

9 AUGUR

Question the Requirement

**Using the Independent Government Cost Estimate (IGCE)
Process to Reduce Waste**

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Speaker Bios

Ryan Webster

- **Augur:** Consulting Director
- 15 years of Experience
 - DoD: LCCE, IGCE, AoA, C-BA
 - DoE/NNSA: APR Audit, BCA
 - IT/Cyber, Robotics, Biometrics
- BS Finance
- CCEA
- GAO Cost Guide/Agile Guide

Wendy Cassidy

- **Augur:** Portfolio Manager
- 5 Years of Experience
 - Cost/IMS/EVM
 - AoA, IBR, Contract TAR
 - EOD, Robotics, UUV, Lasers
- BS Finance
- CCEA
- Junior Analyst of the Year 2024

Always Question the “Requirement” - Anecdotes

- “5-year Warranty is the army policy” – Gov Lead Logistician
 - “Show me this policy”
 - **Result:** That is not the Army Policy
- “We need an IGCE for licenses on 500 **SAP** network” – Gov APM
 - “We just awarded a contract for 10,000 licenses, how many have we used?”
 - “Trust me , we can’t use those, we need a separate contract award”
 - **Result:** New IGCE is for zero dollars

Use the IGCE process as a gate: Trust but verify

Agenda

- Observations/Common Problems
- IGCE Overview
- Warranty Value
- Buying Software Ahead of Need
- Contract Considerations
- Summary

Observations & Common Problems

- **Cost Team Involvement:** At the buzzer
 - Viewed as administrative product (RFP is due soon!)
 - Poor understanding of our role and the value of the IGCE
- **Tunnel Vision:** Operating on Momentum
 - Inferred scope untethered to a traceable requirement (Warranty, PSS, Quantities)
 - Need for validated/re-validated root requirement
- **Contract structure and language:** result in waste
 - Use or lose training or PSS hours (FFP)
 - Utilization rates poorly tracked (Licenses and PSS hours)
 - Results in poorly informed future contracting decisions

IGCE Overview

IGCE Overview & Intent

- Independent Government Cost Estimate (IGCE): A cost estimate for a specific contract
 - Done **prior** to seeking proposals from industry
 - “An aid in achieving best value and shared contract risk” – DAU
- Cost Team pretends to be a reasonable vendor
 - Base IGCE on the same info provided to the vendor
 - Estimate should be as vendor-agnostic as possible
 - Validate assumptions/inputs with PM team
- IGCEs have 2 distinct purposes:
 - Determine if proposed pricing is “fair and reasonable”
 - Ensure a shared understanding of the intended scope
 - Wildcard: contract ceiling vs expected value

