finance office then pays the card from the obligated, funded amount on the contract. This saves the government and the contractor time and money. For this process to work properly, the appropriation information and the billing process must be carefully managed.

The purchase card is used to purchase only government requirements within the dollar threshold rather than use a more involved process such as a traditional purchase order.

Warranted contracting professionals may use the purchase card to order from existing contracts when fixed prices are established in the contract.

There are several benefits to using this method of acquisition. It reduces paperwork, accomplishes more rapid purchase and delivery of required supplies and services, and significantly reduces administrative efforts, levels of approval, and the time it takes to meet mission needs. The intent is to streamline the process; therefore, the customer with the requirement should be the cardholder and make the actual purchase.

The procedures for use of the purchase card are provided in agency policy. Each cardholder is given an appointment letter that specifically authorizes use of the card. It describes the dollar thresholds, the type of things that can be purchased, the authority given, and by whom. In addition, it provides very specific guidance on the things that are not authorized for purchase.

The agency is required to provide checks and balances in the form of *certification* by an official other than the cardholder. This person may be the billing official and must be senior to the cardholder. The agency program coordinator often performs the surveillance function.

Request for Quotation Followed by a Purchase Order

A request for quotation (RFQ) is a method of soliciting quotes from suppliers for a customer's requirements for supplies or services not exceeding the simplified acquisition threshold. The FAR allows an RFQ for government unique items to be used for purchases that do not exceed the simplified acquisition threshold. For commercial items, the procedures using an RFQ may be used up to \$5.5 million.

The purchase order (PO) is the ordering instrument used with the RFQ. The order is an offer by the government to the supplier to buy certain supplies or services at specified terms and conditions. After the order is placed, the PO becomes a binding contract when the supplier accepts it in writing or begins to perform. When either event occurs, the government is obligated to pay.

The typical steps required for issuing a purchase order using simplified acquisition procedures are in Figure 8-6. These steps are performed after accomplishing the normal coordination with the requirements office and conducting market research.

Figure 8-6 Steps in Issuing a Purchase Order	
Step	Action
1	Prepare RFQ
2	Publicize RFQ
3	Vendors submit quotations
4	Evaluate quotations
5	Develop informal competitive range
6	Conduct discussions/negotiations (if necessary)
7	Issue purchase order
8	Handle any protests
9	Contractor accepts by performance or by returning the signed copy of the purchase order

above \$25K in Fed Bids
oral quotes up to \$25K

When using this process, the government issues an RFQ in order to get prices and other comparative information from suppliers. This can be done orally for relatively noncomplex requirements. Most often it is done using elec-

tronic methods. Of the quotes received, the government will then issue a purchase order to the contractor with the quote that is most advantageous to the government.

As previously stated, the purchase order is an offer and not a binding contract at time of issuance. To ensure that the contractor is going to accept and perform, the contractor can be requested to sign the purchase order, but this is not required. The government may (by written notice to the supplier, at any time before acceptance occurs) withdraw, amend, or cancel its offer.

Purchase orders are generally issued on a fixed-price basis. The PO must contain the specific quantity of supply or service that is being ordered, terms of delivery and payment, and any clauses required. POs can be modified. This method is intended to be more efficient by providing for a shorter period of time and far less structured documentation. Agency guidance must be followed.

Sealed Bidding

Sealed bidding is a method of contracting that uses competitive bids, which are sealed until time for the public bid opening. Contracting professionals must solicit sealed bids if:

- time permits the solicitation, submission, and evaluation of sealed bids;
- the award will be made on the basis of price and other price-related factors;
- it is not necessary to conduct discussions with the responding offerors about their bids; and
- there is a reasonable expectation of receiving more than one sealed bid.

The steps used in sealed bidding are shown in Figure 8-7. These steps are performed after coordination with the requirements office and accomplishing market research.

Figure 8-7 Steps in Sealed Bidding	
Step	Action
1	Prepare invitation for bids (IFB)
2	Publicize the IFB
3	Vendors submit bids
4	Evaluate bids
5	Award contract
6	Process debriefings and protests

The solicitation must be very precise in the description of the requirement. The statement of work (SOW) and other requirements documents must be developed in a way that every bid received will be providing the same thing and the only variables will be price and price-related factors. This requires a very clear SOW to ensure that there is no question on the part of the contractors as to what the government wants. The description of the requirement may be as straightforward as commercial item part numbers.

