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

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READY / RESPONSIVE / RELEVANT

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.

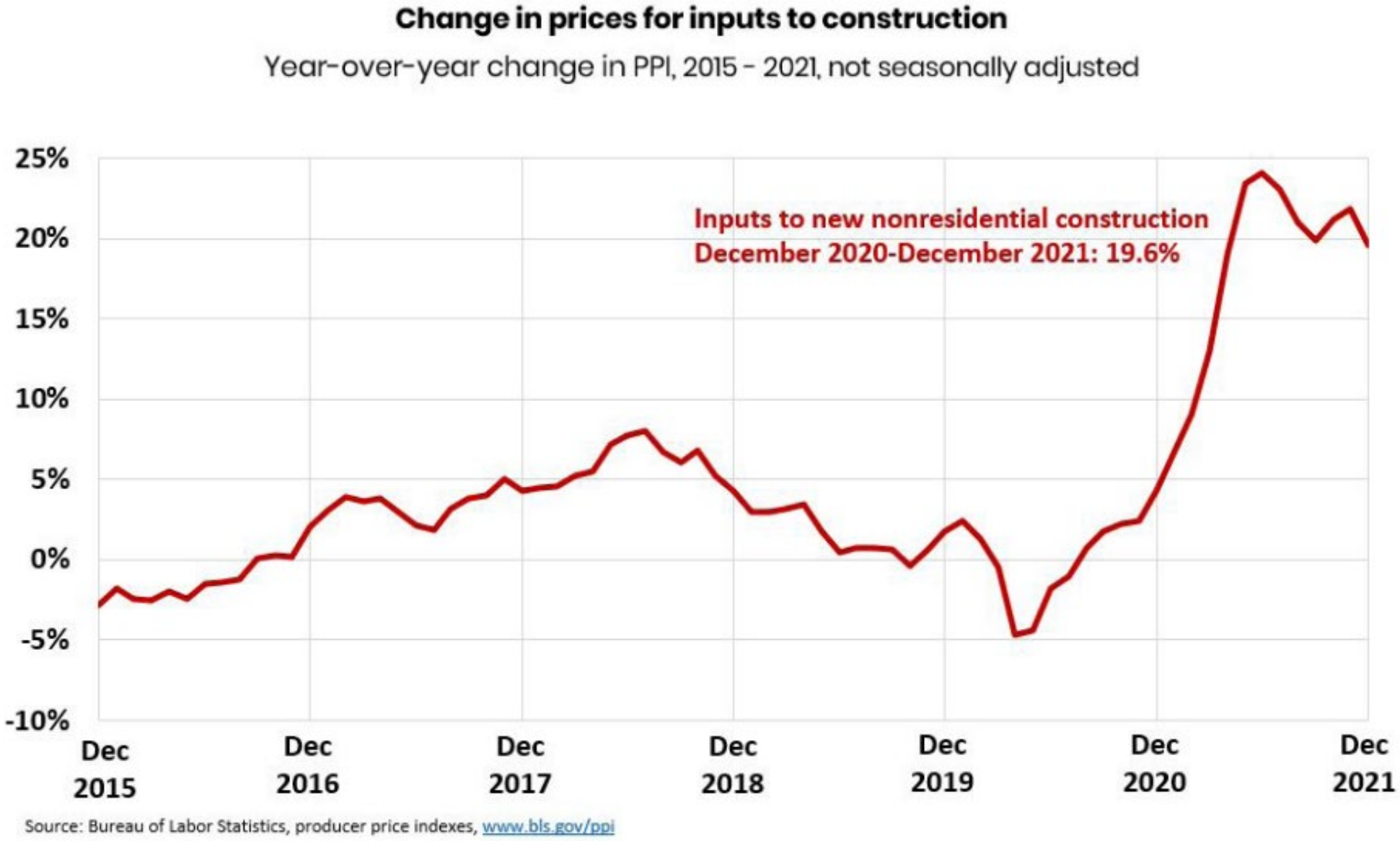
PRE-AWARD

POST-AWARD

FAR 52.216-4

Economic Price Adjustment – Labor & Materials

OUR MARKET IS VULNERABLE…



SO, OUR PORTFOLIO IS VULNERABLE…

Price increases for construction inputs
Year-over-year change in December PPI

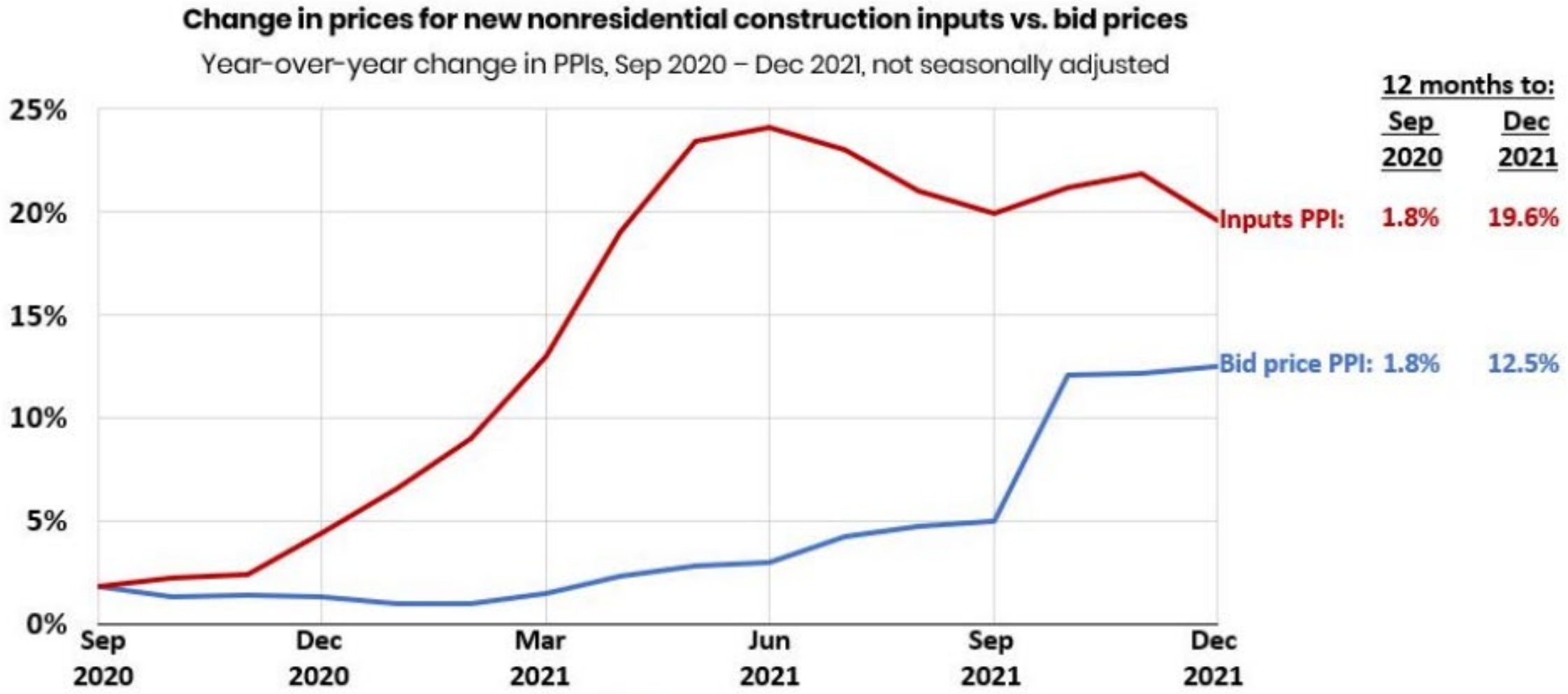
	2020	2021
Construction materials		
Steel mill products	5.2%	127%
Plastic construction products	5.4%	34%
Aluminum mill shapes	-1.7%	30%
Copper and brass mill shapes	24%	23%
Gypsum products	3.6%	21%
Lumber and plywood	37%	18%
Architectural coatings	1.9%	14%
Asphalt felts and coatings	2.1%	12%
Used by contractors		
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%

