



ALASKA REGIONAL CONFERENCE

JUNE 20-23, 2022 — ANCHORAGE

Bidding to Winning: Best Practices for Competitive Rates

Parker Barrineau, FCE Benefit Administrators, Inc. & Olessia Smotrova, OST Global Solutions, Inc.

Speaker

Olessia Smotrova, CF APMP Fellow

President/CEO

OST Global Solutions, Inc.



About OST Global Solutions

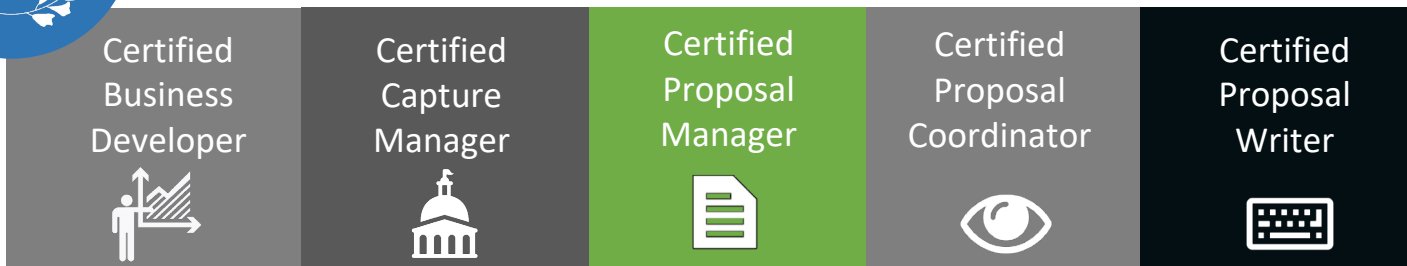


WE'VE WON OUR CLIENTS OVER \$23 BILLION IN GOVERNMENT CONTRACTS SINCE 2005

BUSINESS DEVELOPMENT, CAPTURE, AND PROPOSAL CONSULTING



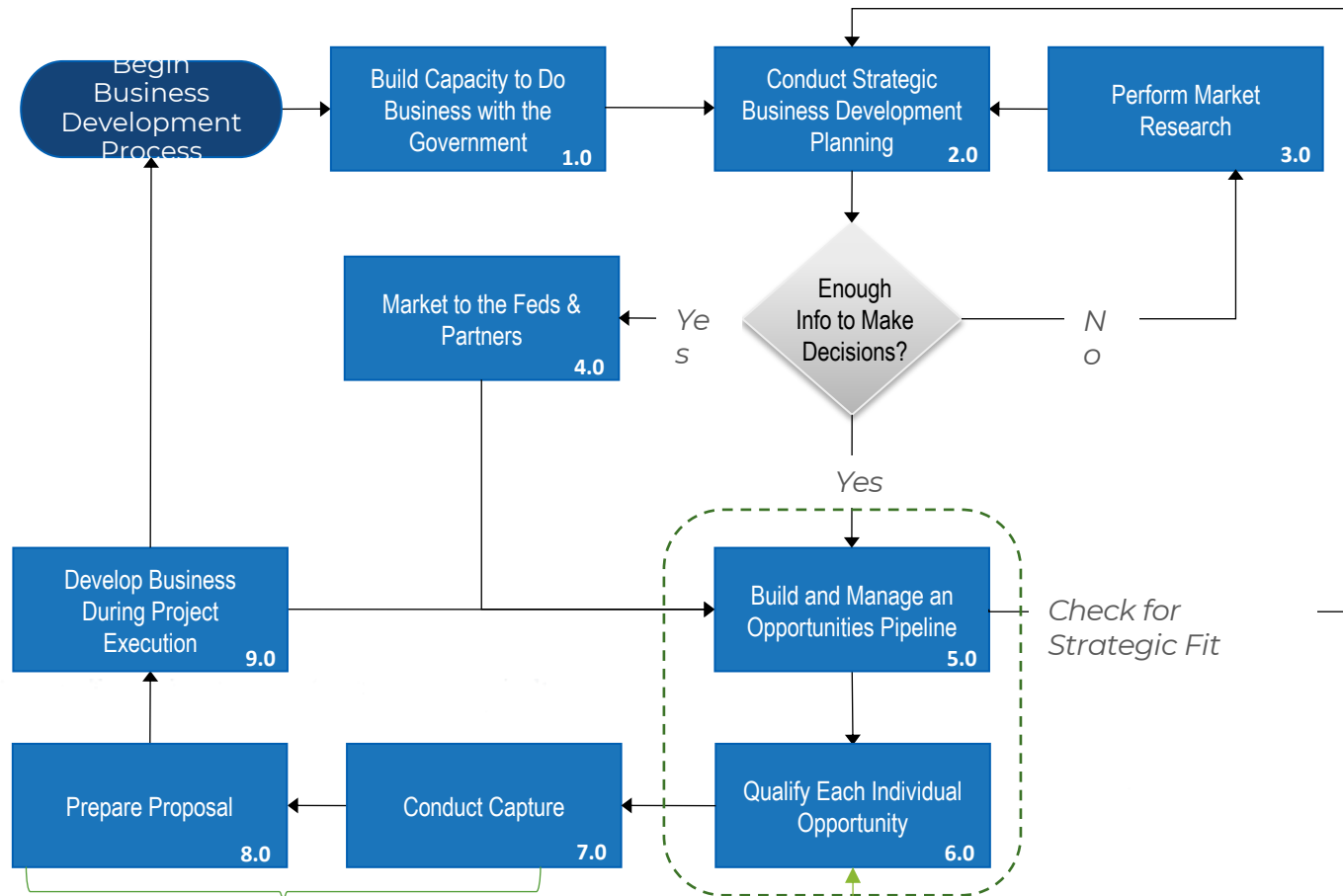
REGISTERED APPRENTICESHIP IN GOVERNMENT BUSINESS DEVELOPMENT; ACCEPT VETERANS ADMINISTRATION FUNDING; FULL BD LIFECYCLE TRAINING ALONG FIVE TRACKS