In receiving and processing the bids:

- Sealed bids are received and put in a lock box or safe.
- There is a public bid opening at the exact time specified in the IFB.
- Bids are opened and prices announced at the public bid opening.
- The apparent successful low bid is identified.
- Bids are checked for responsiveness after bid opening.

To be considered for award, a bid must comply in all material respects with the IFB. Such compliance enables bidders to stand on an equal footing and maintains the integrity of the sealed bidding system.

The basis of award for sealed bidding is price and price-related factors. Award is made using a fixed-price or fixed-price with economic price adjustment contract.

Contracting by Negotiation

Any contract awarded without using sealed bidding procedures is a negotiated contract. This method is appropriate when the requirement does not fit in the parameters for sealed bidding procedures. Often this is because the nature of the requirement necessitates discussion or negotiation between the parties in order to make an award. It includes discussions or negotiations that attempt to reach an agreement among the parties concerning such things as price, schedule, technical requirements, and terms of a proposed contract. The term negotiation is used for both competitive discussions and noncompetitive negotiations.

In negotiated procurements, there are a number of factors that the contracting professional must consider in making a good business decision. For instance, is it sole source or competitive? If there is only one source available, the solicitation and award will be quite different than if it is competitive. If it is competitive, it is necessary to include evaluation factors in the solicitation and provide for the evaluation of competitive proposals. The business advisor must review the requirement and be satisfied that the evaluation factors will facilitate meeting the need.

After accomplishing the normal coordination with the requirements office and conducting market research, the typical steps required for a negotiated requirement are shown in Figure 8-8.

Figure 8-8 Steps in Contracting by Negotiation	
Step	Action
1	Prepare request for proposals (RFP)
2	Publicize of RFP
3	Vendors submit proposals
4	Evaluate proposals
5	Develop competitive range (if discussions are held)
6	Conduct discussions/negotiations (if necessary)
7	Award contract
8	Process debriefings and protests

In the case of a sole source contract award, steps 1, 2, 3, 4, and 6 would be done differently than if it were competitive because the process only includes one contractor. Step 5 would be eliminated. Step 5 also would be eliminated if discussions were not held.

The basis of award for negotiated procurements is the best value to the government. Award is made using the entire spectrum of contract types from firm fixed price contracts to cost contracts.

Choosing the Appropriate Method

Exhibit 8-1 may help in selecting the appropriate method to use for a defined requirement. As can be seen, various factors will impact the choice of methods, including:

- dollar threshold;
- extent of competition; and
- nature of the requirement (risk level).

These things will then determine the solicitation method, contract type, and basis of award.

THE ACQUISITION PROCESS

In this section, we will look at the acquisition process and how you add value to the acquisition team throughout the process by advising the team on the best alternative to meet the customer's need.

Upon making the decision to initiate a new contract and determining the appropriate method of procurement, the contracting professional must then follow a myriad of steps that will lead to satisfying the customer's needs. The acquisition process has been broken out into the following phases:

- mission support planning;
 - mission strategy execution; and
 - mission performance assessment.
- Source selection, contract formation*
Resource Administration
PARs

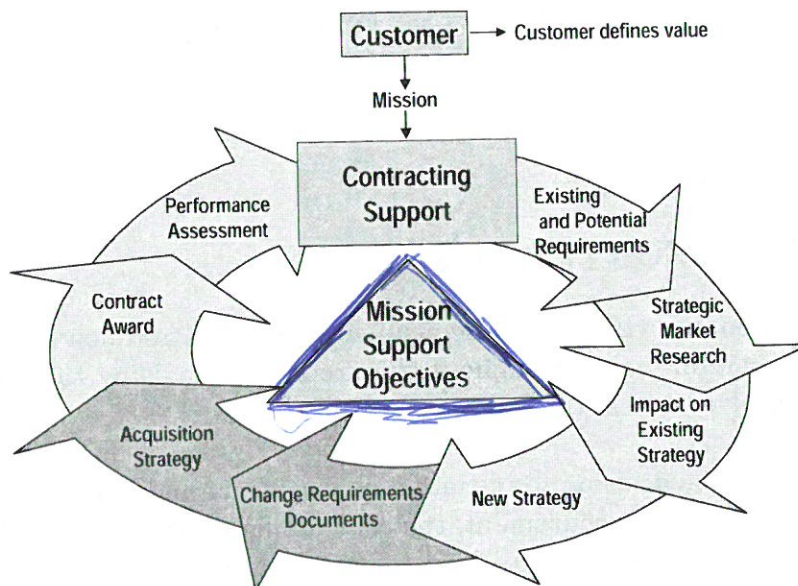
We will introduce and briefly discuss the major actions that are required under each of those steps.