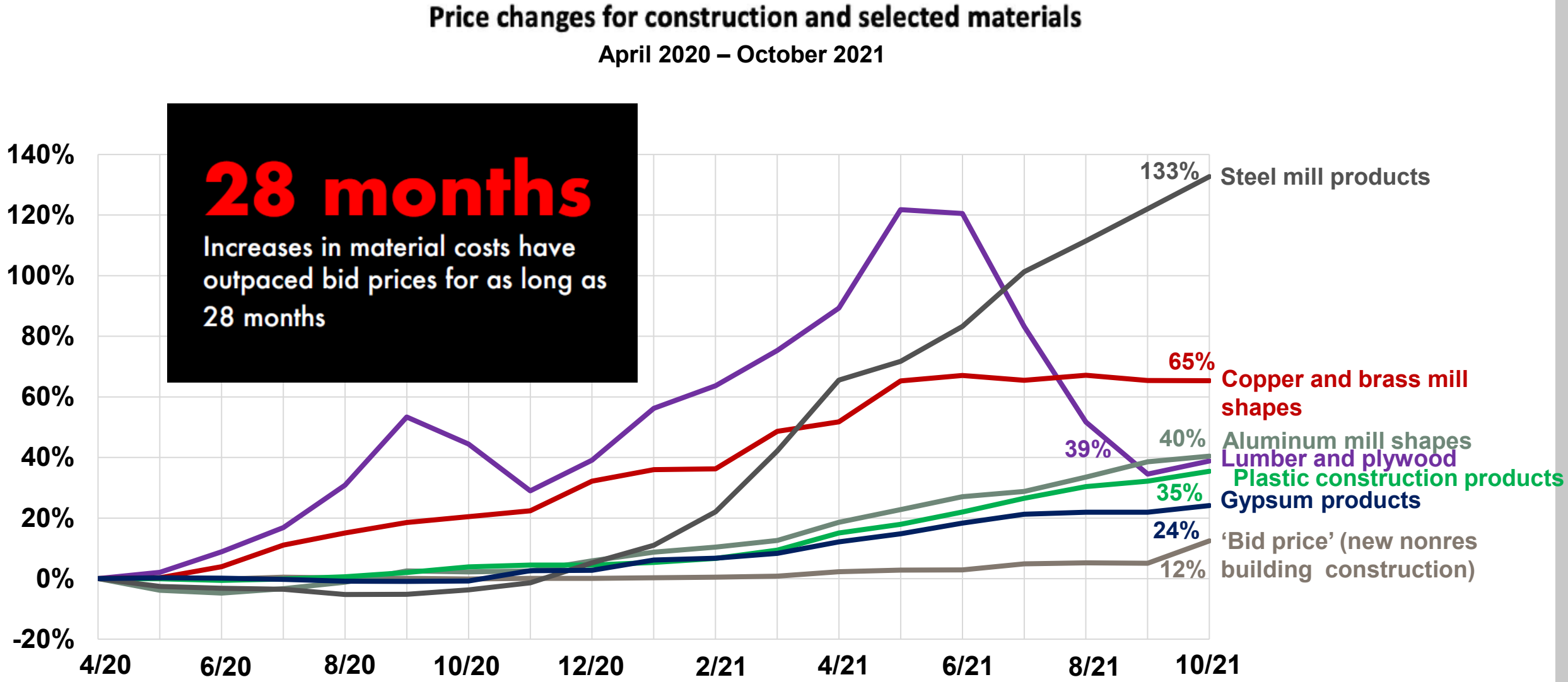
Source: Bureau of Labor and Statistics, Producer Price Indices, www.bls.gov/ppi

BID PRICES BEGINNING TO CATCH UP…



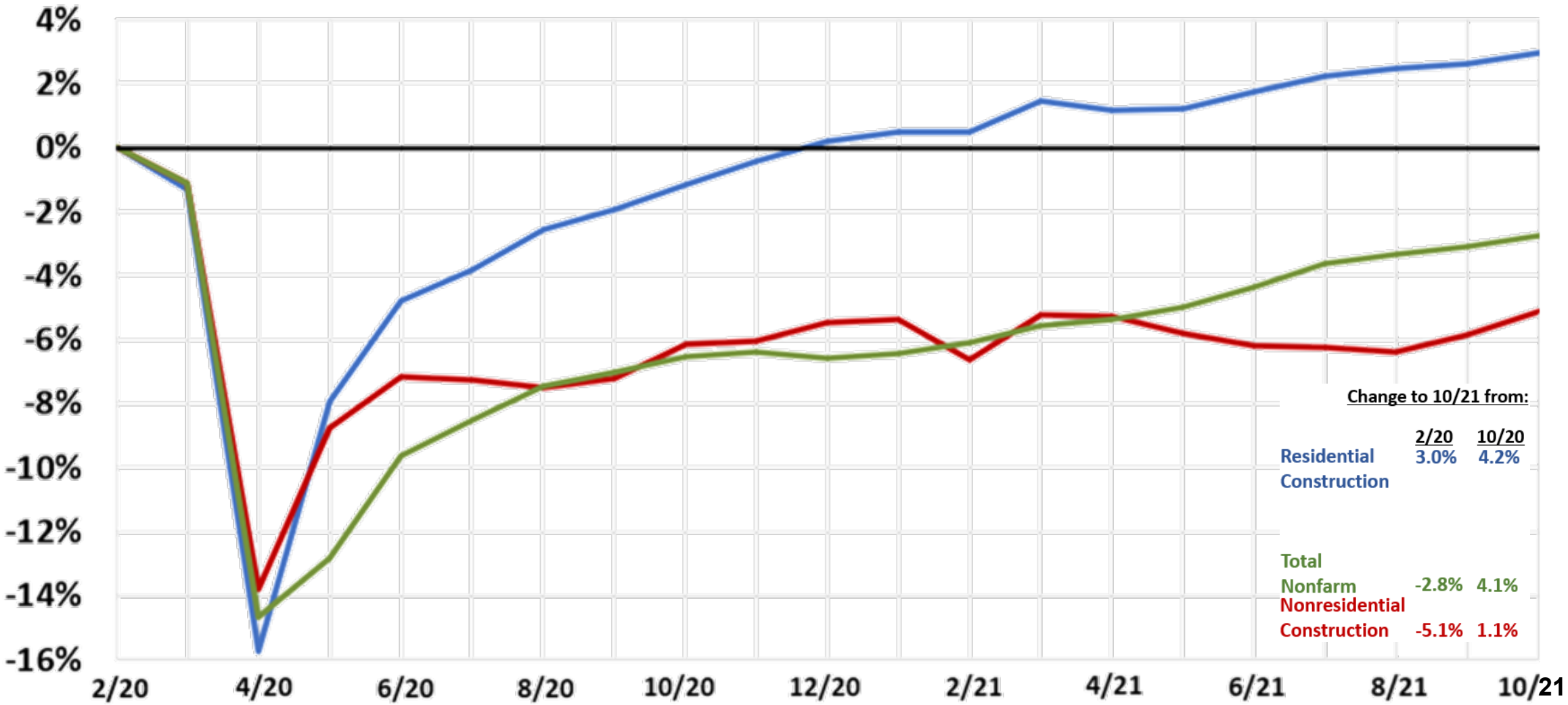
Source: Bureau of Labor and Statistics, Producer Price Indices, www.bls.gov/ppi

