ALPHA CONTRACTING

Applying The IPT Approach To Contract Negotiations

By Thomas C. Meyer

Introduction

Alpha contracting is a name that has been coined to apply to an innovative technique that takes the contracting process and converts it from a consecutive (and often iterative) process into a concurrent process. From solicitation development, through proposal preparation,to evaluation, negotiation, and award, Alpha contracting relies on a team approach to concurrently develop a scope of work,price that scope, and prepare the contract to execute the scope. Used in sole-source negotiated situations, Alpha contracting has allowed requirements for major systems, subsystems, and components to be under contract in a matter of days or weeks rather than months or even years.

The Traditional Approach

In a typical sole-source procurement,the program office will develop the scope of work,specifications,and data requirements, often through an iterative process of drafts and reviews with matrix support and user staffs. This package is then sent to the procurement office which incorporates the requirements into a request for proposal and sends it out to the contractor. There, it is fanned out to the contractor's team for development of the respective pieces, which are consolidated into a total proposal, and staffed for review and approval.Then,once the proposal is sent to the government,the real fun begins.

The government team begins its lengthy evaluation of the proposal,including technical reviews, audits, and contract terms and conditions issues. This frequently leads to demands for more supporting information and cost backup, and often results in changes to requirements as technical or affordability problems are discovered. The contractor then develops a revised proposal and the process starts over.

Even the length of the evaluation itself may prompt changes as rates rise or funds are diverted elsewhere and quantities or scope must be adjusted.A year or more to evaluate and negotiate a major proposal is not uncommon. Subsequent proposal revisions can eat up more time and complicate the evaluation and negotiation process. Meanwhile,pressures mount on the government to get the program under contract. Likewise,the contractor becomes impatient as material costs rise, proposal expenses continue,and he struggles to retain personnel and vendors on the project team. When it's all over, costs are higher, time has been lost, and any cooperative spirit that may have existed at the start of the process is strained or strangled. This is hardly an ideal way to start an important contract.

The Alpha Approach

Alpha contracting is really a subset of the Integrated Process and Product Development (IPPD) process. It's the pre-award phase of IPPD. Rather than a heel-to-toe process, with Alpha contracting an integrated product team is established with all the players in the process including requirements,contracting,audit, and the user, along with the contractor and his principal subcontractors. Together, this team develops the scope of work and other contract requirements. Rather than a solicitation or proposal, their product is essentially a model contract. It forms a baseline for the team to jointly develop the technical and cost detail that is the basis of the contract agreement.

As the meat is put on the skeleton, the team may identify the need to change the baseline to improve performance, lower risk,or reduce cost. In effect,this team development facilitates another important initiative—Cost As an Independent Variable (CAIV). Rather than have a proposal submitted with numerous exceptions or a price that is unaffordable, the team jointly develops an approach which all parties find acceptable and affordable from the outset. This approach is much more likely to result in an optimized program with an achievable scope, a high level of performance or quality, and the avoidance of non-value-added requirements, at a lower overall cost than what was originally contemplated.

When we jointly develop the cost as the technical details take shape, and include government pricing and audit personnel in that development process, the end result is a fully negotiated, supported contract price rather than a proposal. The Alpha contracting process usually does not produce either a traditional solicitation or a traditional proposal. The "model contract"developed at the beginning is revised and adjusted as the technical and price details are worked out, and becomes the executed contract document.

Implementation

Once use of the technique has been endorsed by top management, the Alpha contracting process should begin with a kickoff meeting to develop the strategy to achieve a fully agreed upon contract. This meeting should result in agreement on the process, identification of subteams and members,establishment of methods of communicating information and data, and the setting of

goals and milestones. The individual subteams then need to establish their own working rules, schedules, communication methods, and goals.

The requirements reconciliation process is the keystone for the remaining efforts. It can begin with a government-developed strawman scope and specification which the joint team then scrubs. The team must also agree on a contract approach, formulate a work-breakdown structure, and develop a rough-cut cost and schedule. With this baseline,the contract subteam can then develop a model contract complete with scope, schedule, and terms and conditions, and create the contract line item structure.

The cost subteam meanwhile can begin to identify tasks and assumptions, agree on pricing and evaluation methodology, and develop and agree on the various cost or price elements. Sharing data bases is an important and necessary means to reach a expeditious agreement. Another important consideration is the involvement of vendors and subcontractors in the process.