Remember the discussion in the beginning of the chapter regarding the chart below in which we talked about the importance of early involvement in the planning process? At this point, you have considered many alternatives throughout the phases of strategic market research. We will now discuss the three phases that of the acquisition process.

Mission Support Planning

Mission support planning focuses on working with customers prior to receiving a purchase request. This includes the early phases of the mission support as shown in Figure 8-9.

Figure 8-9
Mission Support Objectives



During mission support planning, the efforts of all personnel responsible for an acquisition are coordinated and integrated through a comprehensive plan for fulfilling the agency need in a timely manner and at a reasonable cost. It includes developing the overall strategy for managing the acquisition. It is important to recognize the customer defines value. As the contracting profes-

sional, your expertise will ensure that the **customer's needs are met**, while obtaining **full and open competition** to the greatest extent feasible, meeting **socioeconomic requirements**, and procuring **commercial items** to the maximum extent practicable.

Analyze Existing and Potential Requirements

Analyzing existing and potential requirements will assist you with the following decisions in meeting the customer's requirement:

- Is the need for a supply or service?
- Where is the requirement on the commercial/noncommercial continuum?
- What method of procurement is appropriate (e.g., inventory, required source, order against an existing contract or agreement, or new contracting action)?
- What is the level of competition?
- Are there socioeconomic requirements?

The contracting professional will be working closely with the customer, looking for business strategies and incentives that will deliver the best possible mission support.

Performance-Based Acquisition

Because performance-based contracting is the preferred method, as the contracting professional, you should analyze the requirements document to ensure that it describes "what" performance outcomes are needed as opposed to "how" to perform the requirement. To the maximum extent practicable, all federal agencies must use performance-based methods for acquiring services. While not all acquisitions for services can be conducted in a performance-based manner, the vast majority can. Those cases in which performance-based strategies are not used should become the exception.

DoD's policy is to use performance-based strategies for the acquisition of services wherever possible to maximize performance, innovation, and competition, often at a savings to the customer. In order to ensure that DoD continually realizes these savings and performance gains, DoD established, at a minimum, that 50% of service acquisitions, measured in both dollars and actions, are to be performance-based by 2005.

Performance-based acquisition is defined as an acquisition structured around the results to be achieved as opposed to the manner by which the work is to be performed. It emphasizes quantifiable, measurable performance requirements and quality standards in developing performance work statements, selecting contractors, determining contract type, selecting appropriate incentives, and performing contract administration, including surveillance. Simply put, it is a method for acquiring what is required and placing the responsibility for how it is accomplished on the contractor. The contractor assumes the risk of completion.

Elements

To be considered performance-based, an acquisition should contain, at a minimum, the elements in Figure 8-10.

Figure 8-10 Elements of Performance-Based Acquisition	
Elements	Description
Performance Work Statement	Describes the required results in clear, specific, and objective terms. It can be either prepared by the government or by the contractor (where the government prepares a Statement of Objectives (SOO) and the offeror proposes the PWS).
Measurable Performance Standards	To determine whether performance outcomes have been met, defines what is considered acceptable performance.
Incentives	Procedures that address how to manage performance that does not meet performance standards. While not mandatory, incentives should be used, where appropriate, to encourage performance that will exceed performance standards. Remedies and incentives complement each other.
Performance Assessment Plan	Describes how contractor performance will be measured and assessed against performance standards (e.g., quality assurance plan or quality assurance surveillance plan).

The Business Relationship with the Contractor

A positive relationship between the government and the contractor is essential in fulfilling a performance-based requirement. The agency's relationship

with prospective and performing contractors should be one that promotes a strong and positive business alliance to achieve mutually beneficial goals, such as timely delivery and acceptance of high-quality services, through the use of efficient business practices.

Business relationships should seek to create a cooperative environment to assure effective communication between the parties, teamwork, cooperation, and good-faith performance. These are important for meeting mission objectives and resolving conflicts and problems. Each party should clearly understand the goals, objectives, and needs of the other. It is essential that government and industry work together as a team to communicate expectations, agree on common goals, and identify and address problems early on to achieve desirable outcomes.

