P.I.V.O.T. SOURCE SELECTION AND PRICING METHODOLOGY

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### **CURRENT SITUATION**



COVID-19 impacts continue to expand, negatively impacting markets for everything from simple commodities to highly skilled labor, resulting in higher prices, longer acquisition schedules, increased frequency of requests for additional customer funding, less contractor willingness to hold prices and decreased competition as vendors withdraw offers and/or exit the Federal marketplace entirely.

### PROBLEM STATEMENT

Current statutes, regs and policies are devoid of a simple **PRE**-award alternative to hedge market pricing risk while fostering competition.





### PRE-AWARD



### **POST-AWARD**

FAR 52.216-4 **Economic Price Adjustment – Labor & Materials** 

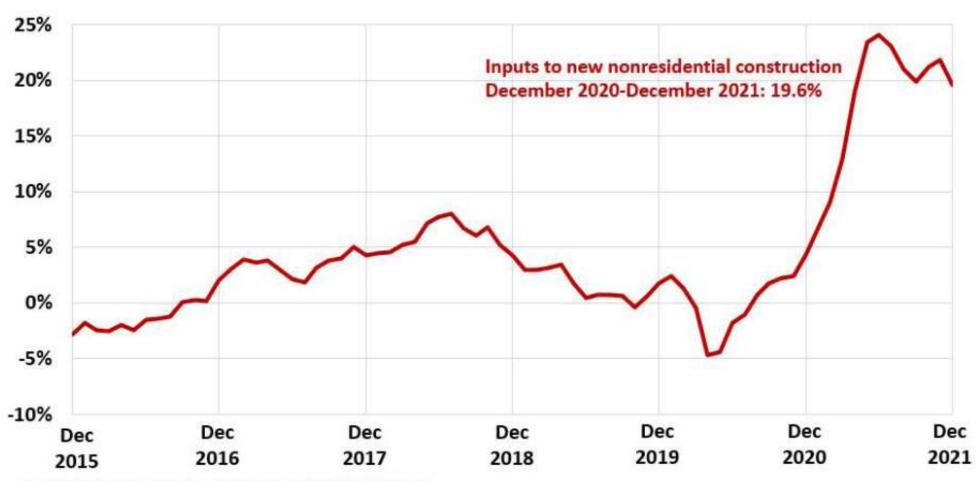


### **OUR MARKET IS VULNERABLE...**



### Change in prices for inputs to construction

Year-over-year change in PPI, 2015 - 2021, not seasonally adjusted



Source: Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi



## SO, OUR PORTFOLIO IS VULNERABLE...



Price	increases	for construction	inputs
	(2019년대 2019년 1월 1일 1일 1일 1일 1일 1일	/ 1878 (T)	

Year-over-year change in December PPI

Construction materials	2020	2021
Steel mill products	5.2%	127%
Plastic construction products	5.4%	34%
Aluminum mill shapes	-1.7%	30%
Copper and brass mill shapes	24%	23%
Gypsum products	3.6%	21%
Lumber and plywood	37%	18%
Architectural coatings	1.9%	14%
Asphalt felts and coatings	2.1%	12%
Used by contractors		
Diesel fuel	-2.8%	55%
Truck transport of freight	2.2%	18%
Construction machinery and equipment	1.1%	10%
Truck and offroad tires	0.3%	11%

127%

55%

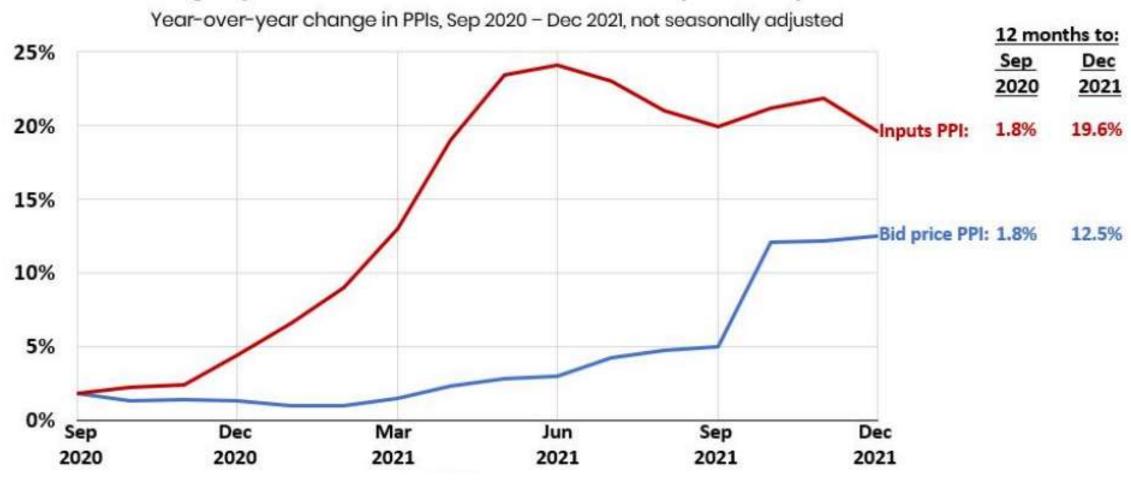
Source: Bureau of Labor and Statistics, Producer Price Indices, www.bls.gov/ppi



