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**Synopsis of the Department of Homeland Security's
Effective Pricing Strategies in a Changing World
April 17, 2017 9:00 a.m. – 12:00 p.m.
Homeland Security Acquisitions Institute, Washington, D.C.**

OVERVIEW

The Department of Homeland Security (DHS) held Effective Pricing Strategies in a Changing World on Monday, April 17, 2017 at the Homeland Security Acquisitions Institute (HSAI) in Washington, D.C. There were approximately 315 attendees (on-site and virtual) for the government and industry learning event, held in support of Acquisition Innovations in Motion (AIiM). The goal of the event was to improve DHS's and industry's understanding of pricing strategies and offerings. The event provided DHS's acquisition workforce and industry representatives an opportunity to learn more from each other.

The event targeted acquisition and industry professionals who have experience in and wanted to learn more about effective pricing strategies. The learning event included discussions on improving: pricing evaluations, the instructions and evaluation sections (L&M), and examples of successful and challenging price analysis techniques.

Following the AIiM industry engagement events, the Office of the Chief Procurement Officer (OCPO) provides a survey to attendees to identify potential best practices, as well as areas recommended for improvement. Questions are consistent across events in order to facilitate a comparison of how effective events are for the attendees.

Survey responses were received from 24 percent of event attendees and were overwhelmingly positive. 97 percent of survey respondents rated the event as 'very satisfied' or 'somewhat satisfied,' and a significant portion of the survey comments boasted that the event was the best of its kind. Regarding the event topics, attendees mentioned, "[i]f I could have ranked both topics as equal, I would. This was the best session I have ever attended on any topic. Government participation was excellent" and "[o]ne of the best events I've attended. Great examples, well organized and lively speakers." Regarding the dialogue between government and industry, "[i]n both cases the most valuable aspect was the two way dialogue between the mixed panel of government and industry."

Introductions

Speaker: Carla Thomas, Industry Liaison, Office of the Chief Procurement Officer, DHS

Ms. Thomas provided a brief introduction of the event explaining that this event is a follow-on discussion to *DHS Pricing Strategies and Consumption-Based Pricing Methodologies* held on February 24, 2016. The 2016 learning event focused on challenges of how and when to use consumption-based pricing and as-a-service priced offerings, how they are priced, and the



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perceptions of consumption-based and as-a-service offerings from both an industry and government perspective.

Welcome

Speaker: Soraya Correa, Chief Procurement Officer, DHS

Ms. Correa welcomed all participants and offered sincere thanks to those who assisted in the preparation of the event. The DHS Industry Liaison, Carla Thomas, partnered with the Oversight and Pricing Branch representative, Mark Hudak, to chair the planning of the event. Through their collaboration, an Acquisition Innovation Roundtable, made up of nominees from Industry Associations, was formed and met together to propose topics and develop an agenda for the day.

AIiM learning events are two-way channels of communication between the Department and industry through which DHS promotes healthy discussions. The Department hosts two *Reverse Industry Days*, a ‘major’ learning event, which are opportunities for the DHS acquisition workforce to discuss best practices with industry panels. The next *Reverse Industry Day* is scheduled for June 2017. The *Strategic Industry Conversation* is a major event which facilitates information sharing between the public and private sectors to strengthen industry and DHS shared interests of national and economic security. The event, tentatively scheduled for October 2017, is an opportunity to share with industry the Department’s program priorities, procurement objectives, and strategic vision.

Event Structure and Goals

Speaker: Mark Hudak, Oversight and Pricing Branch, OCPO, DHS

Mr. Hudak introduced panelists who were a mix of both government and industry leaders and kicked off the first panel.

