

THE VALUE OF PERFORMANCE  
**NORTHROP GRUMMAN**

# **The Peculiar World of Sole Source Contracting; Maybe There is a Better Way**

**Sandy Burney & Shawn Larson**  
Northrop Grumman Aerospace Systems

# What should you expect for the next 45 minutes?

- Peculiarities of sole source estimating
  - Budgetary estimates vs. FAR compliant proposals
  - Competitive vs. Sole Source
- A glimpse into the trenches of sole source audit, factfind, & negotiations
- Maybe there is a better way
- We're handing out candy

- 21% of USG contracts were Sole Source \*
- 31% of USG total contracted value \*

Top 10	Product	Value (\$M)
Electric Boat	Virginia Class Submarine	\$3,710
Boeing	P-8A	\$2,070
Boeing	EA-18G	\$1,939
Electric Boat	Virginia Class Submarine	\$1,364
Bell Boeing	V-22	\$1,336
Boeing	Scout Helicopter (FMS)	\$1,115
Huntington Ingalls	CNV 68 (Nimitz)	\$1,010
Lockheed Martin	AEHF Satellite	\$883
Northrop Grumman	E-2D	\$871
Lockheed Martin	C-130J	\$864

- Costly Proposals ... High Visibility ... Lots of Stakeholders
- Can take 6-18 months to negotiate

**Follow-on Sole Source is the prize for winning the competition**

# Peculiarities of sole source estimating: Budgetary vs. FAR Compliant estimates

- Budgetary Estimates

- Major acquisitions
- May include entire Life Cycle Cost
- Down the road
- Range of outcomes
- Not commitments
- Not governed by rules & regs
- Not negotiated

- FAR Compliant Estimates

- Very small to Very large
- Cover a specific procurement action
- Here and now
- Point estimate
- Contractor and Govt commitment
- Governed by FAR/TINA/CAS
- Certified, Negotiated contract

## **FAR Compliant Estimates:**

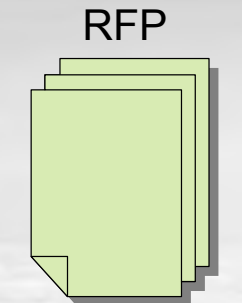
- **Need to be “less wrong” ... failure can cost you your job**
- **Need to withstand the rigors of a “fair and reasonable” offer ... failure can cost you your freedom**

# Peculiarities of sole source estimating: Competitive vs. Sole Source estimates

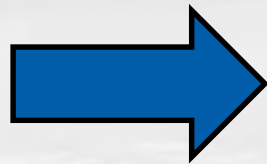
- Competitive estimates
  - Through Solicitations
  - Clear instructions regarding estimating requirements & formats
  - Cost or Pricing Data usually not required
  - Usually no negotiation
- Sole Source estimates
  - RFP / SOW often a work-in-progress
  - Contractor discretion regarding estimating methodology & format
  - Cost or Pricing Data almost always required
  - Almost always result in negotiation

**The estimator's work does not stop when Sole Source proposals are submitted**

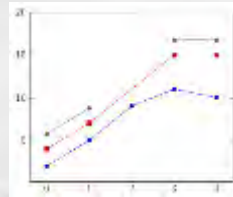
# The challenges of negotiating a Sole Source, FAR-compliant contract



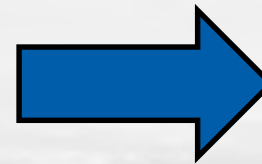
Both parties have data



Proposal Prep,  
Audit, Factfind



Both parties are capable of normalization, analysis, and cost modeling

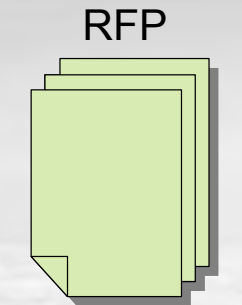


Settlement



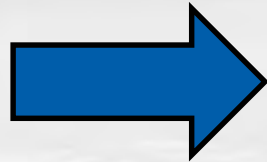
Both parties are striving for a fair and reasonable outcome

# The challenges of negotiating a Sole Source, FAR-compliant contract

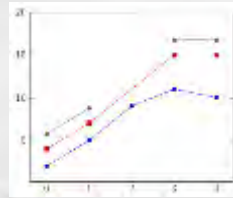


RFP

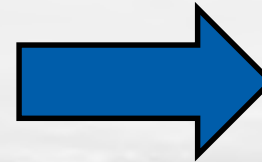
Both parties have data



Proposal Prep,  
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Both parties are capable of normalization, analysis, and cost modeling