### BID PRICES BEGINNING TO CATCH UP...



### Change in prices for new nonresidential construction inputs vs. bid prices



Source: Bureau of Labor and Statistics, Producer Price Indices, www.bls.gov/ppi

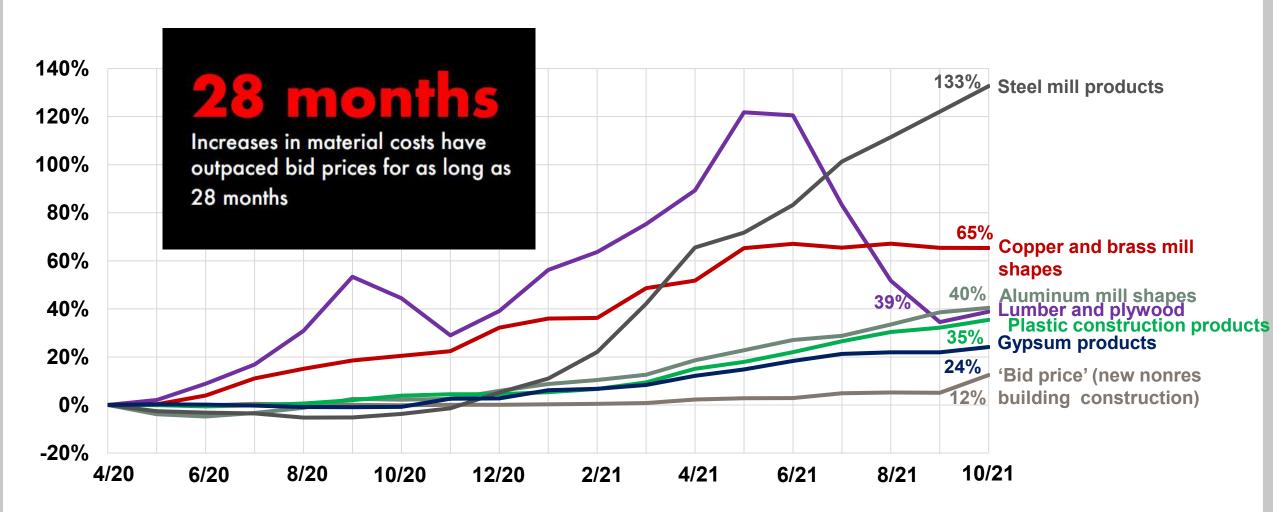


### ...ITS DIFFICULT TO KEEP PACE...



### Price changes for construction and selected materials

**April 2020 – October 2021** 

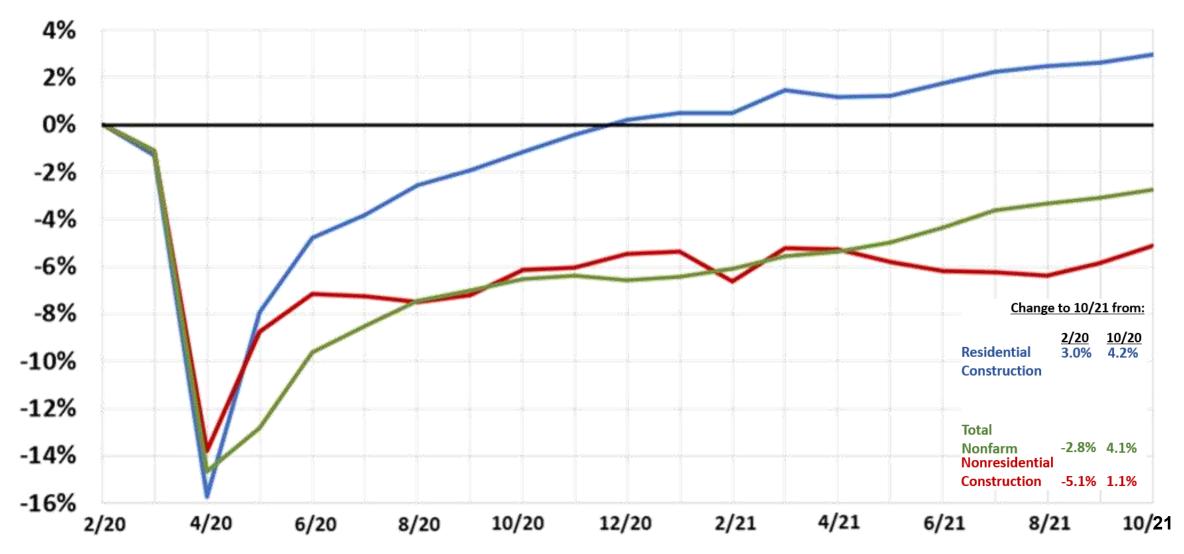


Source: The Associated General Contractors of America, Inc., BLS current employment statistics, https://www.bls.gov/ces/



