



# ACQUISITION SOLUTIONS, INC.

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August 8, 2005

Ms. Marcia Madsen, Chair  
Acquisition Advisory Panel  
c/o General Services Administration  
1800 F Street, NW, Room 4006  
Washington, DC 20405

Dear Madam Chair:

In support of the Performance-Based Contracting Working Group of the Acquisition Advisory Panel, Acquisition Solutions, Inc. (Acquisition Solutions) is providing the enclosed statement (Enclosure 1) that might help to shape your thoughts as you progress down this important and evolving concept in Government acquisition. We believe Acquisition Solutions' perspective is unique from others who may come before you:

- Ø Almost 60 percent of our 100-plus employees are former Federal acquisition personnel.
- Ø We do not consult with the private sector and therefore have no organizational conflicts of interest.
- Ø We compete, often through performance-based contracting, to provide acquisition support services to Federal agencies.
- Ø If we win, we participate as experts and support personnel on agency teams, often to assist in conducting their performance-based acquisitions.
- Ø We have assisted in over 20 major, mission-critical performance-based acquisitions in various departments and agencies across Government.
- Ø To date, Acquisition Solutions has successfully implemented the Seven Step process to support more than \$16 billion in programs as diverse as \$1.3 billion in IT managed services, \$93 million in ATF firearm tracing operations, and \$625 million in FEMA multi-hazard map modernization.
- Ø Acquisition Solutions was, and is, the industry partner on the interagency team that created and is now improving the Web-based guide, Seven Steps to Performance-Based Services Acquisition.
- Ø In the last 3 years, Acquisition Solutions has trained approximately 3,500 Federal officials in Seven Steps to Performance-Based Services Acquisition.

These are the perspectives and the knowledge base from which we have prepared this statement. We have organized our thoughts around the working group issues identified on your Web site (and reflected in bold in Enclosure 1), and we offer several observations about performance-based contracting gleaned from our extensive field work.

It is our belief that the Government will benefit from three critical outcomes of the Seven-Step process:

- Ø It will stop buying compliance and start buying results.

- Ø It will benefit from a competition of ideas and solutions.
- Ø Acquisition effectiveness and efficiency will improve.

In summary, we submit that the process works and that it is continually being refined by the interagency team. We also observe that the major next step in the evolution to true performance based acquisition should be refinement and disciplined implementation of Step-7; Managing Performance. Please note that the interagency team has already applied their experiences and thought leadership to this problem ([http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/step7\\_apply.html](http://www.acqnet.gov/Library/OFPP/BestPractices/pbsc/step7_apply.html)). What remains to be achieved, as with the Seven-Step process overall, is agency acceptance and implementation.

Finally, we offer in Enclosure 2 a list of several major acquisitions conducted as performance-based acquisitions, most of which implemented the Seven Step process. We encourage you to ask these and other practitioners how this process worked to support mission results.

We would be pleased to address the panel and answer any questions you may have about our comments or our experience "on the ground" implementing performance-based acquisitions.

Sincerely,

A handwritten signature in black ink, appearing to read "Anne Reed", with a stylized, flowing script.

Anne Reed, President

Enclosures: As stated

## Enclosure 1

### Acquisition Solutions, Inc. Statement on Performance-Based Contracting

1. **Question: The “Seven Steps” emphasize the significance of the Performance Work Statement (“PWS”). A PWS is described as requiring “measurable performance standards.”**

- Ø **Is it possible for agencies to establish definitive requirements in specific and measurable terms at the beginning of the contracting process?**

It is our experience that prior to solicitation, more often than not, no. The more complex the services, the more that private sector expertise is sought, the less satisfactory prior contract performance, and the more ground-breaking the acquisition, then the less likely that an agency can establish definitive requirements in specific and measurable terms at the beginning of the contracting process. Setting definitive requirements either limits the potential solutions, or drives costs up, or both.

However, if the agency has deep experience in buying the particular services, has developed expertise in successful performance and metric measurement in those services, and has a baseline of performance, then yes, it is possible to establish definitive requirements in specific and measurable terms at the beginning of the contracting process. But is it wise? The wildcard is the extent to which the metrics drive costs ... and whether those cost drivers that affect private-sector pricing are known to the Government.