Settlement



Both parties are striving for a fair and reasonable outcome

## Government point of view

- Need to see a lot of data
- Analysis at lower level ... what is every person doing?
- Correlation is king; expectation > 0.9
- Affordability matters: Better Buying Power

## Contractor point of view

- Need to disclose cost or pricing data used to develop the estimate
- Analysis at a higher level ... where are the trends that yield the most predictable outcomes?
- Strong correlation not as important; logic, validity, & reasonableness of trends/relationships matter more
- Affordability matters: In order to maintain & expand market share

**Differing POV on what constitutes “fair and reasonable” = time & money**

## A Quick Case Study

- Background
  - Contractor has been performing similar Statement of Work (SOW) for 8 years
  - Current contract will expire soon; time for a new Sole Source contract
- New Sole-Source RFP
  - Base Year + (2) Option Years
  - Same SOW; 50% performed by Prime contractor; 50% Subcontracted
  - New RFP Instruction require 3 years of actual cost history with submittal



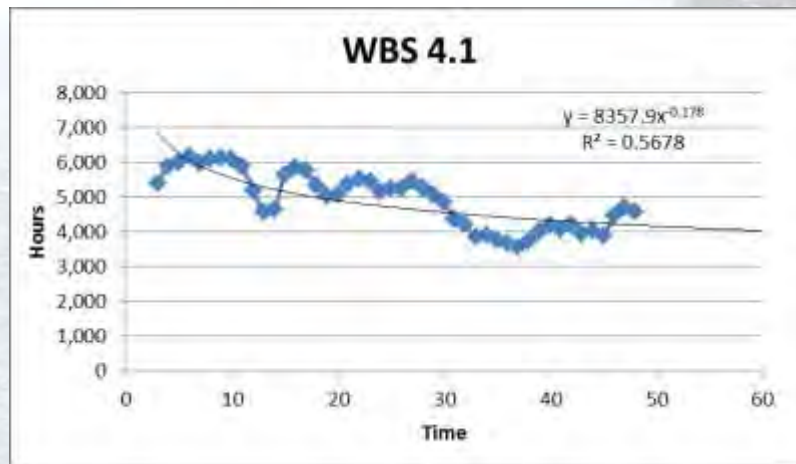




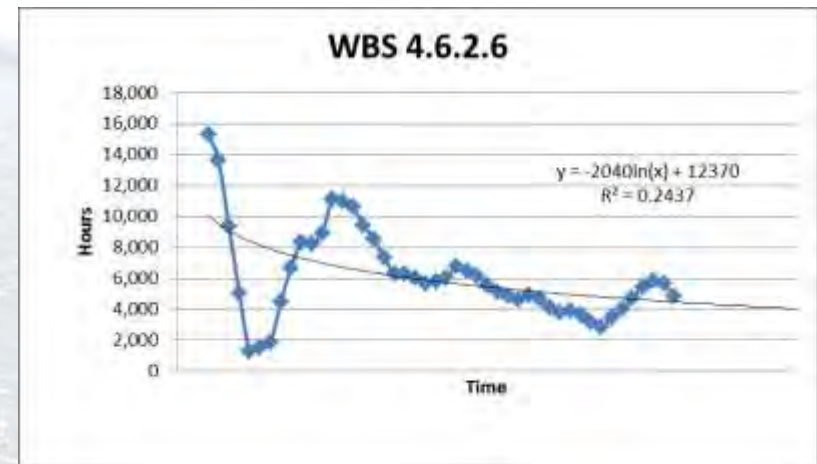
# Develop Labor Models and Estimates

## Prime Contractor Labor

- 22 regression models ... Where are the trends? ... Level 2, 3, 4? ... Are they logical? ... Will they yield the most predictable outcomes?