### ...THERE IS SOME IMPROVEMENT...



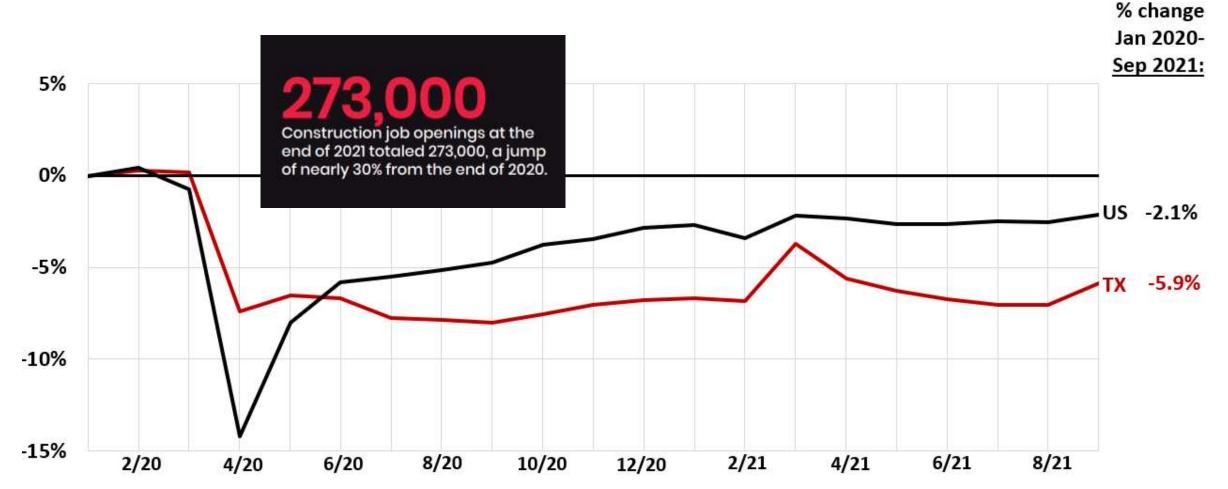


Source: The Associated General Contractors of America, Inc., BLS current employment statistics, https://www.bls.gov/ces/



### ...CONSTRUCTION LABOR IS DOWN...







### ...AN INFLATION IS ON THE RISE...





TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Source: Trading Economics and BLS, https://www.bls.gov

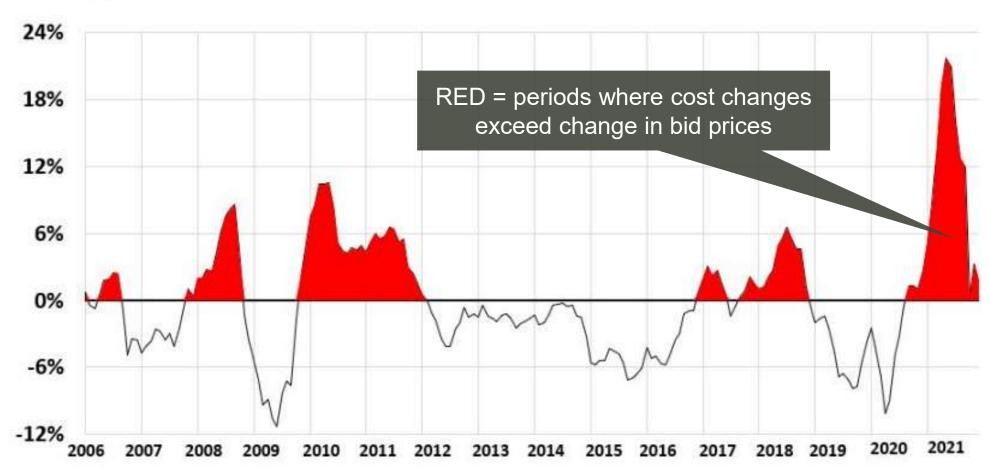


### ... AND IT'S NOT GOING AWAY SOON.



#### Cost squeeze on contractors can last two years or more

Difference between year-over-year change in materials costs vs. bid prices, Jan 2006-June 2021



Source: Source: Association of General Contractors of America (AGC) and Bureau of Labor Statistics, <a href="www.bls.gov/ppi">www.bls.gov/ppi</a>, producer price indexes for goods inputs to nonresidential construction (material costs) and new warehouse construction (bid prices)



### **CHALLENGES & IMPACTS**

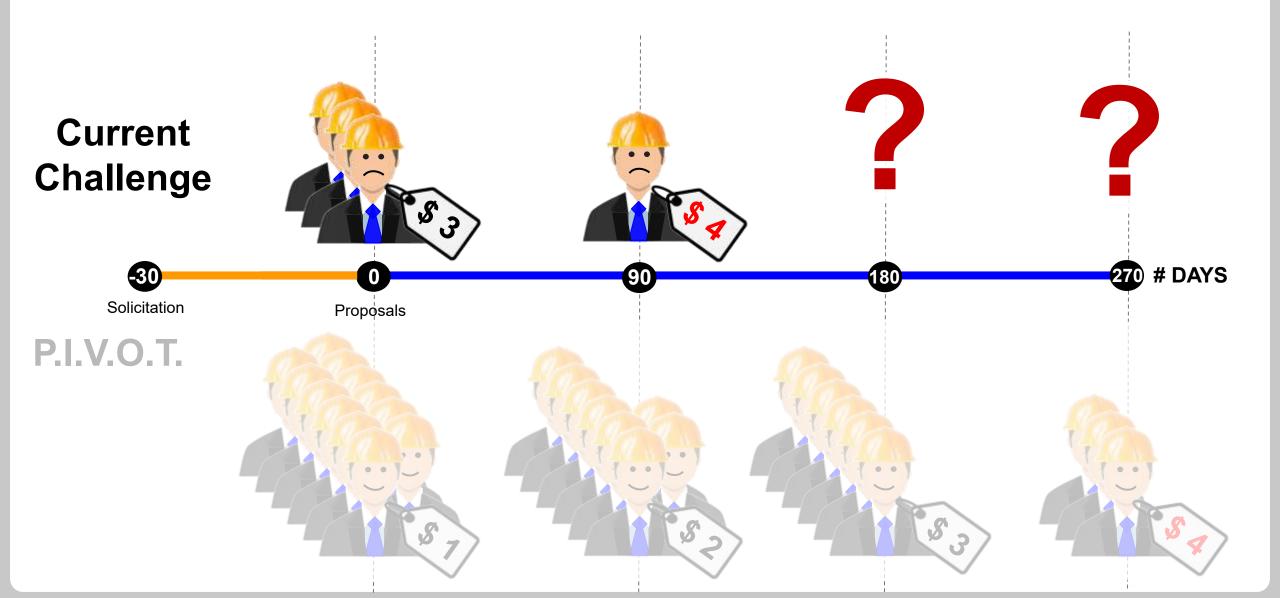


- Rapidly increasing market prices = high risk for Defense Industrial Base (DIB).
- DIB contractors (KTRs) reluctant to hold prices; e.g., was ~6mo, now ~60days.
- Greater incidence of KTRs pulling out of acquisitions.
- Widening gap between proposed prices and GOV cost estimates (IGEs).
- Increasing number of Above Threshold Requests (ATRs); ~100 across USACE.
- Schedule impacts to update IGEs and/or seek additional funds.
- KTRs shifting focus to state/municipal/residential/commercial in lieu of GOV.
- Regulatory flexibilities focus on post-award: e.g., EPA, Variation in Quantity
- Rapid market changes make price and cost realism analyses difficult.
- Determining prices fair and reasonable is a growing challenge, at best.