Use of a vendor conference to establish and agree on pricing methodology has proved to be very effective in getting vendor quotes that are correct and supportable the first time. As cost elements are developed and agreed upon, the price negotiation memorandum is constructed, leading to a final documented price agreement. This process of cost or price development and agreement is probably the area where trust and communication are most difficult, due to our traditional adversarial roles in negotiation. Experience shows that this part of the process will not work unless:

- There is specific management buy-in;
- A willingness to trust exists on both sides;
- Honesty is evident; and
- The team is empowered.

Benefits Of The Process

The obvious benefit of the Alpha contracting process is the reduction in time to award.At the U.S.Army Tank-automotive and Armaments Command (TACOM), the process is used extensively. TACOM-ARDEC was a pioneer in Alpha contracting using the technique for the Crusader program to cut five months off the negotiation process.

In another example, this one at TACOM-Warren, the previous buy had taken 22 months to award and required four revisions to the contractor's proposal. Using the Alpha approach,the FY96 buy was completed in less than four months at a price that allowed procurement of several additional vehicles.

At the TACOM-Armament and Chemical Acquisition and Logistics Activity (ACALA), in Rock Island,IL,a multi-million dollar technical support contract took only two days to complete the proposal, the evaluation, and the negotiation process.

Examples of savings of four to nine months, or 40-50 percent and more of administrative lead time are common. But,in addition to time and proposal preparation cost savings, the Alpha process greatly improves the understanding of the parties. By jointly developing the work scope and the pricing of the effort, future disagreements on work requirements and cost assumptions are reduced or eliminated. Program risk is lowered as the government and the contractor have consistent expectations and have an achievable, executable program requiring fewer post-award modifications.

The improved understanding and cooperation also produces collateral benefits including more open and honest communication throughout contract performance, facilitating future conflict resolution without litigation. Further, the partnership that is developed also serves as a springboard for increased streamlining. Importantly, these benefits are transferrable and tend to improve other programs and projects that the government and contractor have in common.

Disadvantages

Alpha contracting is very labor-intensive at the front end. While overall manpower requirements should actually be less over the full contract life,the need for dedicated personnel for weeks or months at a time during contract development creates difficulties for organizations with limited staffs and other demands to satisfy at the same time.In today's era of downsizing,this is not a small issue for either the government or the contractor. Use of the full Alpha approach needs to be targeted to those acquisitions where there is high payoff. Tailoring the approach to specific tasks or areas, using electronic data interchange, sharing databases,and optimizing use of existing information (e.g., forward pricing rate agreements, existing audits, recent negotiation results, established bills of materials), helps minimize the manpower demands and can accelerate the process.

Keys To Success

For Alpha contracting to work, there are several keys. First is a management commitment to the process. The atmosphere of trust and honesty, that is such a critical element, must start at the top and be evident there, and be championed there. Another critical element is empowerment. Participants must be given the authority as well as the responsibility to share information and to make agreements. This has proven to be at least as difficult on the industry side as it is on the government side. The early involvement of all parties and a willingness to "think outside the box" form a third key element. Alpha is an intense process and requires patience and dedication. And finally, at the working levels, all participants must be willing to trust each other and be honest with each other. These are not easy things to do where you have a long history of animosity, yet those are very often the situations where Alpha contracting can provide the greatest benefits.

Conclusion

Alpha contracting is a proven approach to reducing administrative lead time, reducing costs, and improving both the negotiated agreement and the probability of success of the resulting contract. It is in use in all three Services and has the enthusiastic support of both DCAA and DCMC. One DCAA auditor wrote the contracting officer after participating in an Alpha contracting process, praising the experience. He reported that he felt his independence was not compromised, that his contribution seemed more appreciated, and that the Alpha technique saved him time and effort and resulted in an agreement that he fully supported. DCMC has embraced the approach in its Integrated Product Team Pricing program. Industry comments have also been universally favorable.

The Tank-automotive and Armaments Command has great success at all three of its sites using Alpha contracting, as have other AMC major subordinate commands. As time goes by, we find that this cooperative technique opens other doors and boosts related initiatives to lower costs,improve cycle time, reduce litigation, and improve quality and performance.

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