

Cost Realism: The Gap Between Price To Win and Cost To Perform

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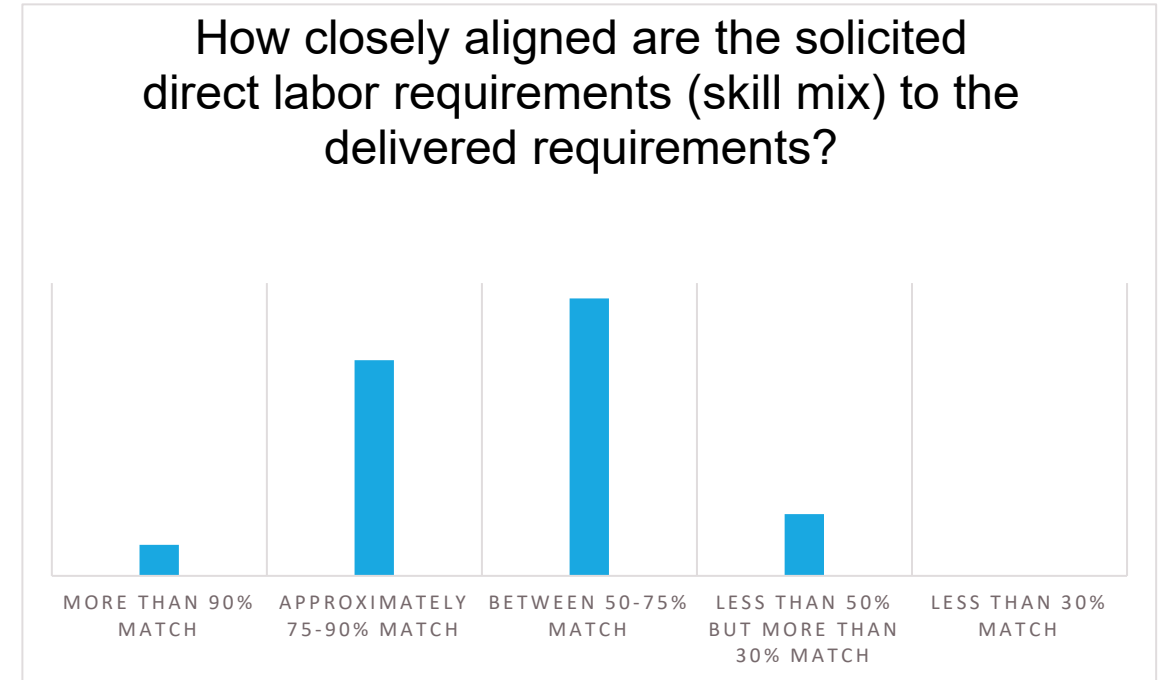


Summary

- Price to bid is not the same as cost to perform, but few acknowledge that this is a problem
- Available data are sparse, but anecdotes are abundant and consistent with data
- Government-wide concern, not just Navy or DoD
 - 40% of survey respondents primarily serve non-DoD customers
- Impacts mission, workforce, and industrial base
 - Work deferred, contract ceiling reached early, recompete sooner, lower fee for contractors
- More research needed