# FEWER COMPETITORS... WHO CANNOT HOLD PRICES AS LONG!

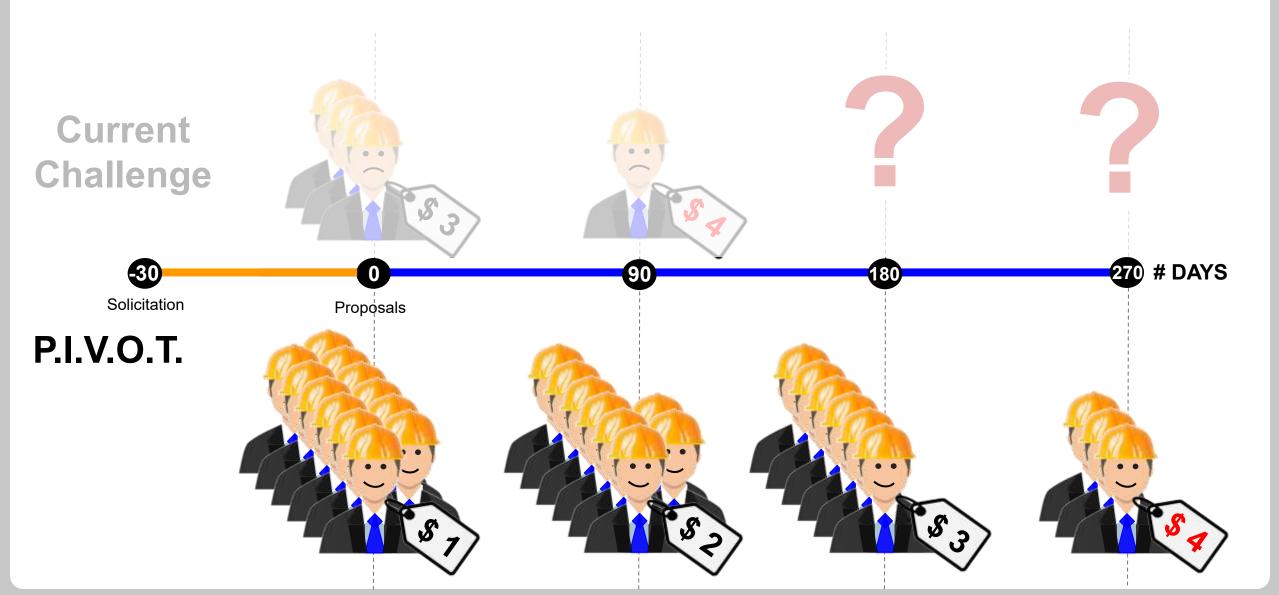






# FEWER COMPETITORS... WHO CANNOT HOLD PRICES AS LONG!

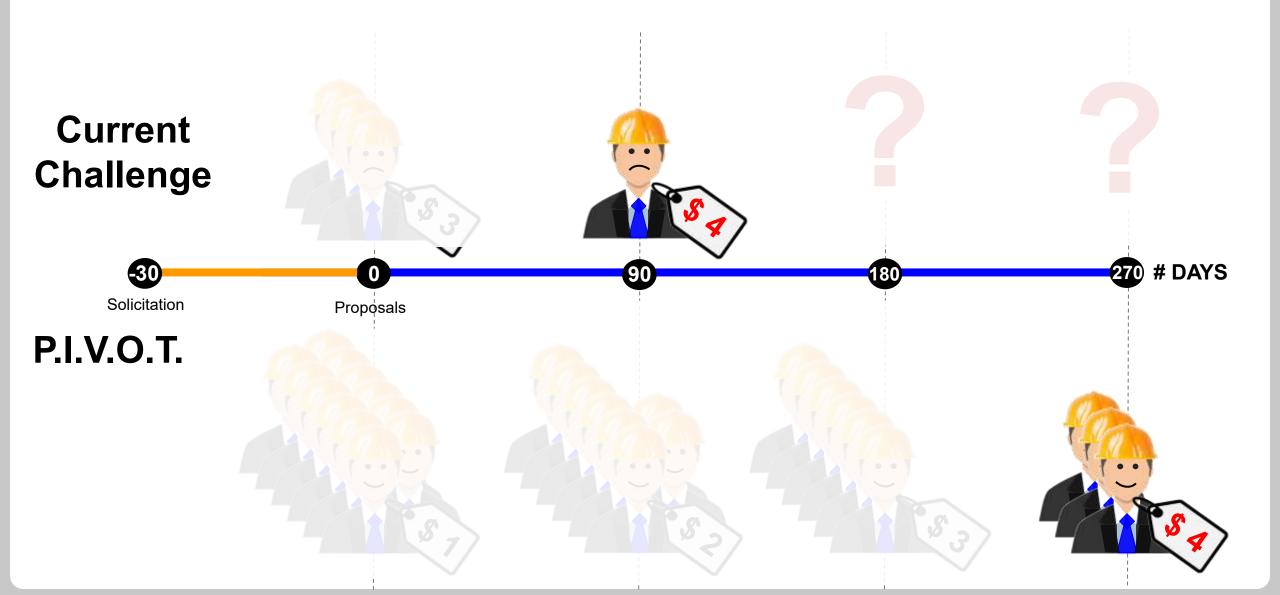






# FEWER COMPETITORS... WHO CANNOT HOLD PRICES AS LONG!











### PROPOSED SOLUTION



- PIVOT = (Prices Include Variation Over Time)
- Goals: keep KTRs at the table, keep prices valid longer.
- Fosters increased competition while addressing market pricing risk.
- GOV/KTR partnership to share the unique risk profile of an acquisition.
- New optional pre-award pricing and source selection methodology.
- Basic idea: scale proposed prices OVER TIME as proposals age and market moves.

### **Current Approach**

### **New Approach**

ACME, Iso. 125 Elen Sa. Gir, UR 54521	Proposal
CLIN 0001	\$ 1,000
CLIN 0002	. ,
CLIN 0003	\$ 4,000
TOTAL	\$10,000

ACME		]	<b>Proposal</b>
ACME, Ion. 123 Em Sa Ceg, US 98271	Period 1 0-90 days	Period 2 91-180 days	Period 3 181-865 days
CLIN 0001 CLIN 0002 CLIN 0003	\$ 1,000 \$ 5,000 \$ 4,000	\$ 1,100 \$ 5.500 \$ 4.400	\$ 1.500 \$ 7,100 \$ 6,400
TOTALS	\$10,000	\$11,000	\$15,000



### WHAT PIVOT IS NOT...



- A template solution instead, it will vary every time.
- A silver bullet it will not hedge all risks.
- A hammer everything isn't a nail; this solution is a scalpel.
- Addresses the immediate symptoms only.

### WHAT PIVOT IS...

- Responsive directly addresses competition & pricing risk.
- Timely available NOW, for immediate implementation on new awards.
- Aligned with existing statutory and regulatory constraints/flexibilities.
- Dynamic version 26 and counting, an evolving solution.
- And please remember.....



# TREATS SYMPTOMS, NOT ROOT CAUSE





# THE PIVOT PROCESS





### **STEP 1**: Define the Periods



- Thorough acquisition planning is critical to PIVOT success.
- GOV defines the NUMBER of "Periods" in the solicitation.
- All time periods key off the solicitation closing date; i.e when proposals are due.
- When using PIVOT, GOV must include at least (3) periods to spread the risk.
- For proposals to be deemed acceptable, KTRs must submit prices for ALL periods.
- GOV defines date RANGE of each period; tied to unique drivers of each acquisition.