VIRTUAL AND COWORKING INCUBATOR FOR SMALL GOVERNMENT CONTRACTORS



Business Development Lifecycle



Competitive Intelligence, Price Competitiveness, Company Growth Strategy

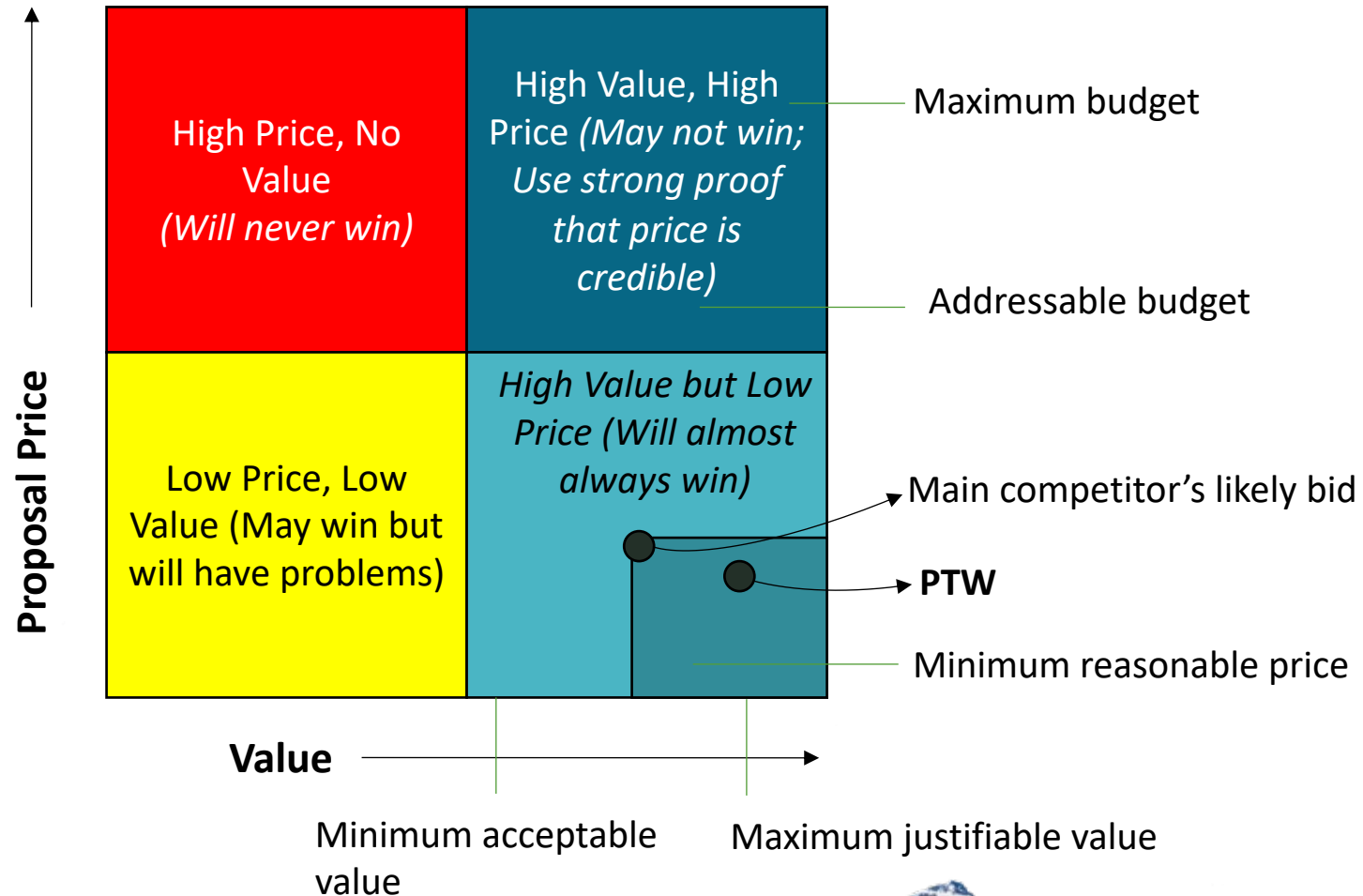
PTW, Bid Cost Strategy

Can You Win Given Bid Pricing History?