...ITS DIFFICULT TO KEEP PACE…



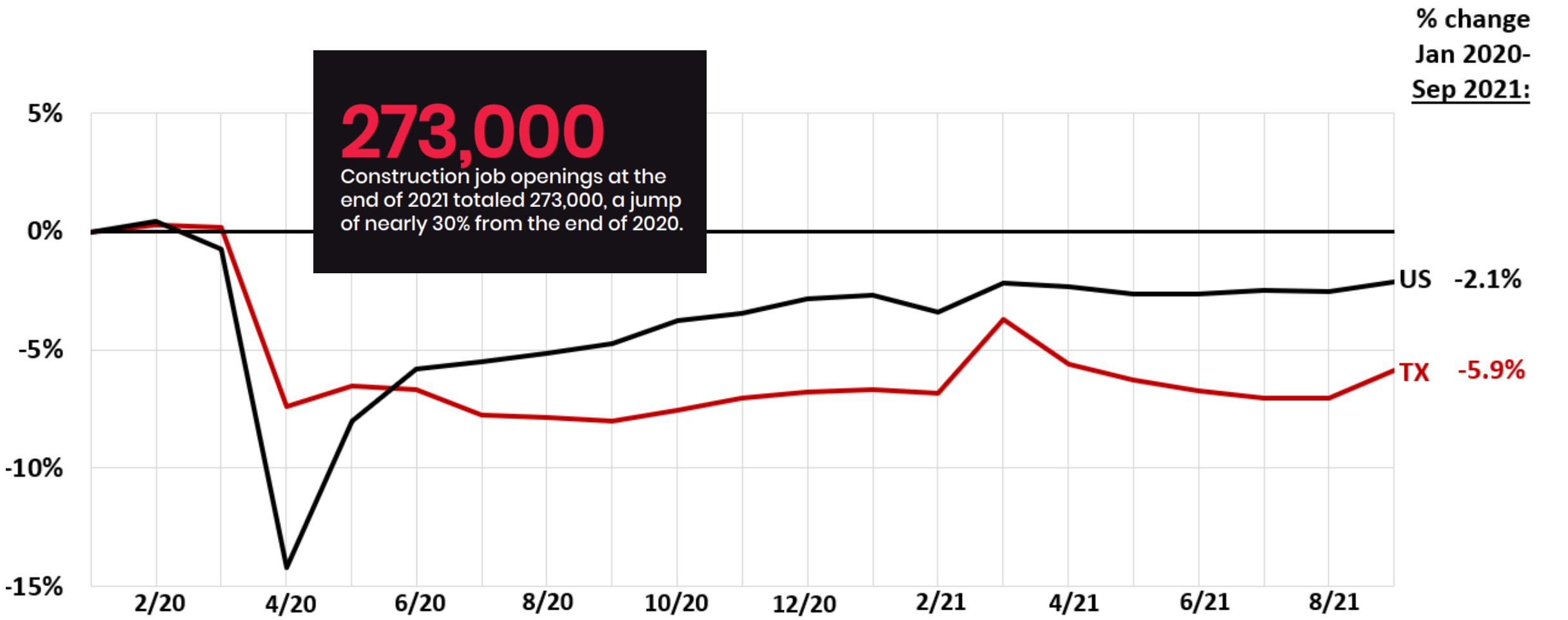
Source: The Associated General Contractors of America, Inc., BLS current employment statistics, https://www.bls.gov/ces/

...THERE IS SOME IMPROVEMENT…



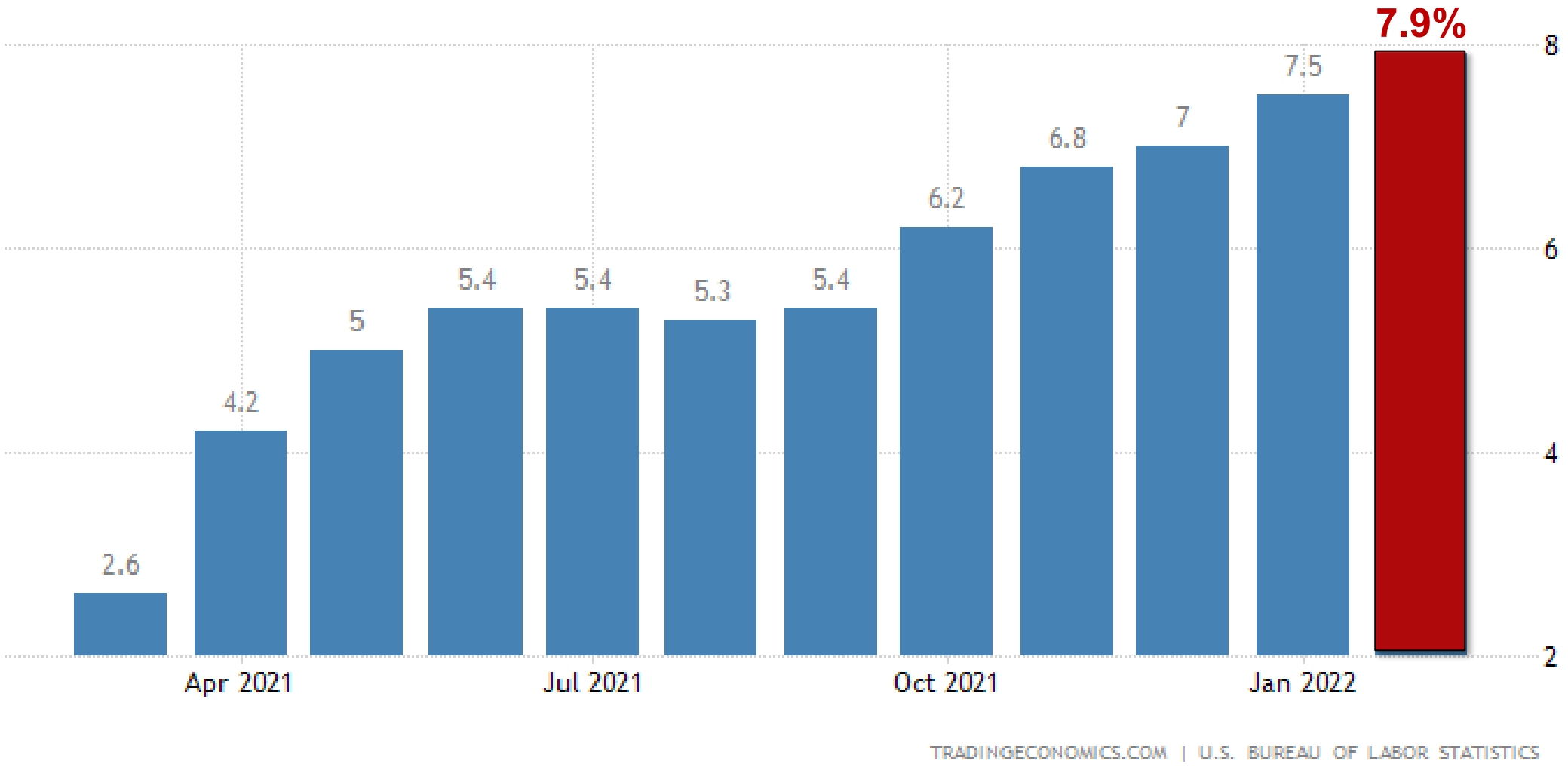
Source: The Associated General Contractors of America, Inc., BLS current employment statistics, https://www.bls.gov/ces/