- Periods may be of equal or unequal lengths, GOV prerogative.
- Ranges remain consistent across all CLINs.

ACME			Proposal	
ACME, Inc. 128 Elm St. City, US 54821	Period 1 0-90 days	Period 2 91-180 days	Period 3 181-865 days	
CLIN 0001 CLIN 0002 CLIN 0003	\$ 1,000 \$ 5,000 \$ 4,000	\$ 2,000 \$ 8,000 \$ 5,000	\$ 5,000 \$ 17,000 \$ 8,000	
TOTALS	\$10,000	\$15,000	\$30,000	

The number and length of periods are TAILORED to each unique acquisition.



# **Step 2**: Define the Weights



- GOV defines weights for each period based on market price volatility over time.
- Each weight represents GOV/KTR confidence in prices during a given period.
- GOV cost estimates are tailored to align with same periods as the solicitation.
- KTR prices remain valid for all periods, at prices proposed by period.
- In competed actions, KTRs are NOT asked to extend prices at Period thresholds.
- However, with sole source actions, GOV may negotiate flexibility, KTR prerogative.
- PIVOT solicitations must clearly define the periods, weights and scaling alternative.

GOV weights are also TAILORED to each unique acquisition.

Example: prices in the next 90d are **MUCH** more predictable than 360d away, so Period 1 weights will be the highest.

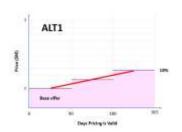
High fidelity = Higher weight.

(\$IVI)	Period 1	Period 2	Period 3	Period 4
(5141)	0-90d	91-180d	181-270d	271-365d
CLIN 0001				
CLIN 0002				
CLIN 0003				
CLIN 0004				
CLIN 0005				
Total Award Price				
Weights	50%	30%	15%	5%
Adjusted CLIN Prices				
TOTAL Adj. Price				



## **Step 3: Chose Scaling Approach**





### Alternative #1 – Percentage Scaling.

- GOV selects an appropriate percentage used to scale KTR prices.
- KTRs use the GOV percentage to calculate prices for each period.
- Two methods, one calculates from base price, one from previous period price.



### Alternative #2 – Index Pricing.

- GOV uses public domain economic index; e.g., Producer Price Index (PPI).
- KTRs use the index rate to calculate prices for each period.
- Best approach uses subsector specific index values to better align with req't.
- Example: "Non-residential construction PPI for OCT 21".