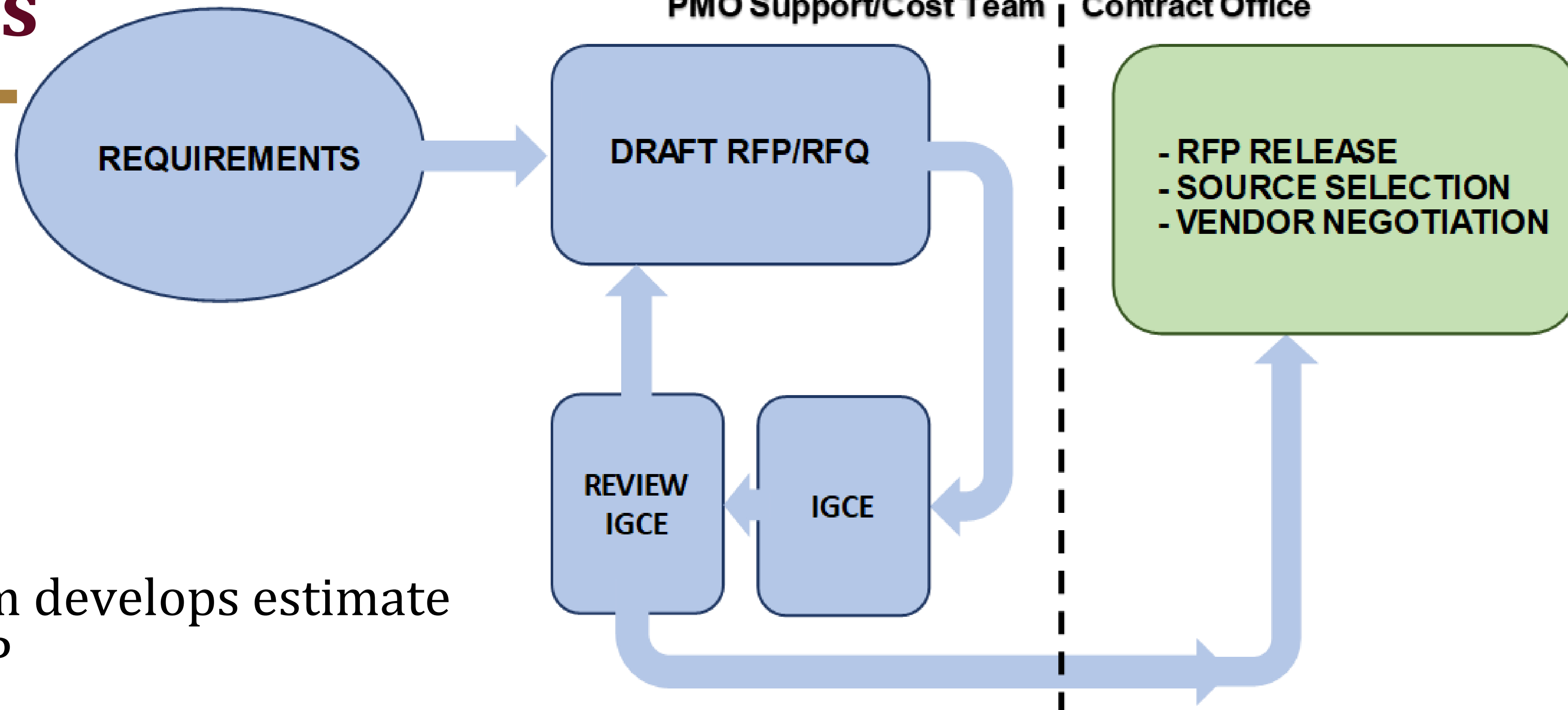
Things to Remember

- **IGCE is not:**
 - A rubber stamp to match a vendor quote
 - A funding tool

- **If a vendor quote is way higher:** *Could be an unreasonable price*
 - Could also be a poorly written requirement
 - *“Vendor shall provide training as requested by the government”*

- **If all vendor quotes are way lower:** *Not always good news!*
 - Could mean we do **not** have a shared understanding of scope

IGCE Process



- Independent cost team develops estimate concurrently with RFP
 - Iterative review process improves both documents
 - Estimate reveals unintended consequences of content in RFP/RFQ
- IGCE must precede vendor proposal to be credible

Warranty Value

Extended Warranty: Is it worth it?

- “Never pay to insure a risk you can afford to take”
 - Often bought out of “simplicity”
- Pricing ensures the seller is profitable
 - How many times did we use the warranty last time?
- What kind of failures will be covered?
 - Manufacturer Defects?
 - Abuse? I dropped it / I lost it / sand or water in the ports

Where is the break-even point?

Showing the Data Multiple Ways

Repair/Replace Component Cost Methodology			
Cost Element	Cost	Component Failure Cost	
		Expected Failure Rate	Expected Replacement Cost
Node			
<i>Motherboard</i>	\$ 2,753	2%	\$ 53
<i>RAM</i>	\$ 1,594	6%	\$ 102
<i>External Storage</i>	\$ 498	10%	\$ 48
<i>Wireless & Sat Link</i>	\$ 755	6%	\$ 48
Laptop - Rugged	\$ 4,011	2%	\$ 77
Switch - Portable	\$ 10,962	1%	\$ 70
Network TAP	\$ 2,361	1%	\$ 15
Direct-Connect Cables	\$ 113	10%	\$ 11
Mobile Console Adapter	\$ 180	4%	\$ 8
Swith Major - Fixed Site	\$ 9,855	1%	\$ 63
Switch Minor - Fixed Site	\$ 1,321	1%	\$ 8
Expected System Level Failure Cost per Year			\$ 505
Warranty Cost per Year (Extended)			\$ 23,945

Repair/Replace Component - Warranty Break Even Point			
Cost Element	Cost	Component Failure Cost	
		Failure Rate Break Even	Replacement Cost Break Even
Node			
<i>Motherboard</i>	\$ 2,753	181%	\$ 4,976
<i>RAM</i>	\$ 1,594	271%	\$ 4,322
<i>External Storage</i>	\$ 498	181%	\$ 901
<i>Wireless & Sat Link</i>	\$ 755	20%	\$ 151
Laptop - Rugged	\$ 4,011	55%	\$ 2,215
Switch - Portable	\$ 10,962	21%	\$ 2,302
Network TAP	\$ 2,361	271%	\$ 6,401
Direct-Connect Cables	\$ 113	127%	\$ 143
Mobile Console Adapter	\$ 180	181%	\$ 325
Swith Major - Fixed Site	\$ 9,855	20%	\$ 1,944
Switch Minor - Fixed Site	\$ 1,321	20%	\$ 264
Expected System Level Failure Cost per Year			\$ 23,945
Warranty Cost per Year (Extended)			\$ 23,945