Linear	41,864
Exponential	43,842
Logarithmic	49,095
Power	49,247



Linear	37,700
Exponential	47,456
Logarithmic	50,613
Power	55,505

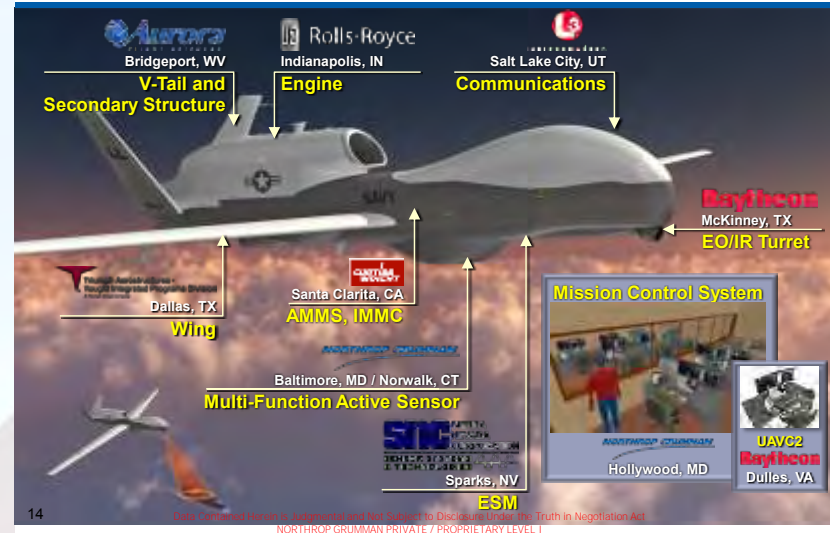
**The “Fun” Stops Here!**

# Supply Chain Proposals & Price/Cost Analyses

## Subcontracted Work

Triton UAS Industry Team

- Solicit Subcontract proposals
  - SubK SOWs / RFPs
  - Can take 30-60 days for large, firm proposals with risky requirements
- Perform price/cost analysis
  - Technical evaluation: Does SubK proposal provide adequate SOW coverage?
  - Price/Cost analysis: Does current proposal align with SubK history?
- Don't forget about General Procurement!
  - Supply Chain costs that are below the TINA certification threshold
  - Typically based on P.O. history; adjusted for escalation and quantity



**Prime contractor offer must include fair and reasonable supply chain costs!**

# Contractor Due Diligence

- Non-advocate technical reviews & Independent cost estimates
- Multiple levels of management review to obtain approval to submit
- Terms & Conditions ... Credible Basis of Estimate ... Legal Review ... Business disclosures
- Cost & Contracts Volume preparation
- Delivery to customer
- Proposal walk-through



**Patience is a virtue**

- Adequacy Review (i.e. compliance), Audit (i.e. rates / factors / BOM sampling) & Factfind (i.e. tasks, BOE, and SubK work related to SOW) performed by:
  - Buying Command
  - DCAA / DCMA (ICAT)
  - Price Fighters
- Requests for Information (RFIs)
- Sets the stage for “dueling models”
- Multiple levels of management review to obtain business clearance



**Patience remains a virtue**

# Closing the deal (The “OK” Corral)

## The Good

- Sole Source contracting allows direct communication; RFIs can be resolved quickly
- All parties have data and models

## The Bad

- RFIs may focus on immaterial costs; Contractor may not provide timely response
- Dueling models can lead to “math wizard” debate over who is less wrong
  - Should estimating rationale be provided at Level 3 or Level 6 of the SOW?
  - Is strong correlation relevant, or do logical trends matter more?

## The Ugly

- Impasse may result in:
  - Scope change and associated rework
  - Executive level intervention

**Offers are volleyed back and forth; heavy emphasis on cost, and the contractual Ts & Cs that bound the cost**

## Case Study Factoids

- RFP to Settlement will be 18+ months
- The OK corral: Some “good” ... Some “bad” ... Not much “ugly”
- Contractor proposal prep costs will be ~ \$3M
- Government proposal prep costs ???
- The bottom line cost settlement will be +/- 5% of the preliminary estimate that was developed in the first week of proposal prep



# Maybe there is a better way

- Collaboration to produce thorough RFP instructions and more mature SOWs a la Competitive Solicitations
- RFP language encouraging contractor use of top-down data-driven estimating, reduced BOE / greater use of P.O. history
- Contractors stepping up to the challenge of producing leaner proposals that are still fully compliant
- Government receptiveness to cost models as basis of estimate
- Risk-based audit & factfind; focus on 20% of the estimates that make up 80% of the cost

**Same fair and reasonable prices for less time and money**

A white stealth bomber is shown in flight, banking to the right. The aircraft is silhouetted against a bright sunset over the ocean. The sky is filled with soft, golden light, and the water below is dark and calm. The word "Questions?" is overlaid in large, black, sans-serif font across the center of the aircraft.

**Questions?**

***THE VALUE OF PERFORMANCE.***

***NORTHROP GRUMMAN***