### Alternative #3 – Vendor Parlay.

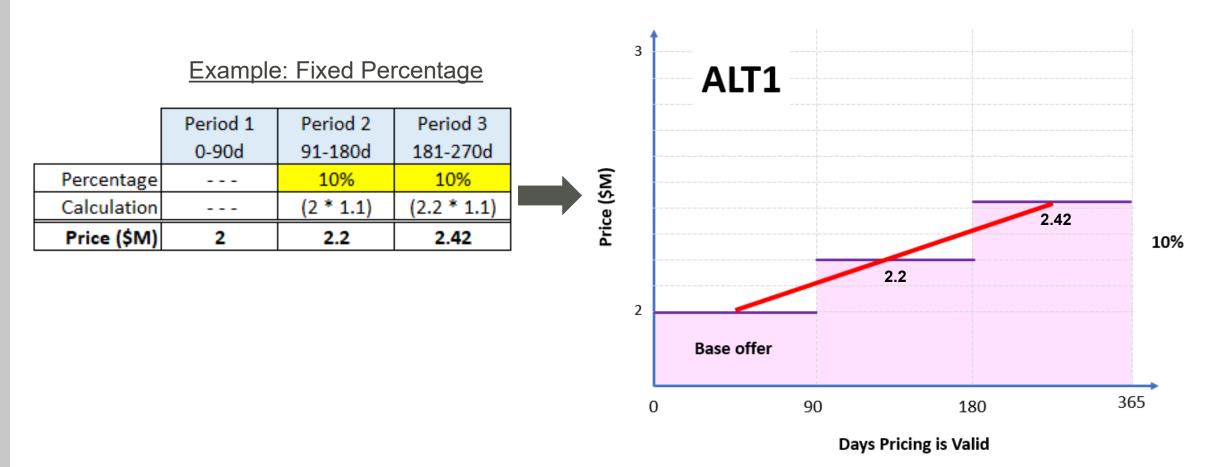
- Full KTR autonomy to choose prices by Period based on their modeling.
- Price per period is based entirely on KTR's own competition/risk model.
- GOV price exposure is hedged by GOV selected period weights.



## **ALT1 – Percentage Scaling**



- Mechanism to scale prices is simply a fixed percentage chosen by GOV.
- Easier to align with actual regional prices compared to indices, which are typically all US.



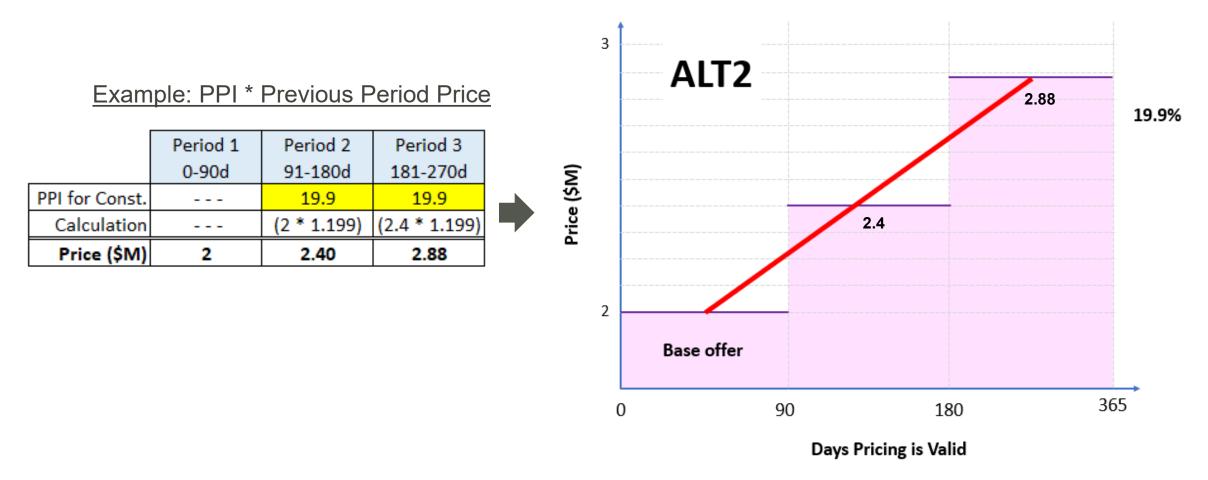
Note: over time curve may prove more parabolic; presented in a linear fashion to underscore the fixed % value; however, slope may be linear depending on PDT approach.



### **ALT2** – Indexed Pricing



- Like ALT1 except mechanism to scale prices is a well-known index available in public domain.
- Very high fidelity with the contract requirement, but some indices are more current than others.



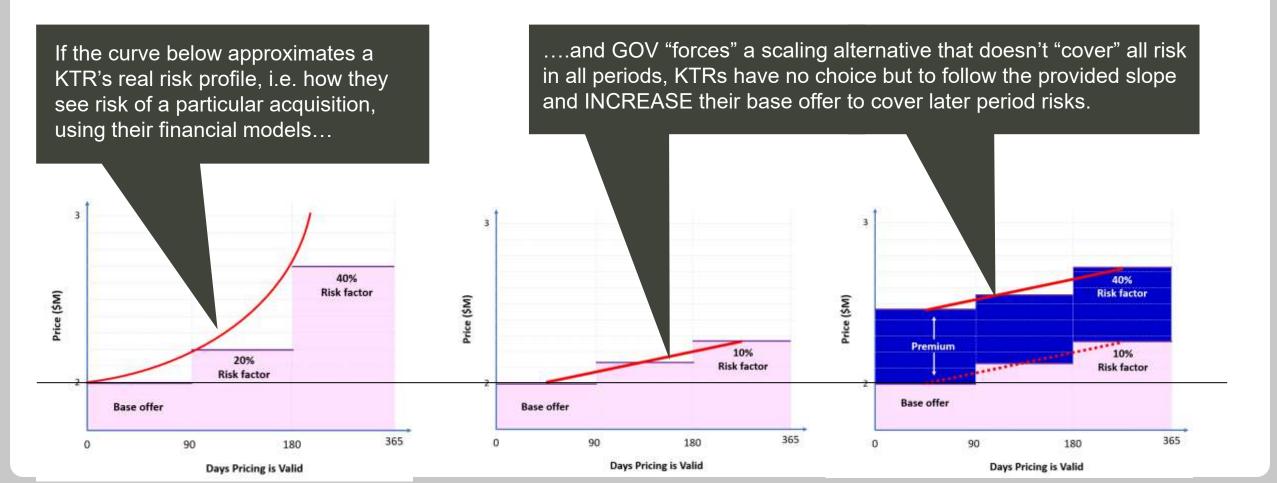
Note: over time curve may prove more parabolic; presented in a linear fashion to underscore the fixed index value, however, slope may be linear depending on PDT approach.