Showing the Data Multiple Ways

OEM Warranty Duration					
Parts	Year 1	Year 2	Year 3	Year 4	Year 5
System Lifecycle	Lifecycle				
Full Kit Warranty	Included	Added Cost			
Motherboard	Parts				
	Labor				
RAM	Parts				
	Labor				
External Storage	Parts				
	Labor				
Wireless & Sat Link	Parts				
Laptop	Parts				
	Labor				
Switch Portable	Parts				
Network Tap	Parts				
	Labor				
Direct-Connect Cables	Lifetime				
Mobile Console Adapter	Lifetime				
Switch Major	Parts				
Switch Minor	Parts				

Buying Software Ahead of Need

Software Procurement

- Purchase ahead of need has become a problem
- 500,000 licenses “needed” – **Question the requirement**
 - Use a Hardware Deployment mindset
 - How do these licenses work? (users, endpoints, etc.)
 - Can we “deploy” and put 500K licenses to use quickly? – Often the answer is no
- “Bulk Discount” often does not offset the delta
 - Especially in a subscription pricing model (vs buy & renew)
 - Detailed analysis and break-even should be performed
 - Example 50% discount may still not economic if deployment takes 4 years

Purchase ahead of need – Discount Analysis

License Cost	\$ 100
Quantity Needed	40
Bulk Discount (at 40 Qty)	10%

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
Yearly Deployed Qty	10	20	30	40	40	40
Yearly Cost: Bulk Buy w/ Discount	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600	\$ 3,600
Cumulative Cost: Bulk Buy w/ Discount	\$ 3,600	\$ 7,200	\$ 10,800	\$ 14,400	\$ 18,000	\$ 21,600
Yearly Cost: Deployed Qty	\$ 1,000	\$ 2,000	\$ 3,000	\$ 4,000	\$ 4,000	\$ 4,000
Cumulative Cost: Deployed Qty	\$ 1,000	\$ 3,000	\$ 6,000	\$ 10,000	\$ 14,000	\$ 18,000