Communicating with Industry in the Development of a Pricing Strategy

Speakers: Michael B. Smith (OCPO, DHS), Jim Ghiloni (Wolf Den), Theresa Gonzales (Ambit Group), and Joanie Hastings (SAIC)

The first discussion was on Requests for Information (RFIs), pricing, staffing approaches, and debriefs. Regarding RFIs, industry and government agreed that early and frequent engagement provides an opportunity for frank discussion and is crucial for effective acquisitions. There is no right or wrong way to communicate with industry as acquisition is often an art, but communications must be two-way. It is advisable to engage prior to the Request for Proposal (RFP) as this tends to save the government money in the long run, reduces questions and answers and gives clarity up front. Industry recommended a minimum of 30 days to respond to an RFI, especially when it is prescriptive. They noted that when the RFI is prescriptive, it is indicative of the government knowing who they want to respond. When including price in an RFI, it can



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Become resource intensive. Pricing is not done in a vacuum and should come into play at the RFP, but the RFI should be more focused on the question of “how would you price this?”

It was acknowledged by all parties that, pricing on the indefinite delivery/indefinite quantity (IDIQ) level, especially for General Services Administration (GSA) contracts, is meaningless in an IDIQ unless it is done at the task order level. Fair and reasonable prices can really only be determined at the delivery order/task order level. If IDIQ pricing is not useful, how do GSA vehicles compensate for the lack of price pressure when most Task Orders only have a single bid? By relying on historical data, Bureau of Labor Statistics labor rates, category management and other metrics that are available for determining if a price is fair and reasonable. How do we justify the GSA schedule as being “fair and reasonable” to a CO? ANSWER: Pricing on GSA doesn’t necessarily mean “fair and reasonable” as it is built on delivery of a single unit. Need to look at additional discounts based on quantity, deliveries, etc. What does the government mean by “strategic pricing”? The government must establish at least a ceiling at the BPA level and IDIQ level.

Industry requested that the government be less prescriptive for key personnel so that more than the existing personnel on contract could qualify. On the other hand, though, it was discussed that the “race to the bottom” could be avoided by specifying minimum qualifications that the government really requires. For example, do not allow one to five years of experience if in fact the position can only be filled by someone with five years’ experience. If the government is honest about the necessary qualifications, then industry responding is more likely to succeed. Industry also asked that government not recycle requirements, especially when asking for innovation; the same question will beget the same answer. Finally, industry asked to be given the chance to justify higher up-front costs with long term savings when discussing innovation.

Regarding debriefs, government and industry acknowledged that the increasing tendency to protest stifles post-award discussions. Industry mentioned that in-person or telephonic debriefs are preferred to written, and the government mentioned that DHS employees have access to a debriefing guide. A dialogue that is more about how we came to a decision is less likely to tee up a protest. The government wants to give industry good information, but it seems that when the lawyers on either side get involved the conversation changes and is less open and there is no clear way to address the issue.

Effective Pricing Strategies and Examples

Speakers: Catherine Benavides (OCPO DHS), Dan O’Sullivan (Federal Protective Services, DHS), Richard Melrose (TSA/DHS), Polly Hall (PIL/DHS), Jacob George (JACOBS Management Consultants), and Jacob Sapp (ASRC Federal)



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The second discussion centered on innovative and effective pricing strategies, opening with three evaluation examples from the government. Following the conversations of the three recent government examples, the industry panelists discussed their opinions on pain points with government pricing requests.

Example 1: Guard Services (Dan O’Sullivan)

The biggest challenge in working at DHS was awarding guard service contracts as they were highly competitive. Too much competition can be time consuming. Mr. O’Sullivan’s solution was to trade off non-price and price factors to streamline evaluations. After reviewing all price for reasonableness, FPS did an initial cut of the lowest price offers, and evaluated the technical proposals of those offerors. In evaluating the first cut of offers and finding one or more proposals that were rated Highly Acceptable across the board, the CO made the determination that even assuming that any of the remaining proposals whose technical proposals were not evaluated would result in the highest technical rating across the board, the Contracting Officer is not willing to pay the price premium associated with those proposals.