### **ALT1 and ALT 2 – RISKS**



- Both % and index alternatives include forced scaling which may/may not cover KTR risks.
- These forced lines introduce risk that KTRs may include near-term price premiums.
- This is our current state, where GOV asks for 1 Firm Fixed Price...and then ask KTR to hold.
- To protect their exposure, they are forced to include risk premiums.





### **ALT3 – Vendor Parlay**



- KTR has TOTAL autonomy to customize proposed period prices and scaling.
- Pricing for all periods are REQUIRED for proposal to be deemed acceptable.
- KTRs enjoy autonomy...yet price is still subject to cost realism and balanced pricing analyses.
- This approach most closely aligns with current Firm Fixed Price (FFP) single price model.

<b>Example</b>	: KTR	pricing	by Period

(¢na)	Period 1	Period 2	Period 3	Period 4
(\$M)	0-90d	91-180d	181-270d	271-365d
CLIN 0001	1	1.7	1.9	2.2
CLIN 0002	1.5	2.5	4	8
CLIN 0003	2	2.4	2.6	2.8
CLIN 0004	5.8	6.1	6.1	6.1
CLIN 0005	1	1.1	0.9	1.2
Total Award Price	11.3	13.8	15.5	20.3





### ALT3 – RISKS



- Vendors may use sophisticated tools beyond USACE norms; Monte Carlo, game theory, etc.
- However, Total Adjusted Price (TAP) helps mitigate this risk and ensure a level playing field.
- Critical that KOs perform realism analysis at all CLINS and Periods to understand anomalies.

Apparent anomalies, such as identical prices across periods, MAY be a realism issue. May also point to savvy KTRs with valid price efficiencies.

Example 1: KTR may hold a price because they're using existing supplies/inventory previously purchased at prices lower than current market.

Example 2: KTRs may have long-term pricing deals with material suppliers.

Example 3: KTRs may hold put options, locking price and allowing them to procure materials at much lower cost than their competitors.

RISK? Requires closer KO analysis by CLIN/Period.

(¢n/i)	Period 1	Period 2	Period 3	Period 4
(\$M)	0-90d	91-180d	181-270d	271-365d
CLIN 0001	1	1.7	1.9	2.2
TUN 0002	1.5	2.5	4	8
	2	2.4	2.6	2.8
CLIN 0004	5.8	6.1	6.1	6.1
CLIN 0005	1	1.1	0.9	1.2
Total Award Price	11.3	13.8	15.5	20.3
Weights	50%	30%	15%	5%
Adjusted CLIN Prices	5.65	4.14	2.33	1.02
TOTAL Adj. Price	13.1			



# **Step 4**: Tailor the Solicitation Package



- As part of a PIVOT solicitation, GOV provides KTRs with a fillable MS Excel Workbook.
- KTRs fill in their prices by CLIN and by Period.
- Workbook Periods, Ranges, and Weights align with published solicitation.
- The Excel workbook automatically calculates:
  - 1. Total Award Price by Period.
  - 2. Adjusted Prices by CLIN.
  - 3. Total Adjusted Price (TAP); used solely for the evaluation.

	Period 1	Period 2	Period 3	Period 4
	0-90d	91-180d	181-270d	271-365d
CLIN 0001	?	?	?	?
CLIN 0002	?	?	?	?
CLIN 0003	?	?	?	?
CLIN 0004	?	?	?	?
CLIN 0005	?	?	?	?
Total Award Prices	?	?	?	?
<b>GOV Period Weights</b>	50%	30%	15%	5%
Adjusted CLIN Prices	?	?	?	?
TOTAL Adj. Price	?			



### **Step 5**: Evaluate Price



- With PIVOT, price evaluation focuses ONLY on the Total Adjusted Price (TAP).
- TAP is a SUM of the weighted average calculations, by CLIN, by Period; see below.
- The weighted average approach smooths period fluctuations, while mitigating market risks.
- KTR award prices, by Period, are IRRELEVANT to the evaluation TAP is the sole focus.
- Note that KTRs are allowed to update prices with Requests for Final Proposal Revisions.
- Likewise, PIVOT works just like other contracts with respect to DoL Wage Determinations.