Market Research

Market research is the contracting professional's tool that helps him or her advise the acquisition team on the best alternative to meet the customer's need. Market research can be broken down into two broad categories:

- **Strategic market research.** Market research that allows contracting professionals to be continuously engaged in the marketplace for the supplies and services they purchase. Strategic market research gives the contracting professional knowledge of market trends and best practices in the marketplace, such as processes used in the commercial marketplace to describe requirements, incentives that are offered to improve performance, and how the commercial world assesses performance. During strategic market research, the contracting professional talks to consumers and buyers in the commercial marketplace to determine the best contractors for the customer's product or service. In addition, it includes continually assessing existing government alternatives that are available to meet the customer's requirements and recommending new ones when needed. Strategic market research is an ongoing process and essential to your role as a business advisor.
- **Tactical market research.** Tactical market research normally begins with an existing requirement. During tactical market research, the contracting professional talks to suppliers of the item or service to help determine what the market has to offer. Tactical market research will further help determine if existing contracts exist to meet the requirement or if a new contract will have to be initiated. If no ex-

isting contracts exist and the decision is made that initiating a new contracting action is the best alternative, tactical market research helps determine whether commercial items or nondevelopmental items are available to meet the government's needs or could be modified to meet those needs. It also will help make the decision on whether there are small businesses that can meet the requirement or if the item is available only from large businesses.

Identify Risks

Market research will assist the contracting professional in identifying risks associated with the acquisition. Identifying risks includes such things as determining the state of the art for the requirement. Is it a new item that is not available in the marketplace, an evolving technology, or an item or service that is available to the public? What are the risks to the government if the team pursues acquisition of the item or service? What are the risks to the contractor who is selected to perform under the contract? What can the government do to mitigate the risk to both parties?

Financing Options, Bond Requirements, and Method of Payment

Determining appropriate contract financing is usually a product of good market research. Early strategic research is critical in the identification of financing options for consideration in providing the customer the best business advice and in considering the market segment and contractor requirements.

The government prefers for contractors to obtain private financing. However, if buyer financing is standard in the industry or the acquisition risk is assessed as exceptionally high, the government will typically provide commensurate financing.

The arrangement of payment options, including potential contract financing and the need for bonds, are all serious points for negotiation and should not be taken lightly. Since they are all risk driven, they will impact profit or fee calculations and evaluation. As is always the case, the best interest of the government will be a key factor in the application of these standards and practices.

Techniques in Conducting Market Research

Techniques for conducting market research include the following:

- customer and industry surveys;
- publicizing formal requests for information;

- querying government databases;
- participating in interactive, online communications; and
- presolicitation conferences.

Maximize Competition

Competition in contracting is not new. During the Revolutionary War, a policy establishing the concept of competition was developed to discourage price gouging and resulted in the lowest price to the government. Following this tradition, current laws and regulations further the use of competitive awards. In 1984, CICA imposed the following levels of competition:

- **Full and open competition** is the standard and means all responsible contractors are given the opportunity to compete. Full and open competition does not require any additional paperwork, nor are special approvals required, but most important it is the law! It is one of the best methods to determine a fair and reasonable price since the marketplace, not the contractor or the government, determines the price.
- **Full and open competition after exclusion of sources** achieves competition after first excluding one or more sources. For example, small business set-asides are full and open competition among the small businesses; large businesses are excluded. Another example is excluding a source that is dominant in a particular field so effective competition can be introduced. Again, the marketplace, not the contractor or the government, determines the fair and reasonable price.
- **Other than full and open competition** is the final category established by CICA. Examples are sole source acquisitions and requirements under international agreements. Each contract awarded without providing for full and open competition must contain a reference to the specific authority under which it was awarded.

Socioeconomic Requirements

Congress has legislated a number of socioeconomic program designed to foster the growth and development of various categories of domestic small, businesses. Specific programs apply to small businesses, small disadvantaged businesses, veteran-owned and service-disabled veteran-owned small businesses, HUBZone small businesses, and the Small Business Administration's 8(a) Business Development program for small disadvantaged businesses. During the planning phase, the acquisition team determines if its require-

ment can be met using one or more of these socioeconomic programs. We will not go into these programs in this course but suffice it to say, you must become acquainted with them so you can advise how to implement the government's socioeconomic policies while still meeting your customers' needs.

Source Selection Strategy

The source selection strategy represents the key areas of importance and emphasis to be considered in the award decision. This is an area where the factors that the customer has determined to "have value" will be represented in the source selection strategy.