Check for Strategic Fit



The Tradeoff Between Value and Price



Understand the Best Value Continuum in Proposal Evaluation

FAR Parts 13-14

FAR Parts 8 and 12

LPTA where the customer reads all the proposals and it is possible to influence the perception of what's technically acceptable; cost factors significantly more important

Full trade-off analysis between the cost and non-cost factors; non-cost factors are more important than price

Simplified and sealed bids

Best Value Continuum

LPTA where the customer only reads the lowest-priced proposal; cost factors are most important

The products or services procured are basically the same in terms of quality, schedule, reputation, and technical capability/features
 Pass/Fail evaluation: acceptable or not
No past performance? It's acceptable... Lowest price wins

Performance/Price Trade-off (PPT) – once the proposal is deemed technically acceptable, the customer decides between price and performance; cost and non-cost factors are equally as important

Bidder A	Bidder B	Bidder C
5 Strengths	3 Strengths	6 Strengths
2 Weaknesses	No Weaknesses	1 Weakness
\$52M	\$51M	\$65M



LPTA Proposals are Different from Best Value

The evaluation of an offeror's experience and past performance is within the discretion of the contracting agency

Represents the absolute bare minimum requirements key to successful performance

Evaluation of Small Business participation may not be used (exempt)

Proposals are not comparatively assessed using non-price factors and subfactors

Government assesses technical acceptability

Offer found technically unacceptable in one factor must be ruled unacceptable overall

Cost factor is most important

Can say "best value" but be a "hidden LPTA"



Example of a “Hidden” LPTA

- It’s a SETA type of work, a **best value** procurement
- There is an incumbent
- Technical evaluation factors are:
 - Staffing plan
 - Key personnel
 - Transition plan } Acceptable/Unacceptable
- Past Performance: Good (done well, very similar), Acceptable (done well, similar, or none), Unacceptable (done badly)
- Price evaluation factor:
 - Price your staff in 90th percentile of salary surveys or provide paystubs to prove they can be paid lower
- **How do you win over the incumbent?**



Do You Even Want to Play the Price Shootout Game?

Decide what kind of work to go after as it will impact the way you design your business unit within your company, or if you are going to create a new company in a super-8a to go after a strategic bid

Do you have the **cost-cutter mindset** with the cost being the center of your bid effort?

Are you willing to price each cost element as low as possible to barely meet the requirements: **minimal hours, rates, quals?**

Do you have the thick skin to deal with the **risk of low performance?**

Will you be ruthless in **recruiting at the lowest salaries**, cut salaries of current employees, and be **aggressive and creative with your indirect cost pools?**

Can you **live with losing** to a crazy low-baller no matter what you do?

Will you dedicate your billable resident geniuses' time to **strategizing the lowest-priced solution?**

Lower-end work competitive pricing work requires a different company design vs. higher up on the spectrum of knowledge workers



Ideas to Reduce Costs

Reduce OH by transferring the workforce to all WFH and keep a small footprint

Use shared services to lower G&A

Provide services to outside companies such as recruiting if they are not in conflict to cover costs of internal staff

In advance of the bid, examine every element of the indirect pools and ensure that you only have what you need in your fringe, OH and G&A

Whoever squeezes everything extra out of the rate will probably win

Discuss with the executives: do we really need this here? How can we get rid of this cost, or find another strategy for that particular cost?

Look at the holidays, paid time off, and change productive hours calculation if the RFP allows it – is it 1912, 1820, or 1880? Or is it 2080 to have full coverage on weekends and holidays?

Reduce profit last



More Ideas

Consider using 1099s instead of W2s but avoid trouble with the IRS; may use a staffing firm that will use a slim load, or smaller companies without offices that have a small load on top of direct pay

Find out the current incumbent workforce's seniority if you want to rebadge them but know they are likely to be grandfathered into their vacation

If planning to bid as low as possible, assume hiring all fresh workforce into a junior position who will accrue vacation later if there labor market permits; offer lower than old rates to the incumbent staff that may refuse

With lots of junior personnel, carefully plan for strong management to structure your management

Optimize a management/worker ratio (1:10? 1:15? Other?) enhanced with processes, procedures, and technology; this differentiator also factors into rate and price



Winning on Price Starts with Strategy and Capture

Restructure into a lean company: it's all about your low rates

Establish processes, systems, discipline, and culture to ask the government for a modification each time you encounter "scope creep"

Collect competitive intelligence

- Key competitors
- Incumbent and competitors' wrap rates
- Incumbent labor and material rates
- Credible information on whether customer wants a new contractor, personnel/solution changes, and new pricing
- Reasons the customer has chosen a specific set of evaluation criteria
- Insider intel from current onsite personnel, other companies, BD staff, consultants
- Subscription sources such as DACIS and GovWin IQ, GSA Schedule rates, research
- FOIA is your best friend

Each time, decide if it is to your advantage to go LPTA or Best Value



Fringe Rate Strategies

Construct multiple fringe pools with benefits depending on the contract type

- Normal fringe pool: Usual company benefits
- LPTA Fringe Pool
 - Reduced benefits?
 - Less paid time off?
 - Possibly using retiree healthcare instead of providing it?