Purchase ahead of need – Discount Analysis

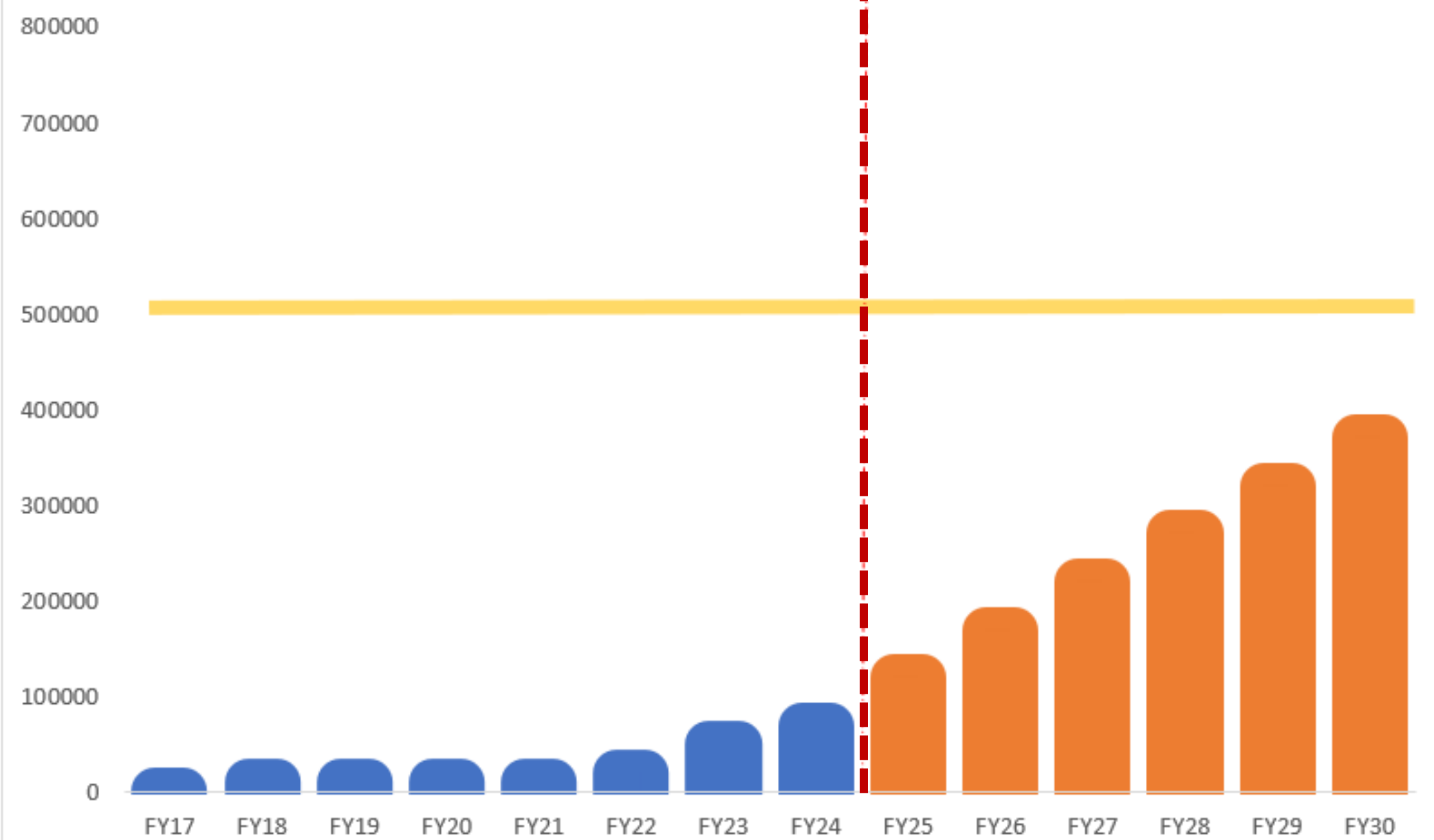
License Cost	\$ 100
Quantity Needed	40
Bulk Discount (at 40 Qty)	25%

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
Yearly Deployed Qty	10	20	30	40	40	40
Yearly Cost: Bulk Buy w/ Discount	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Cumulative Cost: Bulk Buy w/ Discount	\$ 3,000	\$ 6,000	\$ 9,000	\$ 12,000	\$ 15,000	\$ 18,000
Yearly Cost: Deployed Qty	\$ 1,000	\$ 2,000	\$ 3,000	\$ 4,000	\$ 4,000	\$ 4,000
Cumulative Cost: Deployed Qty	\$ 1,000	\$ 3,000	\$ 6,000	\$ 10,000	\$ 14,000	\$ 18,000