...CONSTRUCTION LABOR IS DOWN…



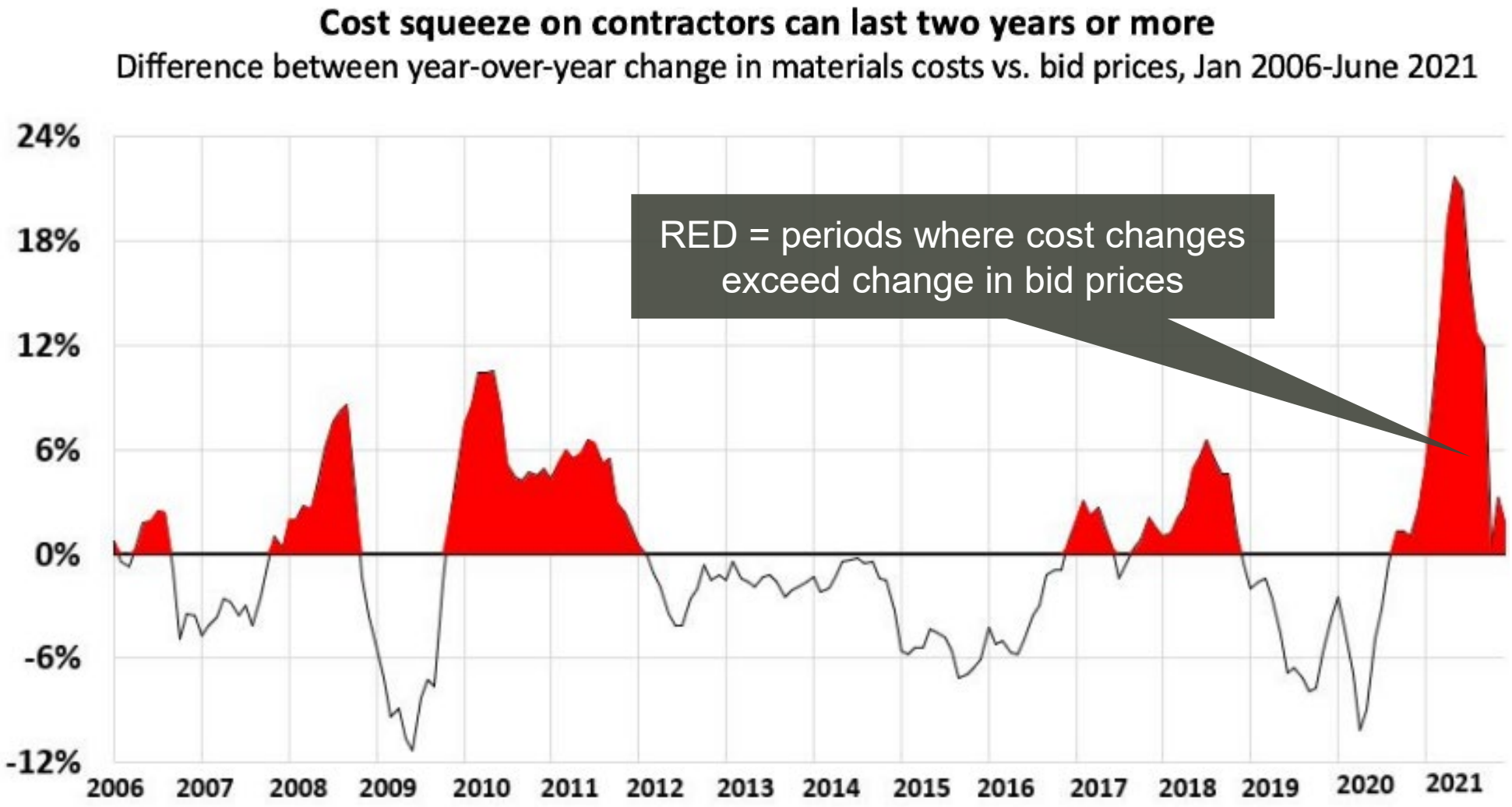
Source: The Associated General Contractors of America, Inc., BLS current employment statistics, https://www.bls.gov/ces/

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



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

… AND IT'S NOT GOING AWAY SOON.



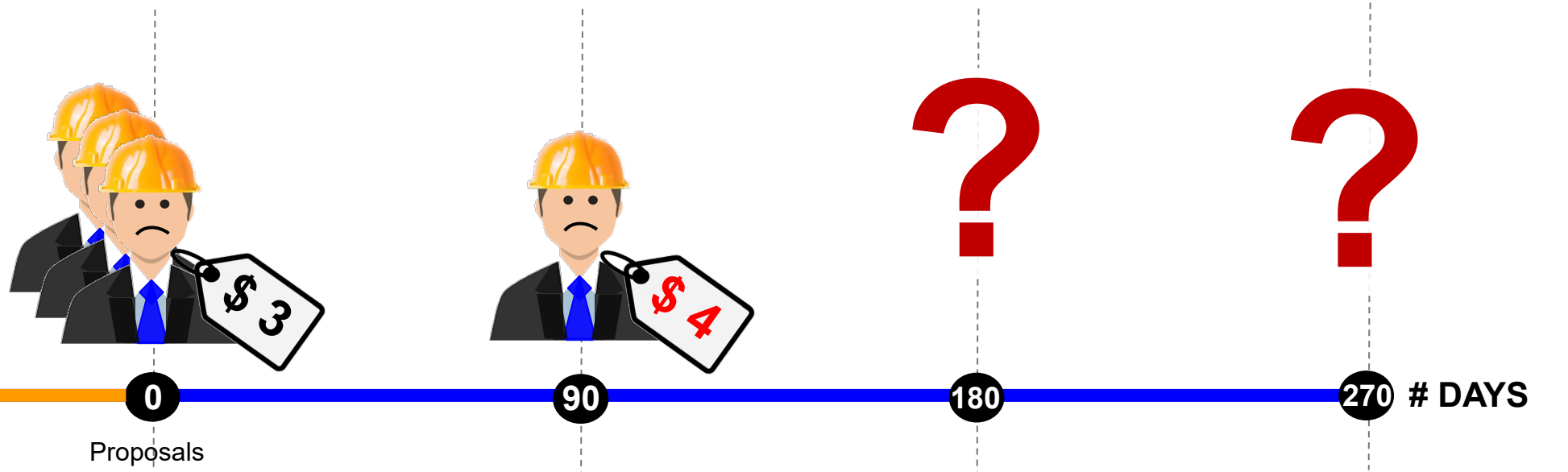
Source: Source: Association of General Contractors of America (AGC) and Bureau of Labor Statistics, www.bls.gov/ppi, producer price indexes for goods inputs to nonresidential construction (material costs) and new warehouse construction (bid prices)

CHALLENGES & IMPACTS

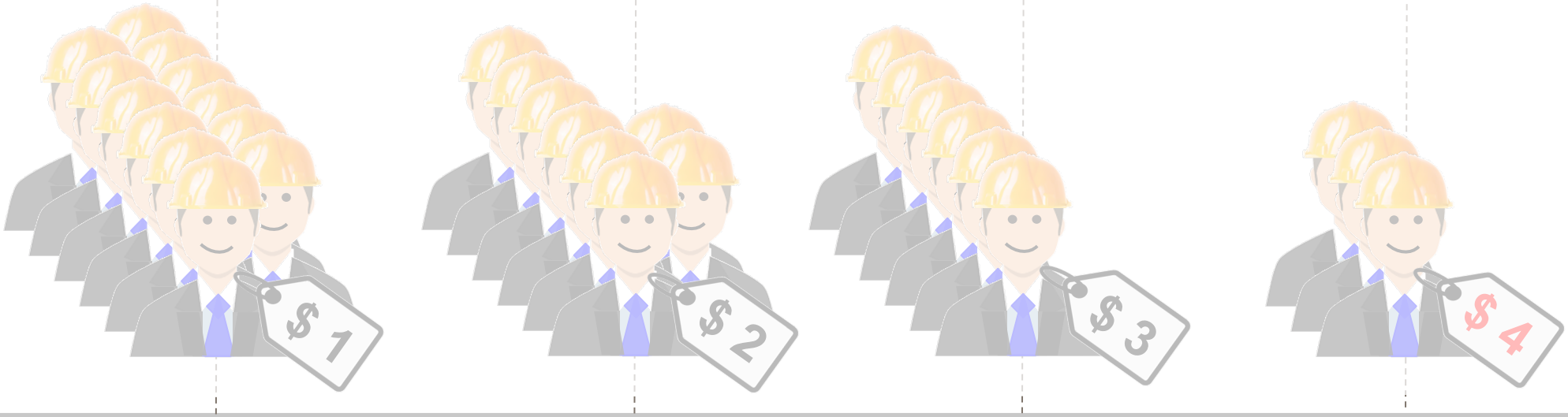
- Rapidly increasing market prices = high risk for Defense Industrial Base (DIB).
- DIB contractors (KTRs) reluctant to hold prices; e.g., was ~6mo, now ~60days.
- Greater incidence of KTRs pulling out of acquisitions.
- Widening gap between proposed prices and GOV cost estimates (IGEs).
- Increasing number of Above Threshold Reprogramming (ATR) requests; ~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!

Current Challenge



P.I.V.O.T.