### 1) Calculate Adjusted Price by CLIN

/¢n//\	Period 1	Period 2	Period 3	Period 4
(\$M)	0-90d	91-180d	181-270d	271-365d
CLIN 0001	1.5	1.7	1.9	2.2
CLIN 0002	2	2.5	4	8
CLIN 0003	2.2	2.4	2.6	2.8
CLIN 0004	5	6	7	8
CLIN 0005	0.5	0.7	0.9	1.2
Total Award Prices	11.2	13.3	16.4	22.2
GOV Period Weights	50%	30%	15%	5%
Adjusted CLIN Prices	5.60	3.99	2.46	1.11
TOTAL Adi Price	13.2			

### 2) Total Adjusted CLIN Prices = TAP

(\$IVI)	Period 1	Period 2	Period 3	Period 4
(SIVI)	0-90d	91-180d	181-270d	271-365d
CLIN 0001	1.5	1.7	1.9	2.2
CLIN 0002	2	2.5	4	8
CLIN 0003	2.2	2.4	2.6	2.8
CLIN 0004	5	6	7	8
CLIN 0005	0.5	0.7	0.9	1.2
Total Award Prices	11.2	13.3	16.4	22.2
GOV Period Weights	50%	30%	15%	5%
Adjusted CLIN Prices	5.60	3.99	2.46	1.11
TOTAL Adj. Price	13.2			



### **Step 6: Source Selection**



- Best Value Trade Off (BVTO) is the required source selection methodology for PIVOT.
- PIVOT is NOT for Lowest Price Technically Acceptable (LPTA) or sealed bid actions.
- LPTA and IFB are not appropriate as award may go to offeror with a HIGHER TAP.
- NOTE: TAP is NOT the award amount; TAP is ONLY used for price evaluation.
- Contract award value is the total of the unweighted CLIN prices in period of award.
- Example below: TAP = \$13.2M; if we award in Period 2, award value = \$13.3M.

Used in the evaluation.
Note, since this is not
LPTA but instead is
BVTO, the final
selected source MAY
have a higher TAP than
other offerors.

Vendor #1				
(\$IVI)	Period 1	Period 2	Period 3	Period 4
	0-90d	91-180d	181-270d	271-3650
CLIN 0001	1.5	1.7	1.9	2.2
CLIN 0002	2	2.5	4	8
CLIN 0003	2.2	2.4	2.6	2.8
CLIN 0004	5	6	7	8
CLIN 0005	0.5	0.7	0.9	1.2
Award Prices	11.2	13.3	16.4	22.2
GOV   Weights	50%	30%	15%	5%
Adjusted CLIN Lices	5.60	3.99	2.46	1.11
TOTAL Adj. Price	13.2			

Used in the award (if awarded in the 91-180d window after proposal receipt).



### **Step 7: Contract Award**



- As a BVTO source selection, the winning offeror's TAP may be HIGHER than other offerors.
- If awardee's TAP is higher, the Source Selection Authority (SSA) TRADES price for other factor(s).
- Comparatively, the awardee's price in a period may be higher in some periods, lower in others.
- Final award price is the awardee's total prosed price in whatever period GOV awards.
- In the example below, Vendor 1 has a higher TAP, but was still chosen for award by the SSA.



Vendor #2				
(\$M)	Period 1	Period 2	Period 3	Period 4
	0-90d	91-180d	181-270d	271-365d
CLIN 0001	1	1.7	1.9	2.2
CLIN 0002	1.5	2.5	4	8
CLIN 0003	2	2.4	2.6	2.8
CLIN 0004	5.8	6	6	6
CLIN 0005	1	1.1	0.9	1.2
Total Award Price	11.3	13.7	15.4	20.2
Weights	50%	30%	15%	5%
Adjusted CLIN Prices	5.65	4.11	2.31	1.01
TOTAL Adj. Price	13.1			
		•		
Low Price By Period			х	х



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Vendor #2				
(\$M)	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d	Period 4 271-3650
CLIN 0001	1	1.7	1.9	2.2
CLIN 0002	1.5	2.5	4	
CLIN 0003		2.4	2.6	2.8
CLIN 0004		- 6		
CLIN 0005	1	1.1	0.9	1.2
Total Award Price	11.3	13.7	15.4	20.2
Weights	50%	30%	15%	5%
Adjusted CLIN Prices	5,65	4.11	2.31	1.01
TOTAL Adj. Price	13.1			
Low Price By Period			Х	х

Lowest award price can vary by period, thus BVTO.



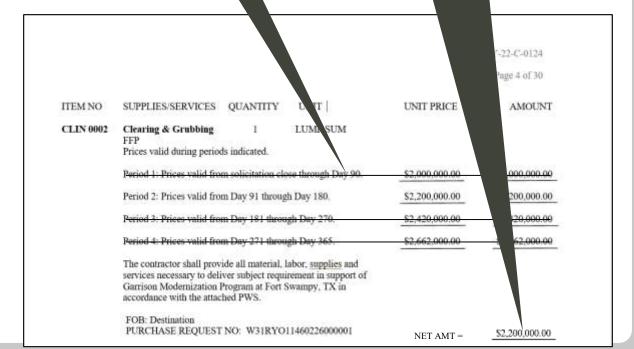
### SAMPLE SOLICITATION vs CONTRACT



Period time frames are identical for all CLINS. KTR enters price for Period 1, then calculates/enters their prices for Period 2, 3 and 4. Errors are considered administrative and KTRs may be given the opportunity to correct.

In preparing the final contract award documents, GOV lines through all periods other than the award period, to highlight/codify for the contract and file.







### **NEXT STEPS**



- Commander directive to advance PIVOT to assess/validate the methodology.
- Working on 4 NEW contract awards as pilots for new PIVOT approach.
- SCO peer review required on first PIVOT solicitation, regardless of \$ value.
- Heavy peer review focus on Section L & M to ensure clear communication to market.
- PIVOT must be addressed in the Acquisition Plans/Strategies, as applicable.

- RCC PIVOT training for the workforce and enterprise.
- RCC Develop/deploy PIVOT videos in KnowledgeNow.
- RCC Briefing AGC and SAME organizations on PIVOT.
- RCC Soliciting contractor suggestions/feedback through Industry Days.
- RCC Periodic SCO IPRs on PIVOT status, pilots, lessons learned.
- RCC Tracking and reporting data on PIVOT use, lessons learned and results.

# FEEDBACK PLEASE

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