So, the answer is yes and no. The Seven Steps guide provides a methodology for both situations: use of a Performance Work Statement (PWS) or use of a Statement of Objectives (SOO). To elaborate:

As a general observation, we believe the same underlying principles contained in the definition for performance-based contracts<sup>1</sup> should also be used to establish them; namely, focus on the outcome and not necessarily on telling agencies how to conduct a performance-based acquisition. Regardless of the methodology used, the end objective is to establish a “contract” that has clear, specific, and objective terms with measurable outcomes tied to mission. Either the agency can specify these terms via a PWS, or the offerors can establish the measures and metrics in their proposal response to the SOO. If done properly, either method should result in a successful performance-based arrangement.

That being said, while agencies can sometimes identify up-front definitive requirements in specific and measurable terms, we believe this approach may limit the effectiveness and value of the performance-based approach. The key to establishing a true performance-based relationship is the basic understanding that the Government must move away from buying *compliance* and start acquiring *results*.

In order to establish “definitive requirements” in specific and measurable terms, the Government must identify a specific solution upon which to base the requirements. For example, if developing requirements for an information technology system, the type of solution must be identified. If you are implementing a server-based solution, then server metrics would be appropriate. If you have an Internet solution, then another set of metrics would be applied. The

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<sup>1</sup> “Performance-based contracting” means structuring all aspects of an acquisition around the purpose of the work to be performed with the contract requirements set forth, in clear, specific, and objective terms with measurable outcomes as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work.

key is that in many cases, in order to determine the appropriate measures and metrics, you must know the solution.

The down side is if you identify one solution up front, you preclude other alternatives—especially those generated from a “competition of ideas” to solve a Government problem. For example, if you place server-type metrics in the requirement, then offerors will know that an Internet or mainframe-based solution is not acceptable. In our experience, when the Government prescribes the requirement in the form of a PWS, the measures and metrics usually focus on one solution at the exclusion of all other alternatives that may be more cost-effective and provide higher levels of service.

Additionally, in most cases the Government does not know the impact that a specific performance standard, or a group of standards, may have upon the program’s price. Without understanding cost/performance break points as industry does, the Government may unknowingly specify performance that drives significant increases in cost. For example, if the Government establishes a system availability requirement of 100%, it may very well drive a very expensive solution. The alternative may be 99% uptime at two-thirds the price. These trade-offs are often made by the offerors who truly understand where their most effective price performance trade-off points exist.

This concept is philosophical—the measures cannot be established with just an improved understanding of the marketplace. For example, often the Government will hire support contractors to help establish the metrics based on their quantitative capability or understanding of the technology in the marketplace. While these attributes may very well assist the Government in proposal evaluation, they will not enable the Government to establish, at the outset, performance measures, as the solution is not, or should not be, known. (Of course by assisting the Government in preparing a requirement, the contractor is, or should be, precluded from performing the effort.)

Ø **Is up-front identification of the basis upon which measurement of performance**

the Government. This removes the perennial contractor defense of “...I did what you directed and it is your responsibility if it does not achieve your objectives.” Under a SOO, responsibility for performance properly shifts from the Government to the contractor.

The key to successful performance-based contracting is that the contract is structured around measurable outcomes and results. The Government is acquiring results and not compliance with some pre-conceived solution or approach. This approach is a significant mindset change, and in our estimation, it is part of the reason why implementing performance-based acquisition is perceived as so difficult—it requires real cultural change. Based on our experience to date, we believe this is best achieved using a SOO. We do not believe that agencies should be directed to use one method or another. As experience grows with the use of performance-based contracts, agencies will adopt a variety of techniques to get to the end objective.

Ø **Does the use of “Statements of Objectives” to which contractors then develop and bid on their own statements of work result in quantifiable benefits that are consistent with the philosophy of performance-based service acquisition (“PBSA”)?**

Yes. We have four observations on this point. First, the philosophy of performance-based acquisition is “structuring all aspects of an acquisition around the purpose of the work to be performed with the contract requirements set forth, in clear, specific, and objective terms with measurable outcomes as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work.” The SOO methodology, applied correctly, achieves this.

Second, regardless of the methodology used, the end objective is to establish a “contract” that has clear specific and objective terms with measurable outcomes tied to mission. Either the agency can specify these objectives via a PWS, or the offerors can establish the measures and metrics in their proposal response to a SOO. Done properly, either method should result in a successful performance-based arrangement.

Third, the methodology must be followed. No step, in and of itself, guarantees success, whether a PWS or SOO is followed.

Fourth, new disciplines under Step Seven are required to manage performance to outcomes. This is the next performance-based challenge that the Government faces, in our view.

**2. Question: How should “best value” be determined for PBSA? How will differing approaches be compared in selecting a contractor?**

Best value should be determined through evaluation in the manner dictated by the Federal Acquisition Regulation. “Best value” is defined as “the expected outcome of an acquisition that, in the Government’s estimation, provides the greatest overall benefit in response to the requirement.”