Must have an accounting system and HR documentation in place that can separate the different methods or there will be legal trouble



Overhead and G&A Strategies

Use provisional rate billing for OH and G&A: May be perceived as a risk, but sometimes may drastically lower your bid

Make a pool specifically for LPTA contracts: This will make your pool for non-LPTA contracts higher as you will still need to recover the costs

Total Cost Input vs. Value Added Method of G&A (do company services that go into G&A pool add value to this project?)

Total Cost Input

- Generally used more often by companies who perform most of their own work
- Includes total direct and indirect costs, except G&A

Value Added

- Generally used by companies who subcontract out more work
- Defined as total cost input less material and subcontract costs
- Lowers the burden on subcontracts
- **Warning:** If burden on subcontractors goes down, other G&A goes up; you must recover costs somewhere



Prevent LPTA Prior to the Proposal Stage

Prove that government regulations state it is unacceptable to treat a barely capable bidder on the same level as the most innovative firms in the industry if the government is seeking to achieve service or technical excellence

Remind that when using LPTA, the government must admit that there is no benefit from an offeror exceeding a contract requirement rather than just barely meeting it

Check if past performance is important to the customer; then LPTA should not be a viable option

Research similar LPTA projects to show failed or difficult contract performance

Cite articles from government contractor-related media that LPTA is inappropriate for most IT services, and other types of services



Select Teammates on Cost, Not Only Quals and Past Performance

Use past knowledge with the way these companies price and how low they've been able to get when determining who to team with

- Push the strategy into the teammate selection process

Teaming partners must be on board for the LPTA approach you have at hand

- Make it clear that profit margins will be bare bones and rates will be much lower
- Reiterate in the TA and in capture discussions

Minimize subcontractor pass through costs

- 0-5% is the norm in an LPTA environment



Most LPTA Bids are Won by Bidding the Year One Underwater

Efficiency increases in out years, so the profit goes up

Manage to the SOW, have a contract modification strategy in mind from the proposal stage on

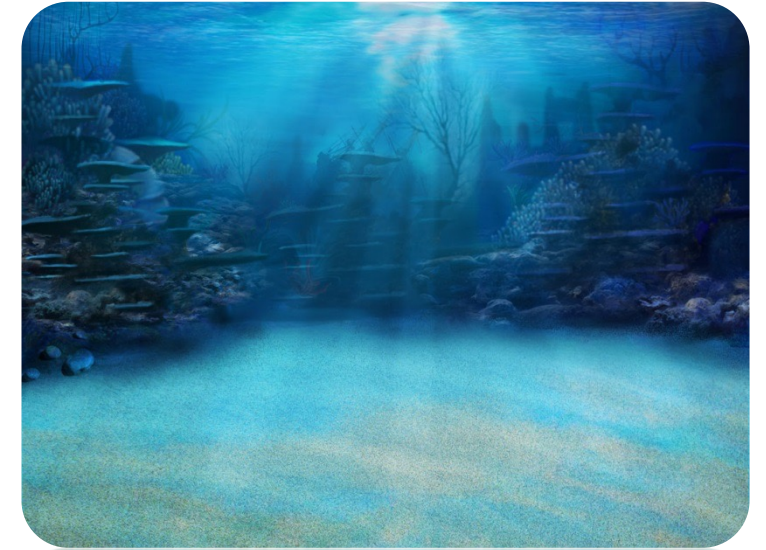
Executing to your proposed cost is important: after winning, watch it like a hawk

Customer satisfaction and length of performance equal profit

The Government will most likely hate your PM by the end of this effort; accept it

Always look for areas of **growth**, the most valuable asset in an LPTA contract

Avoid automatic pay increases for staff based on escalation versus merit increases as a part of your “get well” plan



Be as Bare Bones as Possible But Stay Credible

Compare the customers actual “needs” to the “wants” given in the RFP: the difference between the two may turn into contract mods in the future to help you “get well”

Check if your solution minimally meet the SOW requirement and if not, make sure it does

Cut ruthlessly on all ends of the technical approach: be a D-student, not an A-student; deliver a complete package around the minimally technically acceptable solution, unless you can clearly show no increase in price

Don’t bother impressing the reviewers with pretty graphics or innovation

Ensure your minimal approach sounds credible; you’re trying to be the cheapest bidder who meets the requirements the Government sets out

This still calls for creativity, just a different kind than in the Best Value effort

Segregate costs if protesting as they may be recoverable in the event your protest is sustained



Highlight Risk in Your BOEs and Technical Solution to Ghost Competition

Prove that pricing a solution any lower is too risky and is not executable

- Traditional saying goes: “Better, faster, cheaper” – pick two
- Low price is often associated with high risk, because “cheap” leads to lower quality, increased likelihood of failure, lost efficiency, and project failure
- Throughout the technical proposal and BOEs, remind the evaluator of the dangers associated with a poor buying decision

Highlight solution risks, then designate select features found in your solution as the critical success factors to mitigate these risks

- Highlight the features required to deliver the best possible service at the lowest price
- If in your competitors’ proposals these features are missing or are described poorly, they may be deemed not TA

The Government is traditionally risk-averse – leverage this knowledge in your proposals; their resort will be to try to disqualify your competitors or cancel an LPTA competition and re-compete the work on best value