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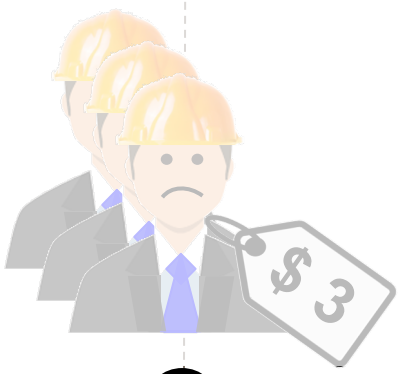
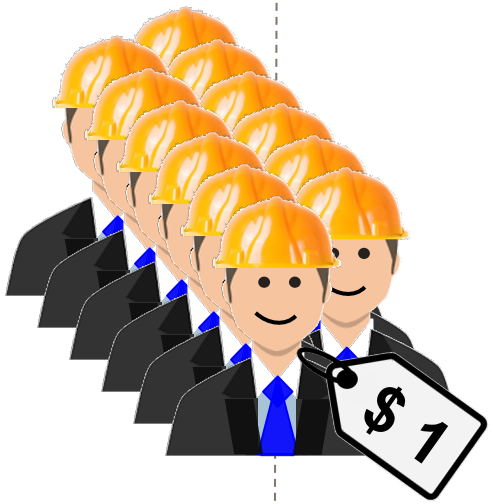
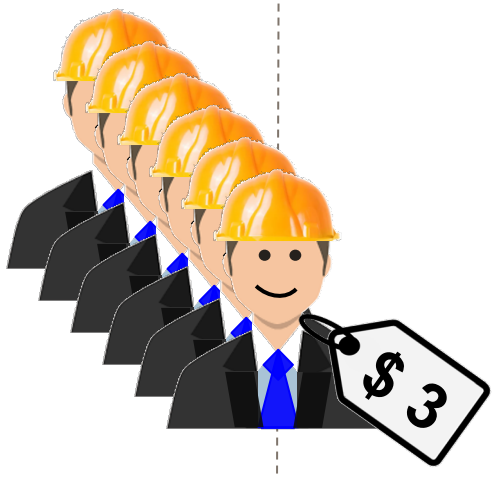
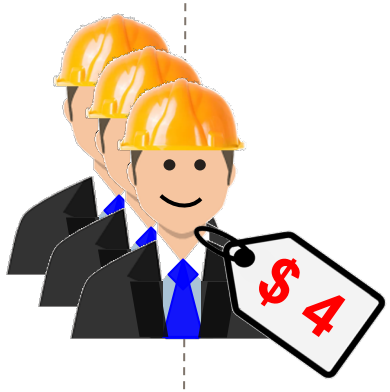


-30 Solicitation | 0 Proposals | 90 | 180 | 270 | # DAYS

P.I.V.O.T.







FEWER COMPETITORS…
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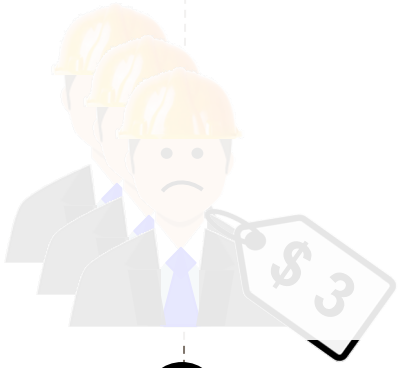

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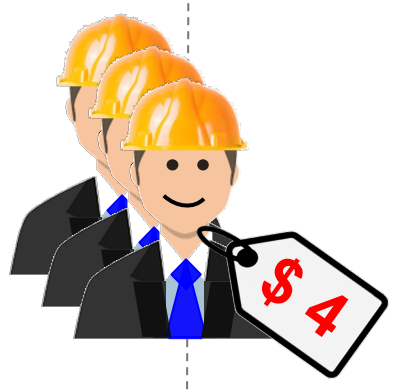


OLD APPROACH

NEW APPROACH

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

ACME

ACME, Inc.
123 Elm St.
City, US 54321

Proposal

CLIN 0001	$ 1,000
CLIN 0002	$ 5,000
CLIN 0003	$ 4,000
TOTAL	**$10,000**

New Approach

ACME

ACME, Inc.
123 Elm St.
City, US 54321

Proposal

	Period 1 0-90 days	Period 2 91-180 days	Period 3 181-365 days
CLIN 0001 ...	$ 1,000	$ 1,100	$ 1.500
CLIN 0002 ...	$ 5,000	$ 5.500	$ 7,100
CLIN 0003 ...	$ 4,000	$ 4.400	$ 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…

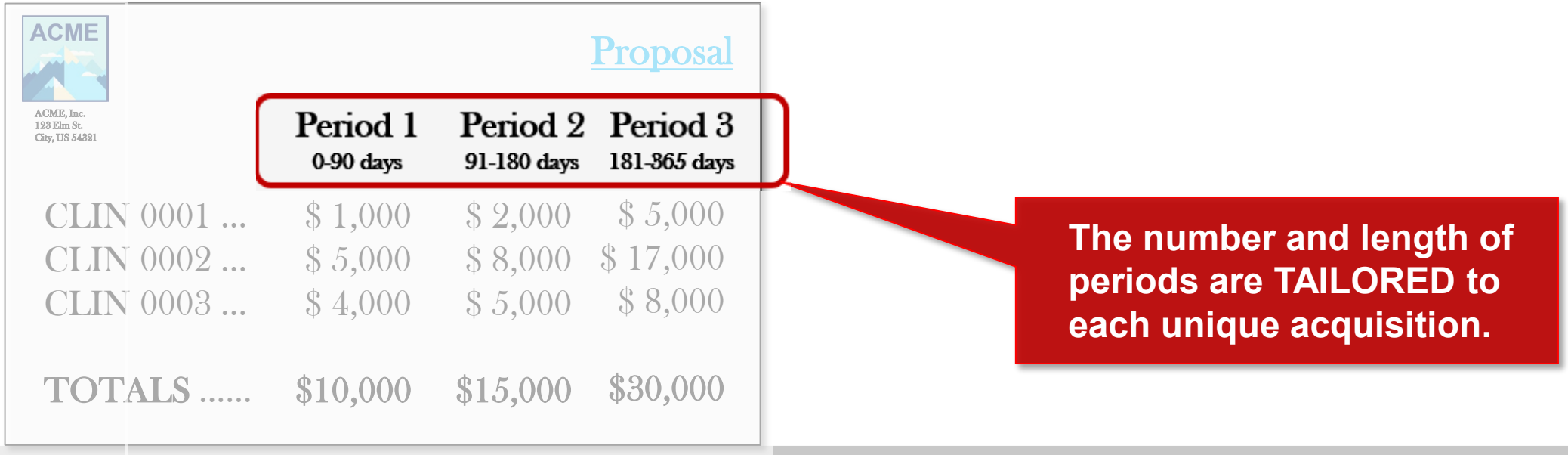
- Responsive – directly addresses competition & pricing risk.
- Timely – available NOW, for immediate implementation on new awards.
- Aligned – with existing statutory and regulatory constraints/flexibilities.
- Dynamic – version 26 and counting, an evolving solution.
- And please remember…..

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.



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.

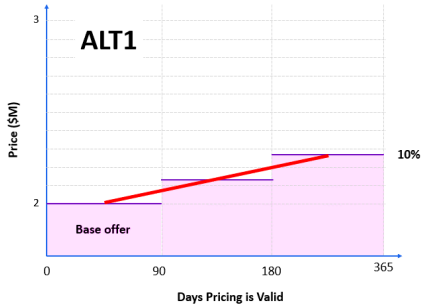
GOV weights are also TAILORED to each unique acquisition.

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.

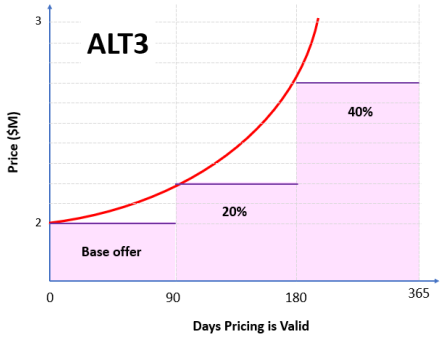
($M)	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d	Period 4 271-365d
CLIN 0001				
CLIN 0002				
CLIN 0003				
CLIN 0004				
CLIN 0005				
Total Award Price				
Weights	50%	30%	15%	5%
Adjusted CLIN Prices				
TOTAL Adj. Price				

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 requirement.
  - Example: “Non-residential construction PPI for OCT 21.”