Performance-based acquisition, by its very nature, assumes different approaches because “how” is not dictated. As with any acquisition, those differing approaches are compared against the agency’s evaluation criteria. However, in the case of performance-based evaluation, there is more substance to evaluate. In addition to the typical criteria of technical, management, and past performance, agency evaluators now have quality standards and plans and performance metrics.

One of the biggest misconceptions about any competition, and particularly a performance-based competition, is that the offerors must have the same solution in order for there to be a “level

playing field.” This misconception is based on generations of acquisitions with detailed specifications against which multiple vendors have proposed. The offerors were forced to bid the Government’s directed solution. In reality, the Government was buying compliance with its preferred solution where little or no distinction existed between the proposals.

Under a SOO approach, offerors propose their unique SOW, performance metrics, acceptable quality standards, and/or service level agreements. The quality and merit of the proposed metrics (e.g., what is being measured and where the bar is set for performance), as well as their linkage to meeting the objectives, is an important part of the best value selection. We have seen very creative solutions being proposed with service levels and measurement approaches that far exceeded expectations. Upon selection and award, the winning offeror’s performance metrics and methods are baselined and incorporated into the contract. In reality, there is little or no substantive difference in the end result between a directed PWS-type process and a SOO-based process. Both result in a performance-based arrangement.

With a SOO, the paradigm is shifted: multiple proposed solutions are good, and are indicators of an effective performance-based acquisition: *a competition of ideas is achieved*. Existing evaluation methodology works well—or better—with multiple solutions, because there is a high likelihood of greater discrimination between proposed solutions.

### **3. Question: To what extent are contracts considered to be PBSA also fixed-price?**

We do not believe the two issues are connected. Contract type addresses the risk between the parties. Performance-based approaches measure outcomes and results. It is not inconsistent to have a performance-based cost-plus-award-fee (CPAF) or other type of contractual relationship.

That said, if the 2005 submissions to the GSA and Performance Institute-sponsored “Excellence in Performance-Based Service Acquisition Awards” are any indication, the answer is not to a great extent. Only 2 of the 12 submissions reflected fixed-price performance-based solutions.

A classic case demonstrating the viability of other contract types in performance-based arrangements is the Air Force’s conversion of a base maintenance contract (including civil engineering, transportation, and food services) from a traditional fixed-price statement of work to a performance-based relationship. The Air Force developed a PWS to identify what was to be delivered and how to measure the quality of those deliverables. What the Air Force did not have was accurate documentation on the workload or how often the activities occurred. There was little data to measure the amount of work the contractor would be responsible for performing.

In this instance, the Air Force properly awarded a CPAF contract. It would have been unreasonable to insist on a fixed-price arrangement, as the contractor would have had to price the risk, driving the contract costs to an unreasonable level. The award fee was directly related to the performance metrics and measures. In other words, CPAF was the appropriate contract type, given the risk between the parties. The contract approach was performance-based in that the performance incentives were based upon acceptable quality levels of service and deliverables. This structure was maintained for several years until an accurate data base of workload was established, at which time the contract was changed to a fixed-price award fee type.

We believe that other types of services, such as software development, are also candidates for cost-plus contracts because of the contractor risk inherent in the effort. That being said, you can apply performance metrics to measure the quality of the software development services being delivered.

**4. Question: Once the contract has been awarded, what metrics are agencies using to assess the benefits of PBSA, e.g., lower prices, improved contract performance? How are those benefits being documented?**

At the contract level, it would depend on the metrics established before contract award. On a broader scale, we are not aware of any formal measurement programs that have been established to assess the benefits of PBSA.

However, we would like to make an observation. The methodology for conducting performance-based acquisition has been under development and refinement for at least a decade. What we have learned is that performance-based acquisition requires new methodologies and disciplines in performance-based management. Traditional contract administration is not sufficient, and indeed, it can lead to failure in performance. This is, in our view, the next evolution in performance-based acquisition: how to make the Seventh Step more effective.

**5. Question: How is “past performance” determined for PBSA contracts when the SOW, performance metrics, and quality assurance plan have largely been developed by the contractor? Will past performance in the end simply reflect whether the agency was satisfied with the overall outcome?**

The end result of competition using either a PWS or SOO is a “contract” that has clear, specific, and objective terms with measurable outcomes. Past performance is measured in the same manner regardless of the approach used to award the contract—namely, the established baseline metrics, service levels, or measures, as managed through the quality assurance surveillance plan and incentive program.