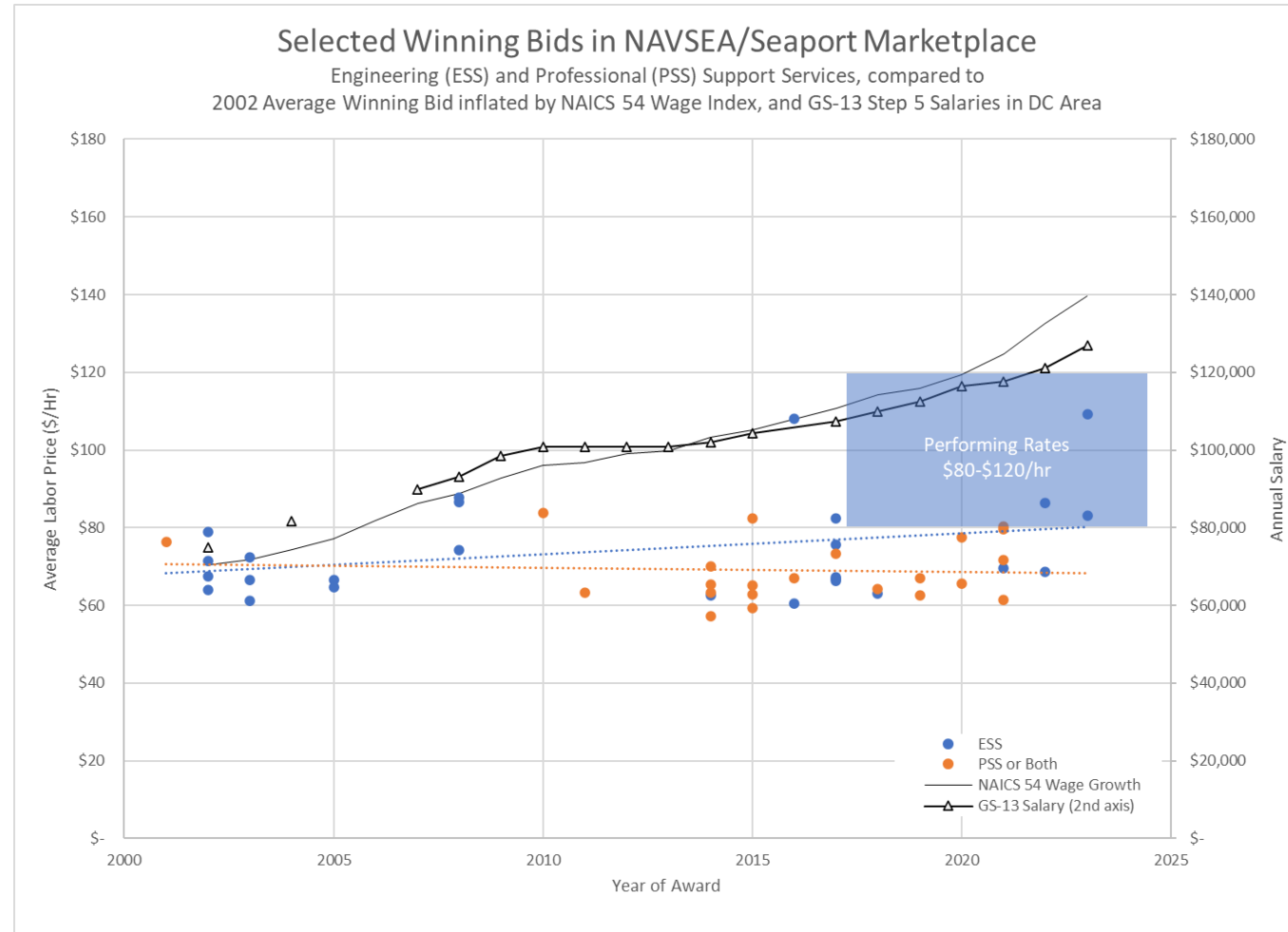
Survey Data Show Skill Mix Gaps

- Data show performing labor skill mix is often inconsistent with and more costly than solicited skill mix
- Mission impact for work not done is likely significant but not well tracked
- Contract award decisionmakers are not deemed responsible for performance outcomes
- “Cost realism” analyses largely exclude comparison to past actuals for same/similar efforts