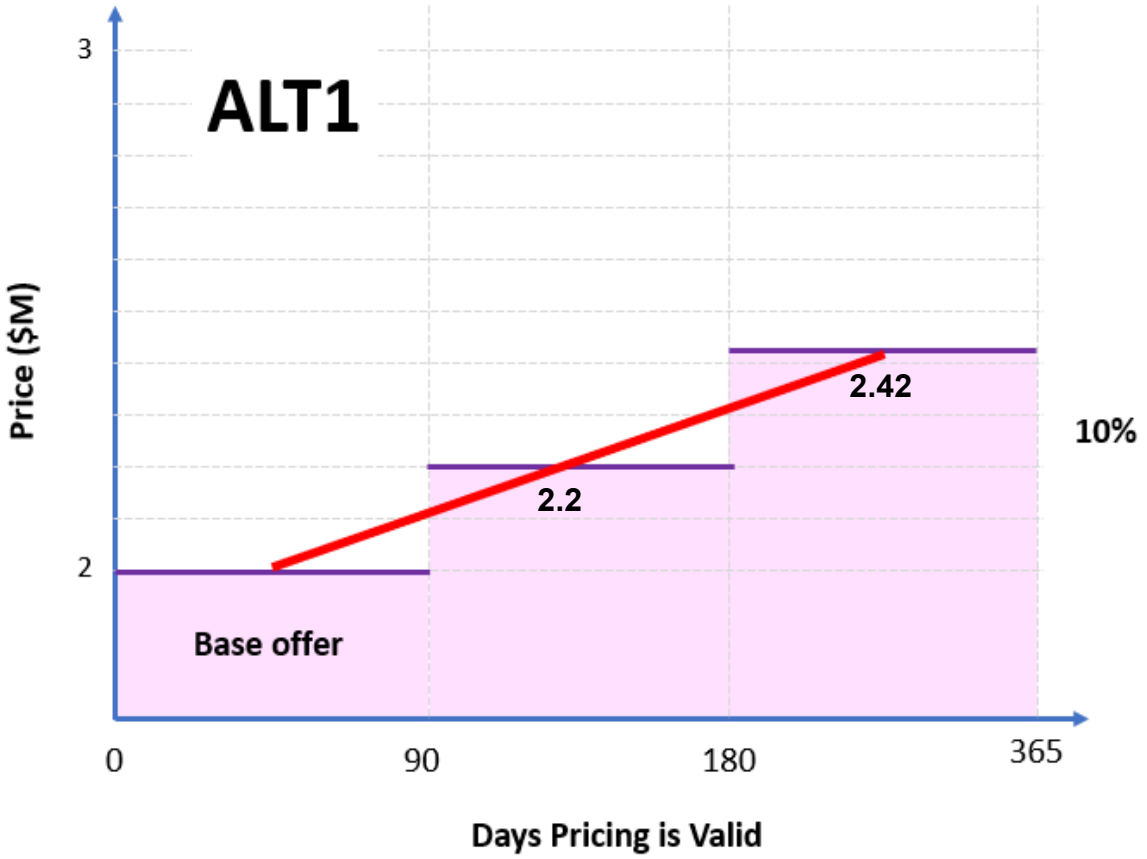
- **Alternative #3 – Vendor Parlay.**
  - Full KTR autonomy to choose prices by Period based on their modeling.
  - Price per period is based entirely on KTR’s own competition/risk model.
  - GOV price exposure is hedged by GOV selected period weights.

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.

Example: Fixed Percentage

	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d
Percentage	- - -	10%	10%
Calculation	- - -	(2 * 1.1)	(2.2 * 1.1)
Price ($M)	**2**	**2.2**	**2.42**



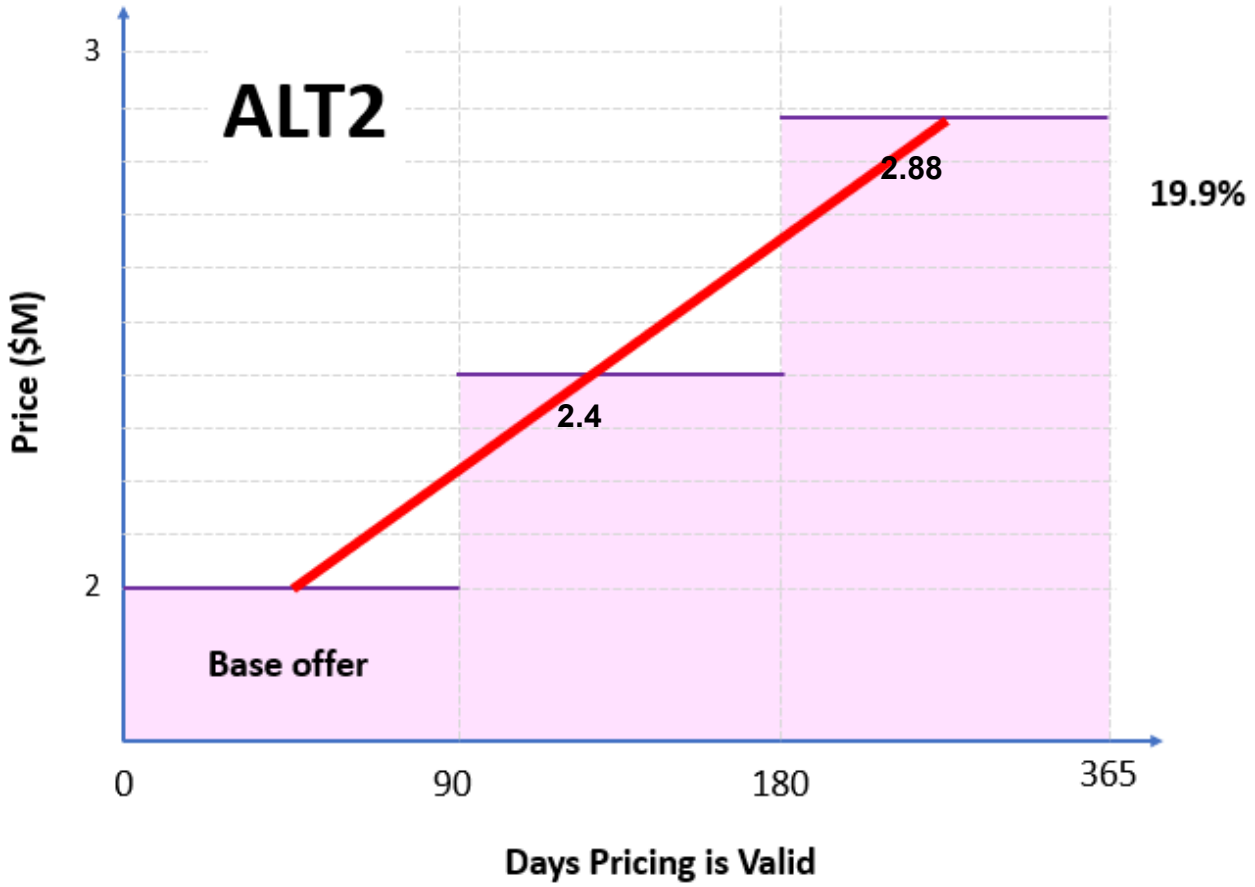
Note: Over time, curve may prove more parabolic; presented in a linear fashion to underscore the fixed % value; however, slope may be linear depending on PDT approach.

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.

Example: PPI * Previous Period Price

	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d
PPI for Const.	- - -	19.9	19.9
Calculation	- - -	(2 * 1.199)	(2.4 * 1.199)
Price ($M)	**2**	**2.40**	**2.88**



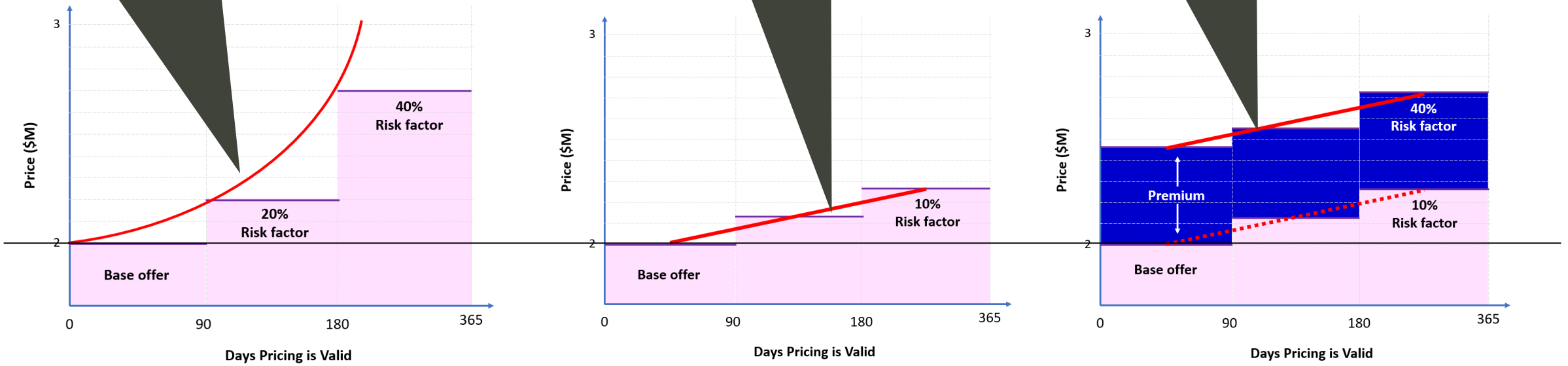
Note: Over time, curve may prove more parabolic; presented in a linear fashion to underscore the fixed index value, however, slope may be linear depending on PDT approach.