Example 2: Agile Services (Richard Melrose)

Traditionally, application development utilized the waterfall method, based on updates to an existing application. The Transportation Security Administration (TSA) wanted to switch to the newer industry standard of the Agile method, which is a far more iterative process that changes based on user experiences. For TSA, the program was looking at rolling 60 applications into a single award, so the decision was made to break down the pricing to the sprint level based on teams via sprint length, team size, and team experience rather than bounding by velocity or story points. This allowed the sprint teams to determine how they would work and how they would be paid so long as the sprint included a definition bound to the submission of invoices. Industry engagement was critical in this process and helped determine the best way to break down the pricing to ensure proposals were based in realism. A sprint was loosely defined as an “iteration of software development that was time-bound.”

Example 3: Alliant 2 (Polly Hall)

Alliant 2 was awarded based on a new approach to source selection, highest technically rated with a fair and reasonable price (HTRRP), and a GAO ruling on a protest related to the approach was recently decided in the government’s favor. This opens up the possibility for other government solicitations to follow similar evaluation approaches. For Alliant 2, the proposals were evaluated and numerically scored based on qualifications, and then ranked based on point scores. Only Offerors with a top rated technical score were evaluated for price reasonableness, which was on a pass/fail basis. The resultant protest claimed that the price was a nominal factor based on prior actions by GSA, but Alliant 2’s evaluation was not a Lowest Price Technically Acceptable (LPTA) evaluation methodology, so the Government Accountability Office (GAO) found in favor of the government and stated the trade-off was not required under the solicitation evaluation model. When industry was asked for input on this process they expressed concern that



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it may be excluding mid-range companies, due to the point based evaluation process that was used. Participants felt that HTRRP might be good for Government-wide Acquisition Contracts (GWACs), but questioned how can could be used for single-award procurements? However, in a single award, there should be no issue as long as a tech/price tradeoff is avoided and the schema is clear on the intent. HTRRP is the opposite side of the continuum from LPTA, with trade-off in the middle of the continuum. Under the HTRRP model, the award may go to an offeror that does not offer the lowest price but instead has the highest (or among the highest, if a multiple award) technical rating/score and is determined to be fair and reasonably priced. In an LPTA, once technically acceptable is determined the lowest price is always selected. HTRRP tries to eliminate the potential for low-bidding, or “race to the bottom”, and allows additional opportunity to price at the task/delivery order. The focus should not solely be on the scorecard as this is simply one way to conduct a technical evaluation under this model, but is not the only way providing you do not compare technical and price (which would be a trade-off). The participants felt another challenge will be in how well the government knows the technical requirements.

Industry Perspective 1 (Jacob George)

There is a lot of confusion coming from the side of the government and industry needs more clarity such as knowing when something is an LPTA, otherwise industry is guessing at what is meant by “reasonable.” Also, non-price factors need to have more definition, i.e. “good” versus “very good.” In regards to pricing, the data that contract pricing is based on tends to be out of date or inaccurate, which has a huge impact on small business when they lack the ability to absorb additional costs. When pricing is based on historical data, it is also easier to “reality model” or “price game” in favor of a bid due to the various ways this data can be interpreted.

Industry Perspective 2 – Improving Accuracy and Flexibility (Jacob Sapp)

When putting out a request for proposal (RFP), industry may become frustrated when the government asks for innovation but dictates staff requirements – more flexibility would be better. It would be advisable to spend more time on Section M, lock down events and milestones, and allow the contractors to provide their own 30/60/90 day transition plans, to which the government could evaluate the pros and cons. Additionally, the government needs to be more realistic to avoid industry pricing that is “at the floor.” Some best practices that have been implemented at DHS is that DHS recognizes the importance of engaging with industry and the explicit utilization of SBAs. How do we account for the behavior of Millennials? By being truthful about where you are and how staff are going to be utilized, then show the overall approach for how you plan to obtain and retain highly qualified personnel.