**6. Question: With respect to data—is it possible to track the extent to which PBSA contracts overrun their originally negotiated prices?**

With a fixed-price contract, this question is moot—the contractor is responsible for delivery of the service for a fixed price, and the financial risk is 100% on the provider. Any changes to pricing must be negotiated and documented based on a change in requirement or additional effort. Contractors are not paid overruns under a fixed-price arrangement. Under cost-reimbursement arrangements, overruns are a potential issue that must be addressed, but this can occur irrespective of whether the contract is performance-based or not.

**7. Question: What tools can contractors use to manage PBSA contracts if Government officials treat these arrangements like cost-reimbursement contracts and intrude into the contractor’s performance?**

The best foundational tool is knowledge: if Government officials treat these arrangements like cost-reimbursement contracts and intrude into the contractor’s performance, they shift the risk back to Government.

Where we have seen successful post-award management of performance-based programs, the governance structure provided the contractor the opportunity to bring instances of bad behavior to the Government’s attention. Both parties need to have escalation practices in place that involve management intervention when either party oversteps its bounds. Successful governance allows open and honest lines of communication.

Just as new practices and procedures are required to put a performance-based contract in place, new tools and techniques are required to properly manage these arrangements. This requires leadership from both the Government and contractor to ensure the post-award performance management focus remains on achievement of the program’s objectives. Our work to date has identified Six Disciplines of Performance-Based Management™ that must be



applied in order to successfully implement post-award performance management: Cultural Transformation, Strategic Linkage, Governance, Risk Management, Performance Management, and Communications. Implementing these disciplines within the program's post-award management provides the structure and culture necessary to be successful. Those organizations that incorporate these disciplines into their performance management planning (i.e., long before contract award) will be the most successful.

The challenge for any Government program manager is how to lead his or her organization under the Six Disciplines and to form a true partnership with the contractor. It must be well understood and baselined throughout the organization that the contractor and the Government must work together to achieve mutually beneficial results. An objective indicator of this is when the Government program office staff is held to the same goals and objectives as those stated in the performance-based contract. It is in the Government's best interest to do everything possible to help the contractor succeed—this includes understanding that Government direction (i.e., "micromanagement") is counter-productive and often leads to inadequate performance. The "traditional" Government-Contractor relationship paradigm must change from an adversarial one to one in which cooperation and collaboration provide the pathway for success.

**8. Question: Questions for commercial entities:**

- Ø **Do commercial entities using performance-based contracts require measurable performance standards at the outset of contracting?**
- Ø **What post-award techniques do commercial entities use to measure success of performance-based contracts?**
- Ø **What remedies do commercial entities use if performance does not meet expectations?**

We will let industry respond to these questions, as our work is exclusively Federal. We do note, however, that according to the Hackett Group's Book of Numbers, world-class procurement functions have 82% higher alignment between procurement strategy and business strategy than their peer group. When investigating this alignment, we found that many of the principles of performance-based acquisition were being applied.



## Enclosure 2

### Recent Seven-Step Acquisitions

Department	Project	Description	Value of Acquisition
Homeland Security — U.S. Coast Guard	Integrated Deepwater System	Coast Guard's multi-billion-dollar off-shore modernization	\$17 billion
Education — FSA	Front-End Business Integration (FEBI)	FEBI is intended to simplify and integrate FSA customer service delivery. Included assessment of available contract vehicles. <i>Program Manager was recipient of 2005 GSA/Performance Institute government-wide PBA award.</i>	\$800 million
Justice — Bureau of Alcohol, Tobacco, Firearms and Explosives	Enterprise Standard Architecture (ESA) III	Managed services recompetition of seat management contract.	\$200 million
Homeland Security — Federal Emergency Management Agency	Map Modernization	Used Seven Steps approach in conjunction with Architect and Engineering contracting procedures (FAR Part 36) to craft a cutting-edge approach for FEMA Map Modernization.	\$625 million
VA — Veterans Benefits Administration	Loan Guarantee Service Program	VBA transformed a transaction-based contract with an IT vendor to an objective and outcome-based performance contract with a highly regarded financial institution that uses IT to provide its industry-leading loan servicing.	Agency-sensitive
Defense — Army Contracting Agency (ACA) — Information Technology, E-Commerce and Commercial Contracting Center (ITEC4)	Information Technology Enterprise Solutions (ITES)	The ITES program is designed as the primary source of IT equipment and services worldwide to meet the Army's enterprise infrastructure and infostructure goals. (4 hardware and 6 mission-support services contracts.)	\$1 billion

Note: Personal information redacted for public posting.