The factors should be tailored to each acquisition and include only those that are needed to assess specific areas of importance. In sole source acquisitions, it is not necessary to include evaluation factors to determine the best offer, since there is only one. However, in competitive acquisitions, these factors must provide a means of discriminating among proposals.

If the method of procurement is sealed bidding, the only factors used are price and price-related (e.g., transportation, administrative costs for multiple awards, and rental factor for use of GFP).

If contracting by negotiation, the following factors are mandatory:

- price/cost;
- quality;
- past performance; and
- small disadvantaged business participation (for unrestricted procurements exceeding \$550,000).

Contract Type

Contract type, in its simplest definition, is the paying arrangement. It is also the government's vehicle to ensure fair sharing of risk between the government and the contractor.

There are a wide variety of contract types available to the government and contractor. They provide the needed flexibility in acquiring the large variety and volume of supplies and services agencies require, and vary according to:

- the degree and timing of the responsibility assumed by the contractor for costs of performance; and
- the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals.

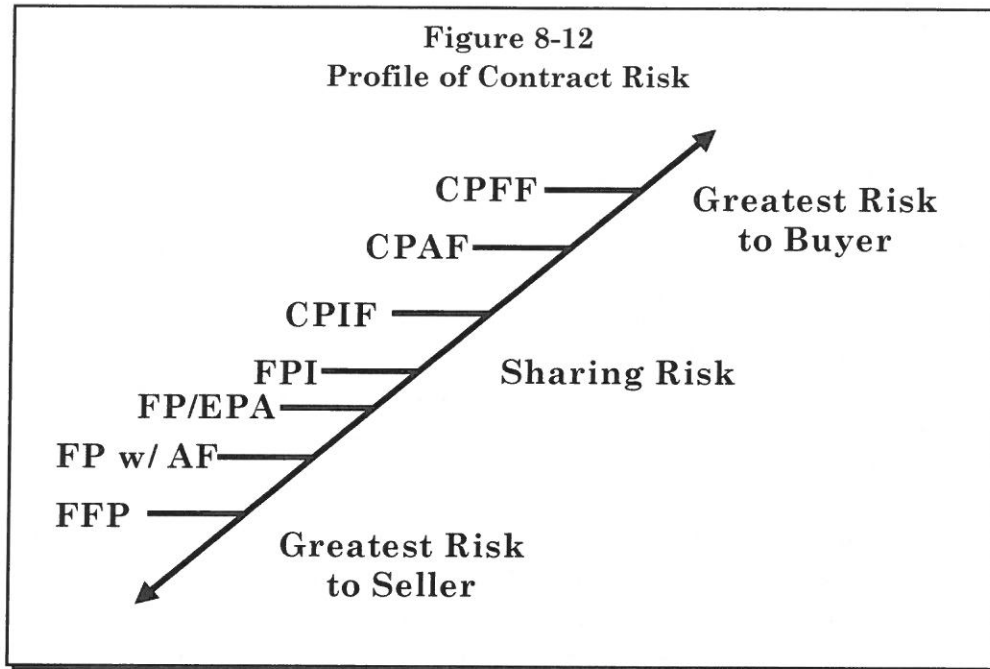
The goal is to select a contract type and price that will result in reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical performance. In other words, the idea is to appropriately manage risk.

Contract types are grouped into two broad categories: fixed-price and cost-reimbursement. Figure 8-11 lists the features of those two categories.

Figure 8-11
Contract Type Categories

Fixed-Price	Cost-Reimbursement
Contractor required to deliver the product or perform the service as specified.	Contractor required to deliver "best effort" to provide the specified product/service.
Provides for a firm price or, in some cases, an adjustable price.	Reasonable, allowable, allocable costs will be reimbursed up to level specified in contract as total estimated amount.
Contract amount represents full payment for work; contractor exceeds at own risk.	Contract amount represents an estimate of total cost as a not to exceed ceiling, which cannot be exceeded without contracting professional approval.
Use when technical and cost uncertainties involved in contract performance can be estimated with sufficient accuracy (low or predictable risk).	Use when technical and cost uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed price contract (high or unpredictable risk).
Use when work can be clearly defined.	Use only when: ■ contractor has adequate accounting system; and ■ government monitoring during performance provides assurance of efficient methods and effective cost controls.
Contractor bears responsibility for performance costs and resulting profit or loss.	Contractor bears less responsibility for the performance costs and resulting fee.
Use FFP or FP/EPA when: ■ acquiring commercial items; ■ using simplified acquisition procedures; ■ using sealed bidding; or ■ using negotiated procedures.	Prohibited for acquisition of commercial items. Use with negotiated procedures.

