

How to Compete in an LPTA Climate

1. **Best value does not mean that price does not matter**
2. **PTW matters more than ever – start with price, and then solve for the rest**
3. **The Government expects efficiencies and innovations, so make them specific and tangible**
4. **Stop claiming “more for less” if the government is getting “less for less”**
5. **Recompetes are being won 30% under the current run rate**
6. **Labor costs are declining – bid escalating rates at your own risk**
7. **If your prices do not hurt to the point where you wonder if it's worth winning, then you are too high (others will go there)**
8. **If you cannot adjust and defend LOE and labor mix changes, be prepared to sacrifice profit margins**
9. **Do not let the status quo constrain your thinking (what looks like unrealistic pricing may actually be a better approach)**
10. **Bid to the RFP, not what you think the customer wants**

LPTA Fact

- Price is the dominant evaluation criteria regardless of how the procurements are labeled (*price is a key determinant of “value”*)
- Government starting to use its Termination for Cause (TFC) and Default (TFD) powers and not exercising option years to weed out bad actors
- Cost savings – via LPTA and otherwise – will remain a factor for as long as the Government has constrained resources (*likely several years*)

LPTA Fiction

- Given enough time to shape opportunities and good relationships with customers, price concerns can be mitigated through “best value”
- Just bid it at whatever price it takes to win, and then figure out how to “get well” through change orders and contract modifications
- Sequestration and the debt ceiling negotiations have made the market choppy right now, but it will all be better as we approach 2014

LPTA is Here to Stay

For many years, companies have been in denial about the gradual shift away from best value toward Low Price Technically Acceptable (LPTA) awards. Cost has always been a key factor in determining best value, but the pendulum has swung far to the left. Price has gained importance as Government budgets are reduced and acquisition-related workload outstrips capacity for thorough evaluations sufficient to discern technical superiority. This trend has been vilified for both by those that are not cost competitive and by those who are rightly concerned that the Government’s inability to recognize defective or unrealistic pricing could ultimately result in significant cost escalation post award. Regardless of your point of view, cost will be a dominant award criterion for the foreseeable future.

Why LPTA?

LPTA has become a favorite excuse to rationalize why a company lost a bid they felt they should have won (and in their view, would have won but for a myopic, “penny wise, pound foolish” LPTA decision). Contracting Officers and Source Selection Authorities have a difficult time in this environment defending bids that are materially higher than other technically acceptable bids – even if the evaluation was based on tradeoff or best value determination. The reality is that contractor performance has not correlated well with price. Expensive primes have not necessarily performed better than their leaner, less expensive counterparts. Additionally, for truly commoditized purchases, the Government has a sacred obligation to foster competition and award based on price. While it may be over-used, LPTA has a legitimate role as Government seeks to be more efficient.

Flying Too Close to the Sun

In response to the overuse of LPTA, many bidders have decided to win at any cost and, “get well with contract modifications.” Some will succeed and others will experience topline growth with profit erosion. For bad actors whose price bears no resemblance to their execution approach, the Government should not be shy about using its TFC and TFD powers and not exercising options. Until it routinely does so, competitors will conclude that competition risk (the risk of pricing too high) trumps cost realism risk (the risk of pricing too low).

Capture or Die

The emphasis on LPTA does not mean that the value of serious capture activity is marginalized. Quite the contrary. Capture is now more important than ever in order to understand the competition, inform the win strategy, shape the

procurement, and drive a low-cost solution. Some will argue that their customers will pay for value, with the unstated assertion being that they offer more value than any other bidder and are worth a premium. This is akin to the view held by every company that their people are all above average (a collectively impossible condition). The only way to cut through these anecdotal assertions is with data derived from customer intimacy. Serious capture is the key to developing the requisite customer intimacy.

Living in an LPTA World

So long as LPTA is a prominent part of the acquisition lexicon, bidders must take affirmative steps to reduce costs by offering better solutions rather than making assertions about a lack of cost realism. Failure to do so will result in further margin erosion. If you are not an expert in “greening your staff,” “market reset,” CTAs, SLOBs, JVs, IRS ¶401, and CAS ¶418, hire one. Now.