Undermine Your Competitors' Technical Acceptability

Showcase past performance references to support your approach

- Past performance is requested but is not needed in LPTA because the FAR states that a missing past performance references will get an “acceptable” rating
- Use your past performance as a proof of concept for your illustrated approach and how it can be delivered cheaper
- **Imply risk** in selecting your competitor without past performance and proof that their approach is technically acceptable

Compare how your approach is leaner, and therefore cheaper, than traditional approaches

- Prove you can execute the solution at the quoted price by cutting out the number of steps in a traditional approach versus yours without negatively impacting the result

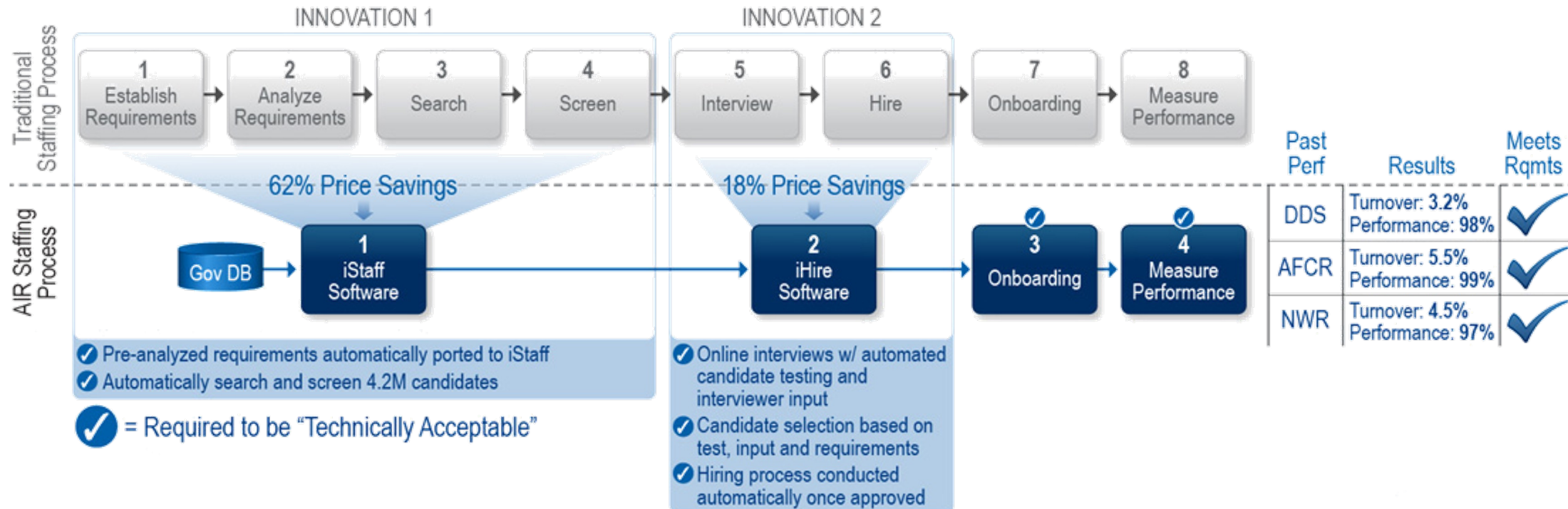
Use numbers to establish credibility for your approach - any quantifiable proof you may have collected

All these methods help to possibly ghost the competition and seed the doubt in an evaluator's mind that the competitors' approach is not TA; it may work in more complex LPTA bids



Ghost Technical Acceptability in Proposal Graphics

Courtesy of Mike Parkinson, billiondollargraphics.com



Direct Labor is the Biggest Cost Driver

Direct labor usually has the most room to cut

Hurts an incumbent the most: hard to cut existing staff's salaries and have been growing

Use the following methods to determine the lowest salary you can pay:

- Historical data and incumbent salaries
- Internal company labor category matching
- Salary surveys with market data by location (Government prefers you use ERI vs. salary.com)

Always adjust hours and rates in a proposal before lowering fee

Bid lean but able staff to complete the project at hand



Perform Labor Rate Analysis

Review the labor categories description provided with the RFP

Perform labor category matching

Reverse-engineer available financial information obtained from old contracts and FOIA requests to determine burdened labor rates, direct labor rates, average rate per hour, and competitive wrap rates



Winning on Price in Best Value Bids

If a total compensation, recruitment, and retention plans are required, it may be a sign the government values knowledge workers' quality

Must have excellent benefits, quality oversight and management included in overhead, and strong infrastructure in G&A

Don't bid important positions below the 50th percentile of the salary survey data if it's used

Escalation rate helps ensure you can backfill and retain high-value knowledge staff – seeing upwards of 3%; lower escalation may be a mistake exploited by savvy competitors who may ghost low bidders with a story of how they are going to retain people with raises together with the story of why they have specific indirect rates and survey percentiles of direct salaries

Capture homework helps understand competition to properly ghost them and explain how you are different

Find strong evidence and support for rates and ghosting, and use cost-specific executive summary and graphics that show why you are the best value and why the government should choose you



How the Government Will View Your Cost Proposal

Cost Realism

- Do your technical solution and your cost proposal match? Are all bases covered?