ALT1 and ALT2 – 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.

If the curve below approximates a KTR's real risk profile, i.e. how they see risk of a particular acquisition, using their financial models…

….and GOV "forces" a scaling alternative that doesn't "cover" all risk in all periods, KTRs have no choice but to follow the provided slope and INCREASE their base offer to cover later period risks.

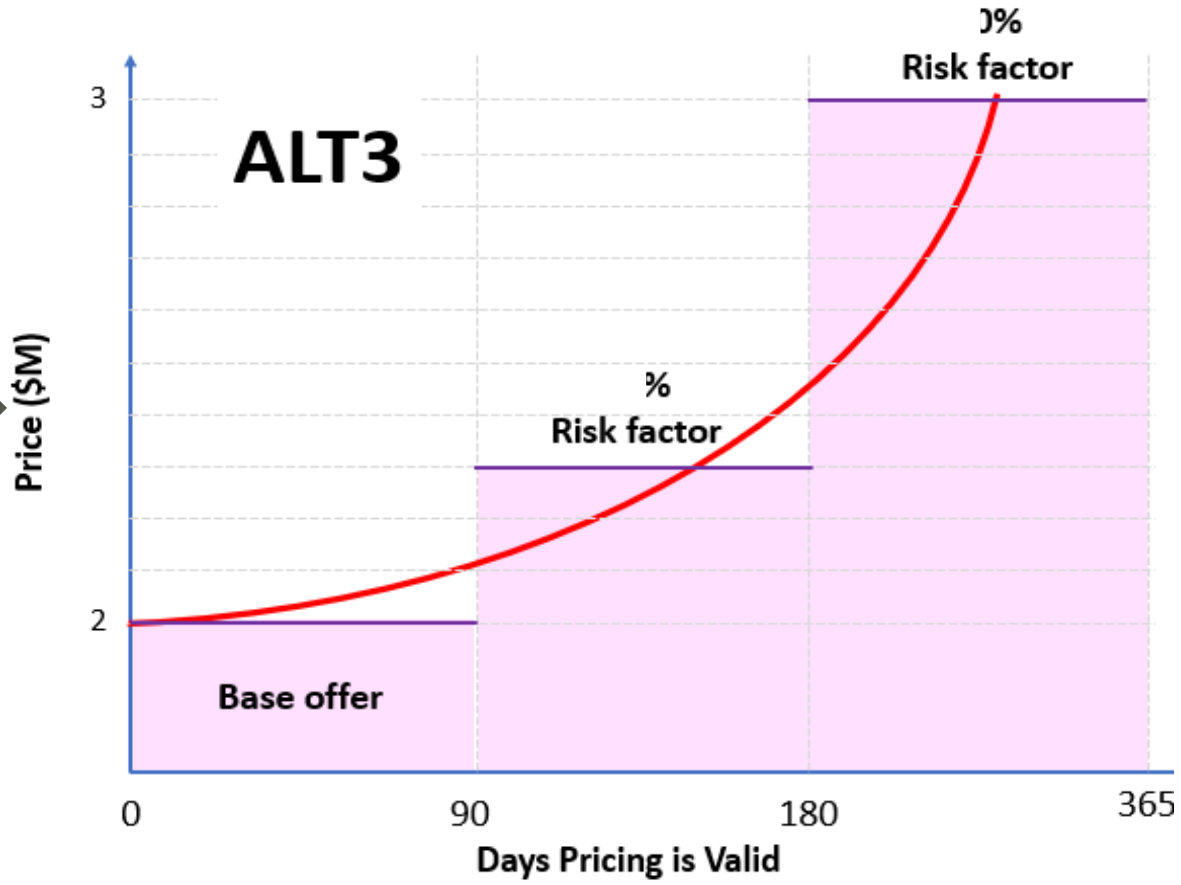


ALT3 – Vendor Parlay

- 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.

Example: KTR Pricing by Period

($M)	Period 1 (0-90 days)	Period 2 (91-180 days)	Period 3 (181-270 days)	Period 4 (271-365 days)
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 PRICE (By Period)	**11.2**	**13.3**	**16.47**	**22.2**



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.

($M)	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d	Period 4 271-365d
CLIN 0001	1	1.7	1.9	2.2
CLIN 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 (0-90 days)	Period 2 (91-180 days)	Period 3 (181-270 days)	Period 4 (271-365 days)
CLIN 0001	?	?	?	?
CLIN 0002	?	?	?	?
CLIN 0003	?	?	?	?
CLIN 0004				
CLIN 0005	?	?	?	?
TOTAL PRICE (By Period)	**?**	**?**	**?**	**?**
GOV Weights (By Period)	**50%**	**30%**	**15%**	**5%**
ADJUSTED CLIN PRICE(S)	**?**	**?**	**?**	**?**
TOTAL ADJUSTED PRICE (TAP)	**?**			

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

($M)	Period 1 (0-90 days)	Period 2 (91-180 days)	Period 3 (181-270 days)	Period 4 (271-365 days)
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 PRICE (By Period)	11.2	13.3	16.47	22.2
GOV Weights (By Period)	50%	30%	15%	5%
ADJUSTED CLIN PRICE(S)	5.6	3.99	2.46	1.11
TOTAL ADJUSTED PRICE (TAP)	13.2			

2) Total Adjusted CLIN Prices = TAP

($M)	Period 1 (0-90 days)	Period 2 (91-180 days)	Period 3 (181-270 days)	Period 4 (271-365 days)
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 PRICE (By Period)	11.2	13.3	16.47	22.2
GOV Weights (By Period)	50%	30%	15%	5%
ADJUSTED CLIN PRICE(S)	5.6	3.99	2.46	1.11
TOTAL ADJUSTED PRICE (TAP)	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 ($M)	Period 1 (0-90 days)	Period 2 (91-180 days)	Period 3 (181-270 days)	Period 4 (271-365 days)
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 [illegible] (By Period)	11.2	13.3	16.47	22.2
GOV Weights [illegible] Period)	50%	30%	15%	5%
ADJUSTED CLIN PRICE(S)	5.6	3.99	2.46	1.11
TOTAL ADJUSTED PRICE (TAP)	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 #1

SELECTED

($M)	Period 1	Period 2	Period 3	Period 4 271-365d
CLIN [illegible]	[illegible]	[illegible]	1.9	2.2
CLIN [illegible]	[illegible]	2.5	4	8
CLIN [illegible]	[illegible]	2.4	2.6	2.8
CLIN 00[illegible]	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			
Low Price By Period	**X**	**X**		

Vendor #2

($M)	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d	Period 4 271-365d
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			**X**	**X**

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 #1 ($M)

SELECTED

	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d	Period 4 271-365d
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	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**			
Low Price By Period	**X**	**X**		

Vendor #2 ($M)

	Period 1 0-90d	Period 2 91-180d	Period 3 181-270d	Period 4 271-365d
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			**X**	**X**

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.