Source: PSC Member Survey, March 2024

Awarded PSS & ESS Rates 2001-2023

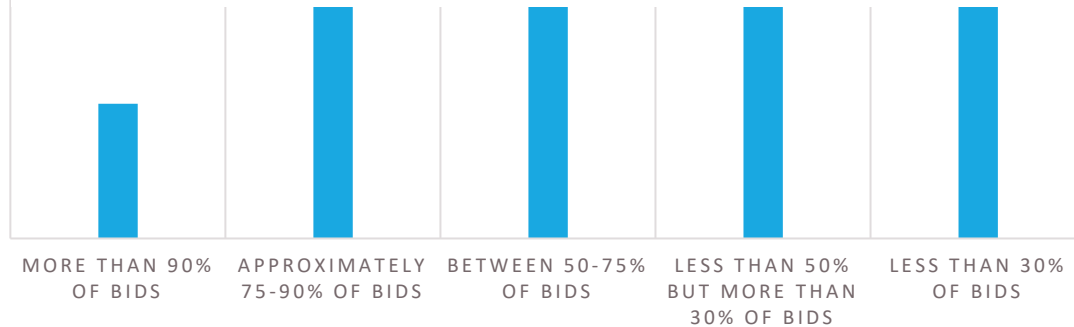


Contractor Bid Behaviors

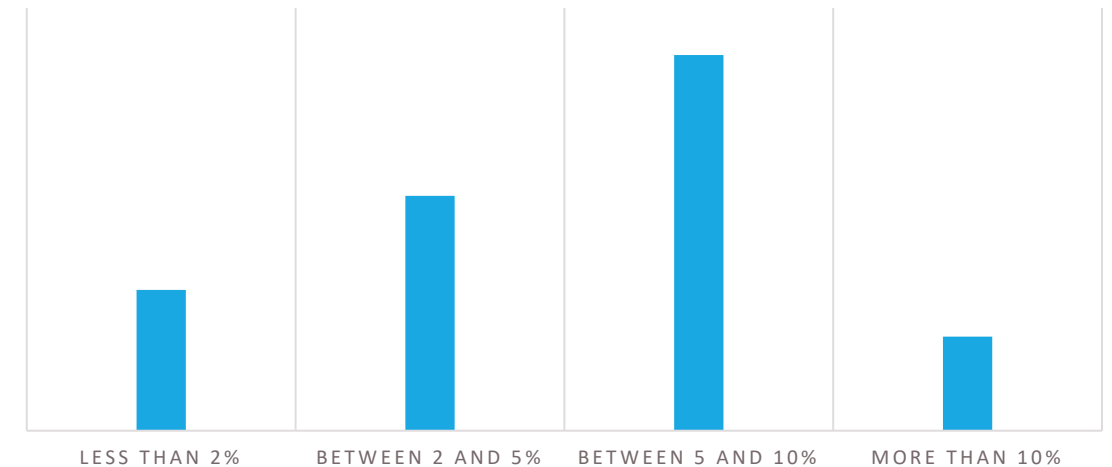
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Example: Your firm currently executes similar work at \$125/hour (fully burdened “price to execute”), but you bid below \$125 as a competitive strategy (“price to win”).



Please advise a general range of “management challenge,” applied to performed rates for competitive purposes?



Source: PSC Member Survey, March 2024

Impacts on Contractors and the Government

USG	Contractors	Both
Cost overruns	Working “at cost” (does not make “whole”)	Reach ceiling (\$ or hours) faster = accelerated recompetes
Funding increases required	Less resources to invest and grow	Costs increases for both = drawing from limited resources
Bridge contracts or contract extensions	Increased overhead costs, unreimbursed	More administrative effort
Increased workload on full acquisition workforce (program, budget, and contracting)	Potential negative CPARS (cost, schedule, and performance)	
Work deferred or not done	Misaligned skill mix	
Requirements delivered may not meet mission need.		

Conclusions and Further Study

- The Gap exists across the federal government, and both the government and contractors suffer negative impacts
- Contracting Officers play a key role in creating and sustaining this gap, but they alone are not able to address it
- Realistic requirements are essential and could be better informed by past bid prices and cost data
- Execution data should be used to develop requirements for new or follow-on requirements for same/similar work
- Additional guidance may be needed re: the FAR's definition of "Cost realism," and prescribed uses are limited
- The big questions: How should the US Government approach contracts under which task order requirements deviate substantially from contract requirements? How should the government incorporate previous cost experience into recompetes?

Authors

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