Figure 8-12 identifies various types of fixed-price and cost-reimbursement contracts, as well as which contracts offer the greatest risk to the seller and which contracts offer the greatest risk to the buyer.



The fixed-price family includes the following contract types:

- **Firm-fixed-price.** Firm-fixed-price contracts provide for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss. It provides maximum incentive for the contractor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties. (FAR 16.202)
- **Fixed-price with award fee.** This contract type is based on performance incentives alone and allows agencies to recognize and reward contractors who exceed minimum standards in terms of quality, timeliness, technical ingenuity, and effective management. Under the fixed-price contract with award fee, agencies will pay contractors a fixed price for satisfactory performance and an award fee (if any) in addition to that fixed price. (FAR 16.404)

- **Fixed-price with economic price adjustment.** Fixed-price contracts with economic price adjustment provide for upward or downward adjustment of the price based on the occurrence of contingencies specified in the contract. Economic price adjustments are of three general types:
 - adjustments based on established prices;
 - adjustments based on the actual cost of labor or material; and
 - adjustments based on cost indexes of labor and material.

Use of this type of contract reduces the contractor's risk because it is protected against industry-wide increases in some costs. However, the contractor forgoes the possibility of making a "windfall" profit due to falling costs or the benefits of having established a firm-fixed price in a falling market. (FAR 16.203)

- **Fixed-price incentive.** This type of fixed-price contract allows for an adjustment of profit and establishment of final price through the use of a formula based on the relationship between final negotiated total cost and total target costs. The final price is subject to a price ceiling, which is negotiated at the outset. In conjunction with the cost incentive or constraint, an FPI contract can also be structured to include performance or delivery incentives. (FAR 16.204 and 16.403)

The cost-reimbursement family includes the following contract types:

- **Cost-plus-incentive-fee.** CPIF contracts allow for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs to total target costs. This contract type specifies a target cost, a target fee, minimum and maximum fees, and a fee adjustment formula. After contract performance, the fee payable to the contractor is determined in accordance with the formula. The formula provides, within limits, for increases in fee above target fee when total allowable costs are less than target costs, and decreases in fee below target fee when total allowable costs exceed target costs. This increase or decrease is intended to provide an incentive for the contractor to manage the contract effectively. (FAR 16.304 and 16.405-1)

FPI and CPIF contracts show the primary difference between fixed-price and cost-reimbursement contracts. The FPI contract places a greater risk on the contractor. Regardless of the actual cost incurred, the contractor must meet the contractual requirements. The government's liability, on the other hand, cannot exceed the agreed-upon contract ceiling price. Under a CPIF contract, however, the contractor need only apply its best efforts in meeting the contract work specifications.

- **Cost-plus-award-fee.** This contract type provides for a fee consisting of:
 - a base amount fixed at the beginning of the contract; and
 - an award amount, based on the judgmental evaluation of the government, sufficient to provide motivation for excellence in contract performance in areas such as quality, timeliness, ingenuity, and cost effectiveness.

The contractor may earn the award fee in whole or in part. The amount of award fee to be paid is based on a subjective evaluation by the agency of the quality of the contractor's performance in terms of the criteria stated in the contract. (FAR 16.305 and 16.405-2)

- **Cost-plus-fixed-fee.** This type of cost-reimbursement contract provides for payment of a fixed fee to the contractor. The fixed fee is negotiated at the beginning of the contract and does not vary with actual cost, but may be adjusted as a result of changes in the work to be performed under the contract. CPFF contracts permit contracting for work that might otherwise be too risky for contractors, but it provides the contractor with only a minimum incentive to control costs. (FAR 16.306)

Acquisition Strategy or Plan

Once you have reviewed your requirement, done your strategic and tactical market research, determined whether competition exists in the marketplace, determined socioeconomic requirements, developed the source selection strategy, assessed the risks, and determined the contract type and contract financing required to obtain best value, as defined by the customer, it is time to develop your final acquisition strategy or plan.

The acquisition plan can be very informal (e.g., thinking through the strategy for a simplified acquisition) or very formal (e.g., a documented plan for complex, high dollar value acquisitions). Once the plan is in place, you are ready to move into the mission strategy execution phase of the contracting process.