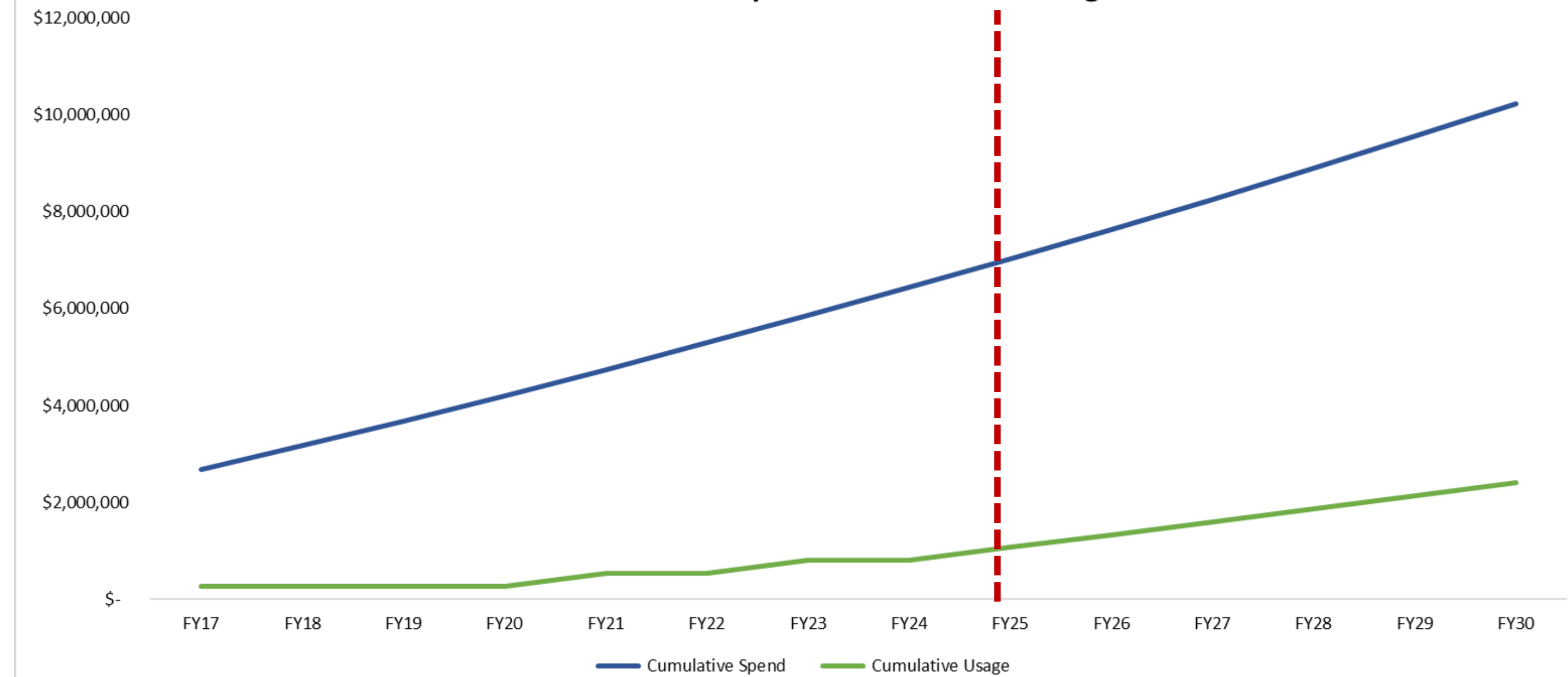
Remain Skeptical of the stated need

- **Deep Discounts:** Convinced gov to go big
 - User community could not put licenses to use
 - Creates recurring psychological trick: Such a good deal, better keep it

License Utilization Rate



Cumulative Spend vs Cumulative Usage



Contract Considerations

CLIN Structure: Optional Support

- Vendor: “Did you want the support service package?”
 - What is this? Do we need this?
 - Is this optional or required? – Often vague description sounds important!
 - Renewal/subscription/SW updates likely priced elsewhere
 - Did we use these hours last time?
- Who do these hours benefit?
 - Might be a prime integrator buying down risk (with our wallet)
 - Developer modifies ERP modules, so we “need” ERP white glove support?