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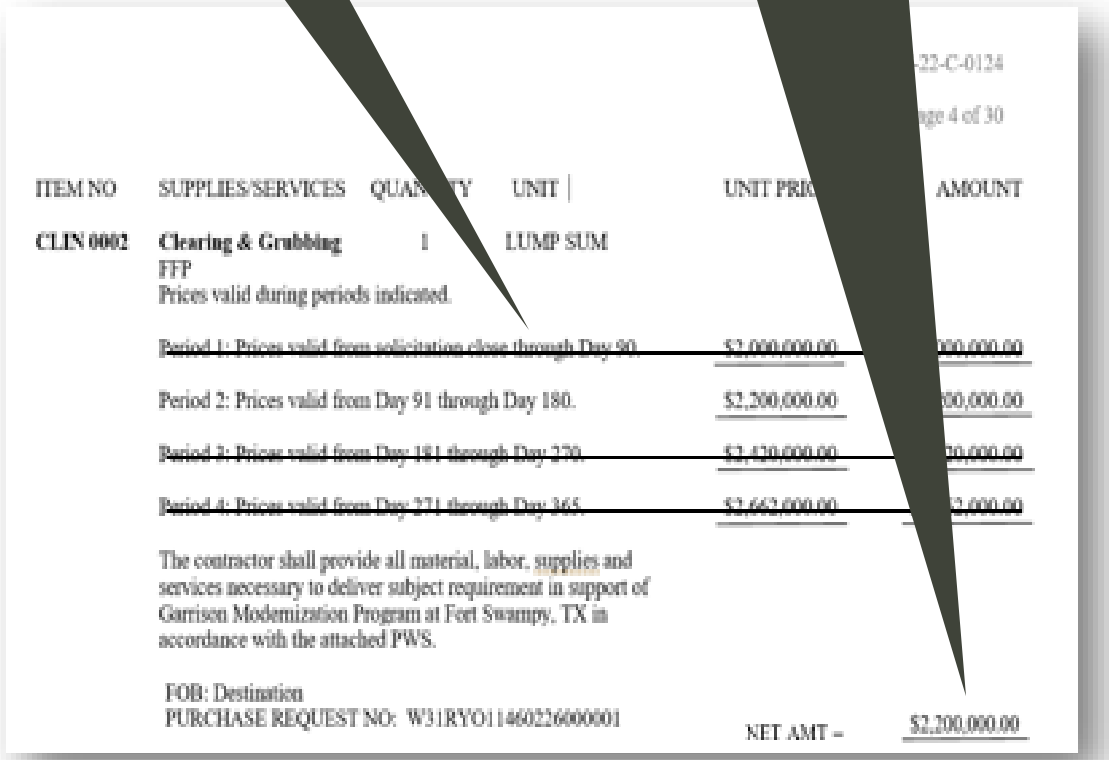
ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
CLIN 0002	**Clearing & Grubbing** FFP Prices valid during periods indicated.	1	LUMP SUM		
	Period 1: Prices valid from solicitation close through Day 90.			$2,000,000.00	$2,000,000.00
	Period 2: Prices valid from Day 91 through Day 180.			$2,200,000.00	$2,200,000.00
	Period 3: Prices valid from Day 181 through Day 270.			$2,420,000.00	$2,420,000.00
	Period 4: Prices valid from Day 271 through Day 365.			$2,662,000.00	$2,662,000.00
	The contractor shall provide all material, labor, supplies and services necessary to deliver subject requirement in support of Garrison Modernization Program at Fort Swampy, TX in accordance with the attached PWS.				
	FOB: Destination PURCHASE REQUEST NO: W31RYO11460226000001				

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.



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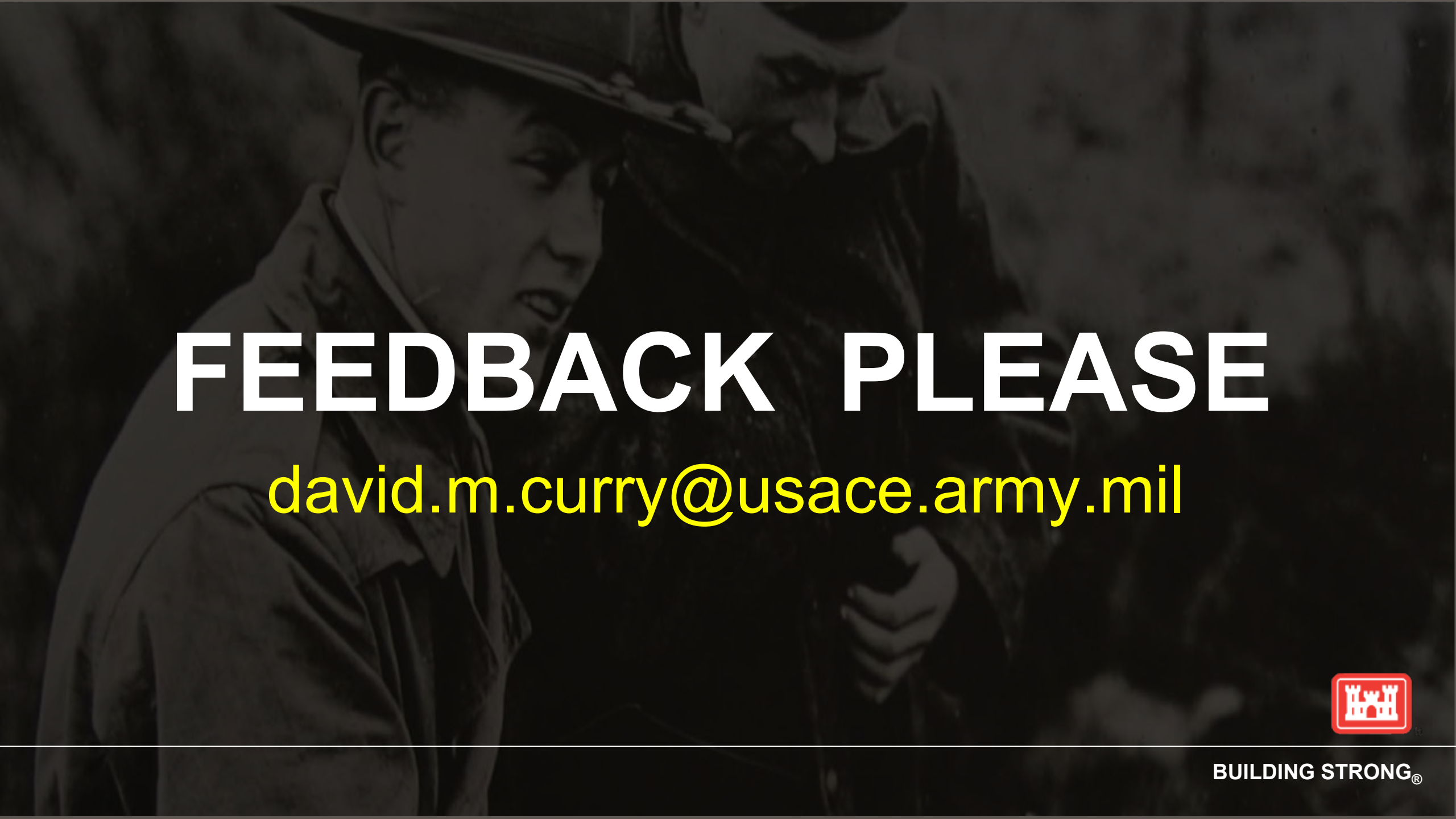
ITEM NO	SUPPLIES/SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
CLIN 0002	**Clearing & Grubbing** FFP Prices valid during periods indicated.	1	LUMP SUM		
	~~Period 1: Prices valid from solicitation close through Day 90.~~			~~$2,000,000.00~~	~~000,000.00~~
	Period 2: Prices valid from Day 91 through Day 180.			$2,200,000.00	00,000.00
	~~Period 3: Prices valid from Day 181 through Day 270.~~			~~$2,420,000.00~~	~~20,000.00~~
	~~Period 4: Prices valid from Day 271 through Day 365.~~			~~$2,662,000.00~~	~~2,000.00~~
	The contractor shall provide all material, labor, supplies and services necessary to deliver subject requirement in support of Garrison Modernization Program at Fort Swampy, TX in accordance with the attached PWS.				
	FOB: Destination PURCHASE REQUEST NO: W31RYO11460226000001			NET AMT =	$2,200,000.00

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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