Cost Volume Completeness

- Follow all instructions in the proposal
- Return the Government provided spreadsheets in the format given
- Allow for the Government evaluator to recreate your buildup in order to provide for a step-by-step evaluation

Cost Reasonableness

- Is the price given what a prudent buyer would expect to pay for the goods or services?
- Problematic to prove – BOEs help scare the government into believing that anyone with lower price will fail

Realism

Completeness

Reasonableness



Last Bit of Advice

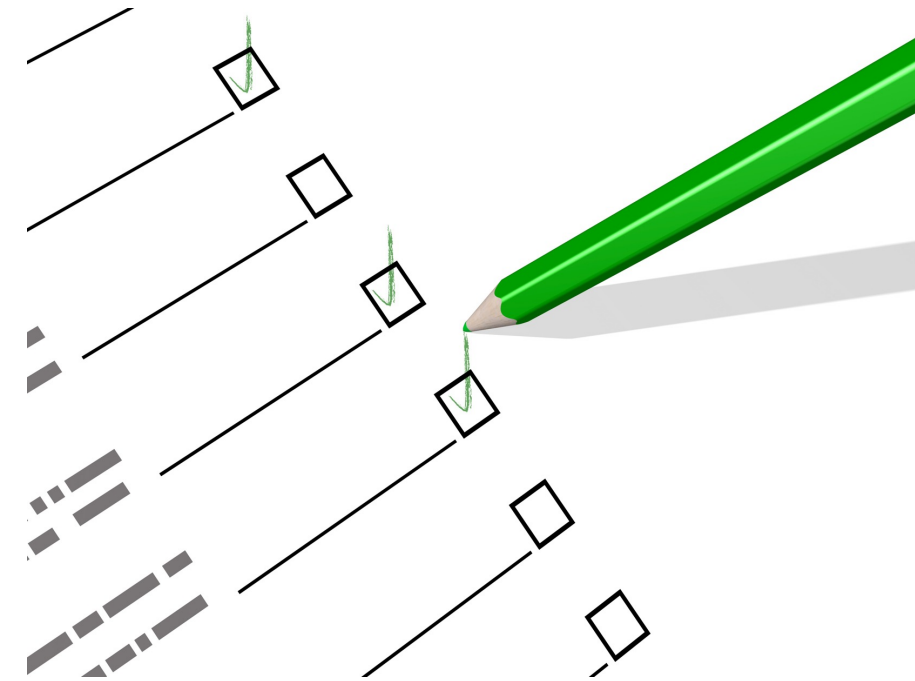
ALWAYS PAY ATTENTION TO THE EVALUATION CRITERIA

LPTA solicitations might be your opportunity to get into a market it's normally hard to break into

LPTA bids remove a lot of the incumbency advantages in a bid and could be a sign that the Government does not see a clear advantage with using them if the contract was not previous bid LPTA (Unless they game it like in the earlier example)

If you are moving up the value chains to bigger dollar value procurements and higher profits, consider choosing best value procurements

Don't skip labor rate analysis, especially for larger bids



Contact Information

Olessia Smotrova

osmotrova@ostglobalsolutions.com

240-246-5305

www.ostglobalsolutions.com



COMPLIANCE



SCA & DBA H&W

Fringe Benefit Strategies



June, 2022

Regional 8(a)- Anchorage AK

Compliance and impact of ACA

Starts with understanding the basics

- ✔ The McNamara-O'Hara Service Contract of 1965 (SCA)
- ✔ Davis Bacon and Related Acts (DBRA)
- ✔ The Affordable Care Act (ACA)



COVID-19

And How The Workforce is Effected

- ⦿ COVID-19 has created a total disruption in everyone lives, both personally and professionally
- ⦿ Employers and employees have less access to employee's job site
- ⦿ Employees who are now working less hours may not have access to their traditional full-time benefit plan
- ⦿ Employees have health concerns
- ⦿ Contractor's may need to look into alternative solutions such as new eligibility rules for employees who drop down in hours
- ⦿ Telemedicine choices



McNamara O'Hara SCA Act of 1965

The Service Contract Act (SCA):



Requires contractors and subcontractors performing services on prime contracts in excess of \$2,500 to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in the locality, or the rates including prospective increases contained in a predecessor contractor's CBA



The Department of Labor (DOL) issues wage determinations on a contract-by-contract basis in response to specific requests from contracting agencies.

These determinations are incorporated in the contract.