CLIN Structure Considerations

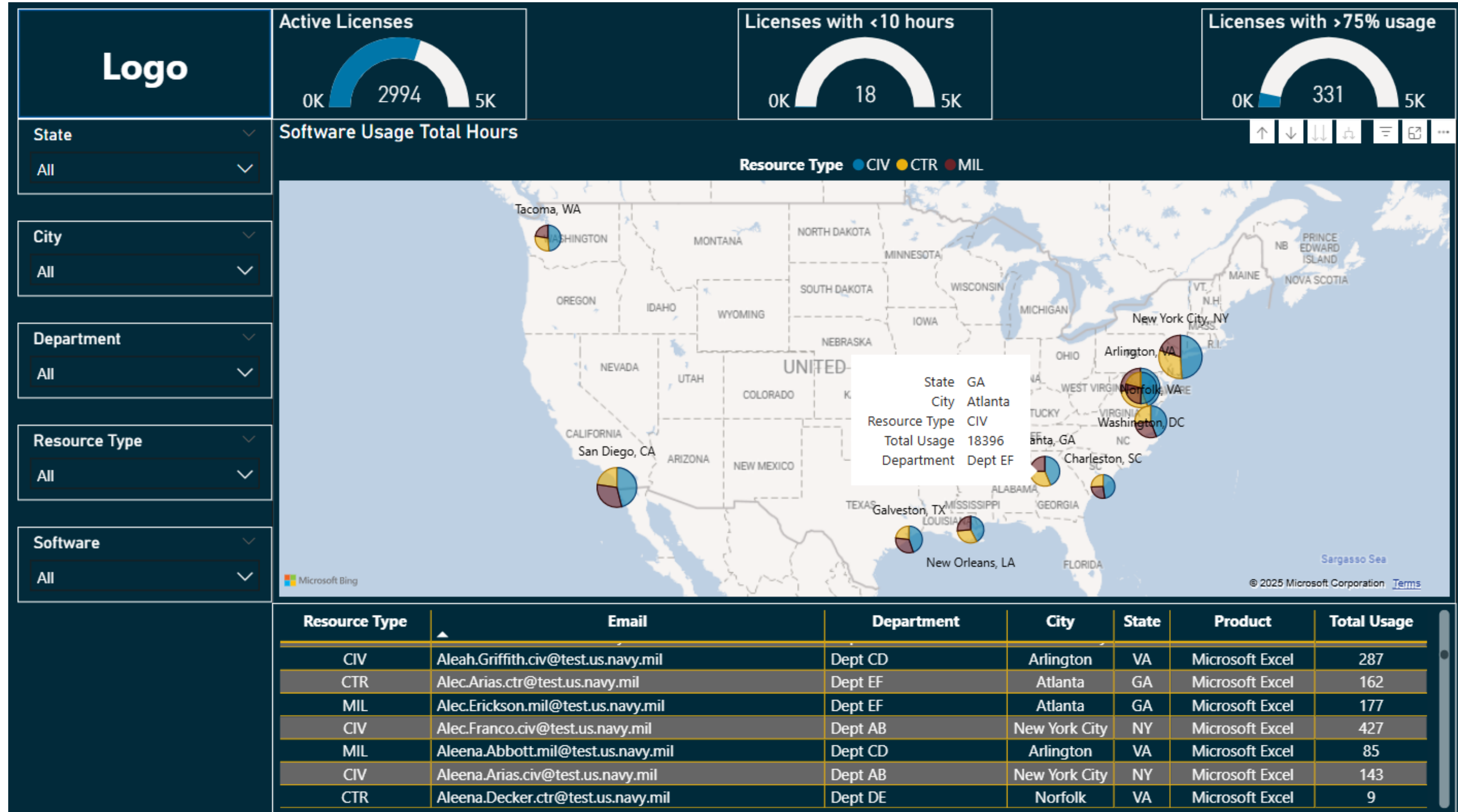
Contract Structure Examples								Contract Execution		
CLIN	CLIN Type	CLIN Description	Quantity	Unit	Unit Price	Fixed Fee	Total Price (\$)	Quantity	Fixed Fee	Total Price (\$)
XXXX	FFP	Professional Support Services	1	Each	\$ 660,000	N/A	\$ 660,000	1	N/A	\$ 660,000
XXXX	CPFF	Professional Support Services	2000	Hours	\$ 300	\$ 60,000	\$ 660,000	1800	\$ 54,000	\$ 594,000

- FFP: Service package for white glove technical support for up to 2,000 hours; price will be the same regardless of no/low utilization.
- CPFF: White glove technical support, for up to 2,000 hours, to be leveraged on an as needed basis for tailored support. (Vendor bids a rate, pay for what you use)
- Same warning for Training Credits

Contract Language: Improve Visibility

- Add basic contract language to require monthly reporting
“Vendor shall provide monthly status of PSS hours (utilized and remaining)”
 - Utilization Tracking:
 - Software license ramp up. Use of service hours/training credits
- **Considerations:**
 - Potential bid includes added cost:
 - Reject for licenses and simple hours buckets
 - Vendor may not have insight to our network (e.g. SIPR)
 - Business process for PM to track or Op Users to report
 - Better future IGCEs (See what we use; inform what we “need”)

Reporting Enables Visualization



Summary

Summary

- **Push for economic decisions informing the RFP**
 - “Big Bang” SW procurement not always realistic (deployment takes time)
 - Do we “need” a HW warranty?
- **Avoid FFP CLINs for PSS and training credits**
- **Push for utilization rate reporting/visibility**
 - Contract language and/or internal business processes
 - Informs next award instance (Did we use what we bought?)
- **Always question/validate the “requirement”**
 - Think Zero-Based Budgeting (ZBB) – Efficiency over history!



Questions?

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Abstract

- Independent Government Cost Estimates (IGCEs) serve a valuable purpose, showing the expected price of reasonable vendor bids. This ensures the government pays a fair price based on the written requirement. However, these written requirements often operate on momentum and skip a valuable step of validation. Software license renewals, subscriptions, professional service hours, and warranties are just a few examples of items often bought in bulk with no process to monitor utilization. This can result in the unintentional purchase ahead of need, and the re-purchase of services that go unused. Augur will walk through specific observations and discuss how the IGCE process can be used to force validation of requirements as well as suggest contract structures to more effectively control costs. Additionally, real life examples of visualizing utilization rates and warranty break-even analysis will be shown, which have led to modifying program strategy and the inclusion of valuable contract language.