SCA Wage Determination

SCA hourly workers currently receive the following:

Health & Welfare

*\$4.23 per hour

\$4.60 per hour

(\$4.23 if it includes E.O. 13706 Paid Sick Leave)*

This applies to the following categories of services:

- ✓ IT staff
- ✓ BOS Contracts
- ✓ Security Guards
- ✓ Janitorial and custodial
- ✓ Food service employees
- ✓ Commissary shelf-stocking
- ✓ Engineering
- ✓ Phone operations
- ✓ Administrative staff
- ✓ Grounds maintenance
- ✓ Vehicle maintenance
- ✓ Security
- ✓ U.S. Mail Haulers

Health & Welfare Fringe Benefits

- ◎ Workers **must** be paid an hourly health and welfare benefit
- ◎ These dollars are in addition to the base wage paid to the employee
- ◎ The most current health and welfare fringe on a SCA contract is \$4.23 per fringe paid hour
- ◎ Fringe benefits that meet the requirements of SCA are described in 29CFR Part 4, Section 4.171



Providing Health & Welfare Benefits

The Employers Discretion



The employer has sole discretion over this SCA H&W obligation and may choose to:



Put the health and welfare fringe in the paycheck and give it to the employee as added wage (“cash-in-lieu”)



Use it to provide “bona-fide” health & welfare benefits

The Big Questions

The Cash versus Benefit Decision

Things to consider when making this decision:

- Did I bid any health and welfare overhead into our government proposal? What's my margin?
- What are tax implications of paying the health and welfare in cash?
- What other implications are there to consider by allowing cash payments of the health and welfare? IE Worker's Compensation Premiums
- What employee retention/morale issues could I face by providing a benefit program instead of paying the health and welfare in cash? Baby steps are ok!

Cost-Savings Calculator

SCA Contractor Cost Savings Analysis



FULL TIME Employees on Contract (Not Electing Coverage)	150	
Estimated PART TIME Employees on Contract (74 Hrs/Month)	25	
Average Cash Wages:	\$12.00	
Fringe Rate:	\$4.23	
Workers Compensation/(G/L) Rate per \$100:	\$4.00	
Cost Saving Analysis	No Benefit Plan	Benefit Plan
Wage Determination	\$12.00	\$12.00
Health & Welfare Benefit Paid As Cash	\$4.23	\$0.00
Total Cash Wages	\$16.23	\$12.00
Payroll Burden on Cash Wages*:	\$1.81	\$1.34
FICA 7.65%		
Taxes .8%		
2.7%		
Federal Unemployment Taxes		
State Unemployment Taxes		
Workers Compensation/(G/L) Premiums	0.65	0.48
Contribution to Fringe Benefit Plan	4.23	
Employer Cost per Hour	\$18.69	\$18.05
Hourly Savings per Employee	\$0.64	
Annual Savings per Part Time Employee	\$569.07	
Annual Savings per Full Time Employee	\$1,332.96	
Employer's Annual Savings	\$214,170.40	
Employer Savings on 5 Year Contract	\$1,070,852.00	
Estimated Overall Contract Savings **	3.14%	

*Used for illustration purposes only; percentages will vary by employer.

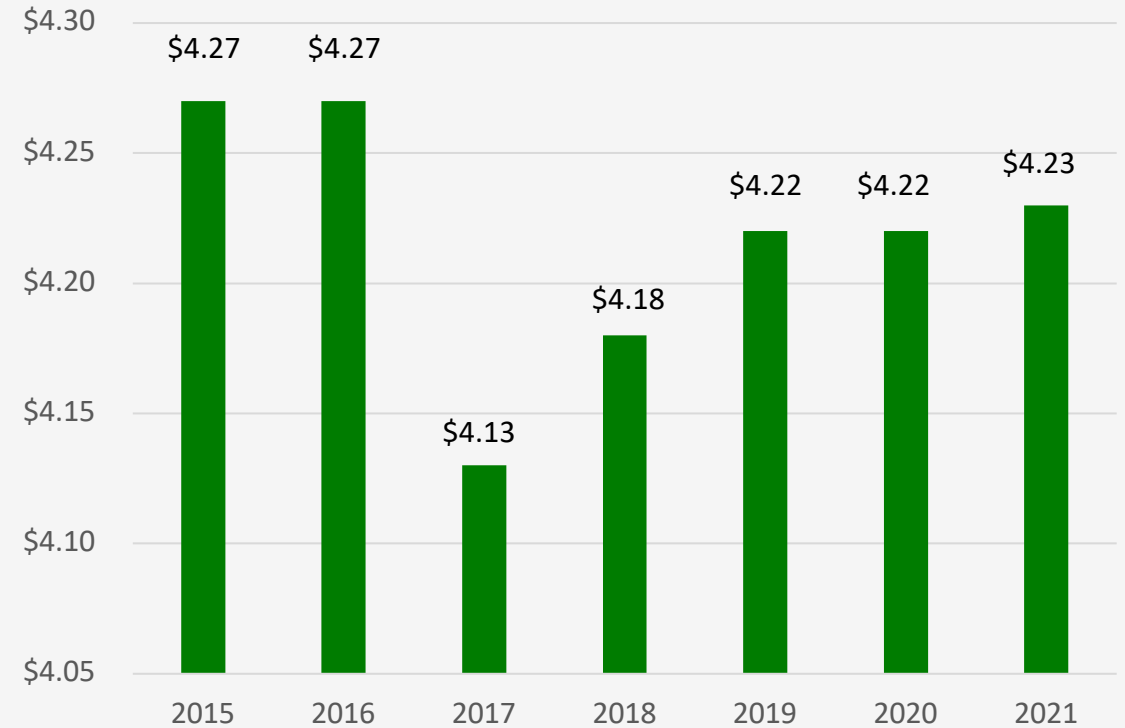
**Based on an indirect / overhead rate of 35%.

How To Plan For Health Insurance

While minimizing exposure to rising costs

- ✓ Fringe increases have averaged 1.75% over the last 7 years
- ✓ Increases for Health Insurance for Single Coverage has averaged 5.5% to 6.25%*
- ✓ Tough decisions will need to be made on how to control escalating health costs which exceed year over year fringe increase
- ✓ What we need here is a PLAN!

Health & Wellness Fringe - Average Increase

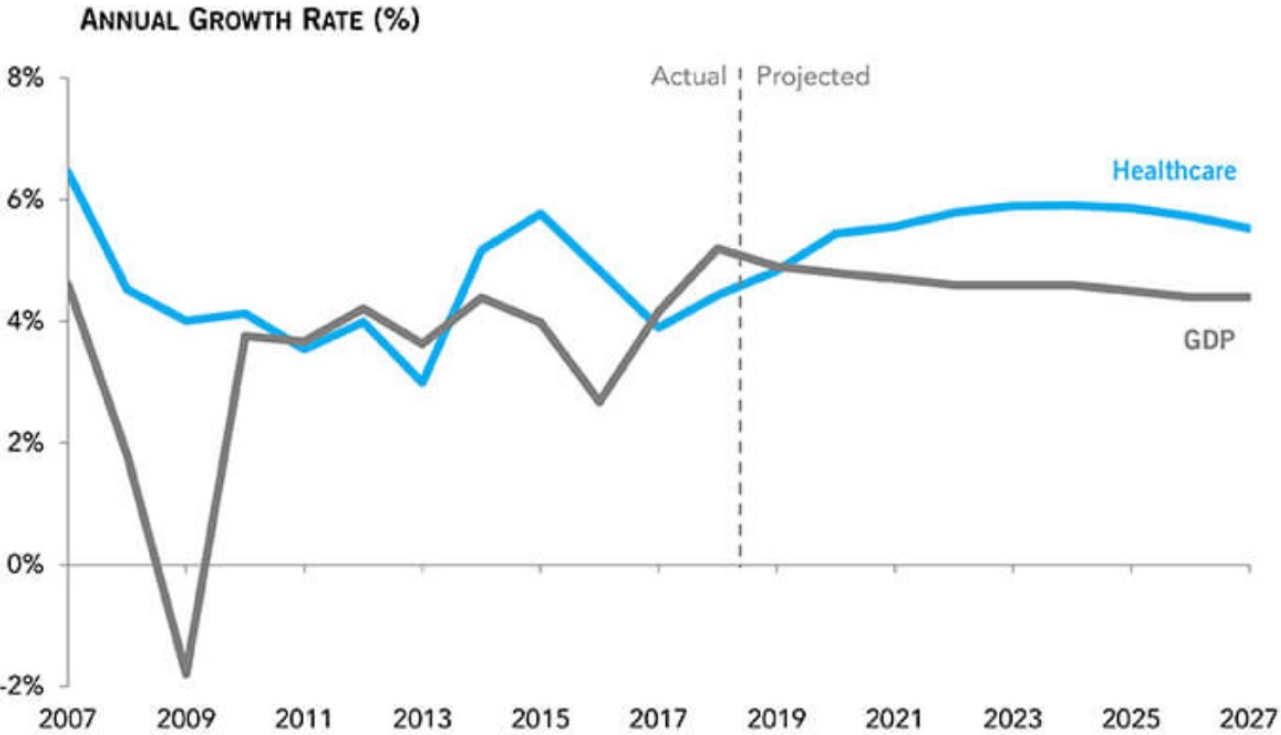


Cumulative Increases in Premiums

for Single Coverage vs Annual Health & Welfare Fringe Increase



Healthcare spending is projected to grow faster than the economy over the next decade



Overall healthcare costs — including all private and public spending — are anticipated to rise by an average of 5.5 percent per year over the next decade — growing from \$3.5 trillion in 2017 to \$6 trillion by 2027.

SOURCES: Centers for Medicare and Medicaid Services, National Health Expenditures, February 2019 and Bureau of Economic Analysis, National Income and Product Accounts, April 2019. Compiled by PGPF.

No More Compliance Headaches

FCE Benefits plans assure continuous compliance



- Affordable Care Act
- ERISA
- Service Contract Act
- DOL Audit Support
- SAR- Summary Annual Reports
- Annual audits (5500)
- SPD - Summary Plan Descriptions
- COBRA & FMLA tracking
- Medicare Part D & CMS filings
- HIPAA



Possible Penalties For Non-compliance

- ⚠ Back wages and benefits
- ⚠ Personal liability for corporate officials
- ⚠ A hold on payments for any federally funded contracts
- ⚠ Three-year debarment from all government contracts
- ⚠ Contract cancellation and re-procurement costs

THANK YOU



For more information about
FCE's services, please contact:

Parker Barrineau
VP Sales and Marketing
(210) 896-1575 cell
pbarrineau@fcebeneft.com

FCE Corporate

1528 South El Camino Real, Suite 407
San Mateo, California 94402

FCE Operations Center

4615 Walzem Road, Suite 300
San Antonio, Texas 78218