



# Benefit Analysis Guidebook

*A Reference to Assist the Department of Defense Acquisition Strategy Teams in Performing a Benefit Analysis before Consolidating or Bundling Contract Requirements*

**Department of Defense**

**Office of Small Business Programs**

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# Chapter 1

## Defining the Playing Field

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### Chapter Highlights

*This chapter provides definitions for consolidation and bundling and an overview of the relationship between the two terms. It will be important for you to notice the similarities and differences between the two terms so that you can determine the appropriate regulations to follow. This chapter may be useful both to familiarize yourself with the kinds of acquisitions that are covered by these definitions and as a reference as you proceed through the review of a particular acquisition.*

## CONSOLIDATION

“Consolidation” is the term used in the contract arena to describe the act of combining two or more existing requirements into a single solicitation.<sup>1</sup> As recently defined in statute, for a consolidation to exist, the proposed acquisition must be combining two or more requirements that were previously provided or performed under separate contracts.<sup>2</sup> (This definition for consolidation is unique to DoD.) As we note in Appendix A, the drive to downsize the acquisition workforce, coupled with the increase in contract dollars and actions, has made consolidation an attractive option.

## Multiple Award Contracts

Consolidations include planned solicitations that may result in either single or multiple award contracts.<sup>3</sup> The same factors that contributed to the increased consolidation of requirements have led to the increase in multiple award contracts: increased workload and decreased workforce.

Consolidations include multiple award contracts that are

- ◆ orders placed using a General Services Administration (GSA) multiple award schedule issued per [FAR Subpart 8.4](#),
- ◆ a task or delivery order (multiple award) contract per [FAR Subpart 16.5](#),  
or

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<sup>1</sup> DoD issued its first policy statement on “Consolidation and Small Business” in 1982.

<sup>2</sup> Section 801, National Defense Authorization Act for Fiscal Year 2004.

<sup>3</sup> [DFARS 207.170-2](#)

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- ◆ any other indefinite-delivery, indefinite-quantity (IDIQ) contract awarded to two or more sources for the same contract line item (product or service) under the same solicitation.

## Previous Requirements

In a consolidation, the previous requirements must have been performed under separate contracts. It should be noted that each contract, previously awarded, constitutes a distinct “requirement.” For example, combining two or more previous multiple award contracts for the same work into a solicitation for a single award would still constitute a consolidation and, potentially, a bundled acquisition.

A consolidation can exist regardless of the size of the firms that previously provided the goods and/or services. To illustrate, combining two requirements, previously performed by large businesses, into a new solicitation that is likely to be awarded to a large business is considered a consolidation. Similarly, combining two requirements, previously performed by small businesses, into a new acquisition that will be set aside for small business is considered a consolidation.

## New Work

Although the definition of consolidation addresses the combination of requirements that were previously awarded and performed as separate contracts, in many instances, the combination of two or more of these requirements may be structured to include work that was not previously awarded under contract—that is, new work. *Any consolidation that includes the combination of two or more previous requirements may be a consolidation regardless of whether or not it includes new work, i.e., work that has never been performed under contract.*

## BUNDLING

“Bundling,” as defined in the FAR, is the term used to describe the act of combining two or more existing requirements into a single solicitation when one of the requirements was or could have been performed by a small business *and* the solicitation will be unsuitable for award to a small business *and* the work will be performed in the United States.

For DoD activities, bundling is a subset of the broader category of consolidated acquisitions. When does a consolidation also become a bundled acquisition? To answer that question, we need to look at two key factors:

1. Size of the firms that previously performed the requirements being consolidated
2. Size of the firm that is most likely to receive the new award.

To meet the definition of a bundled acquisition, at least one of the requirements being consolidated must have been previously performed by a small business or could have been performed by a small business. Here we must take a look at the procurement history. Did a small business receive the previous award? Did a small business bid on the previous award? Is this the type of requirement that small businesses have performed elsewhere?

While normally, one would consider previous acquisitions or requirements to be those that occurred immediately prior to the proposed acquisition, it is important to note that recent Government Accountability Office (GAO) bid protest decisions have identified the potential for what GAO terms “CICA bundling”—a violation of the Competition in Contracting Act. CICA bundling may occur when the contracting activity is recompeting a previously bundled requirement and, in so doing, excludes bidders who can perform only one of the functions in the statement of work. For further information on this topic, see Appendix B.

## Suitability for Small Business

To be a bundled acquisition, the proposed consolidation must be likely to be unsuitable for award to a small business firm. Therefore, if the consolidation is being considered for one of the 8(a) or small business set-aside programs, it cannot be a bundled acquisition. The following factors make a bundled acquisition unsuitable for award to small business:

- ◆ Diversity, size, or specialized nature of the requirement
- ◆ Total dollar value of the anticipated award
- ◆ Geographical dispersion of contract performance sites
- ◆ Any combination of the above factors.<sup>4</sup>

Although small business participation is not a factor in determining whether a proposed strategy is a contract consolidation, *small business participation is the primary factor in determining whether an acquisition is bundled*. A bundled requirement is a consolidation that displaces one or more small businesses.

## Multiple Award Contracts

As with consolidations, bundling may take the form of a solicitation for a single contract or for multiple award contracts, which include the following:

- ◆ Orders placed against an IDIQ contract under a Federal Supply Schedule contract

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<sup>4</sup> [FAR 2.101](#).

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- ◆ Orders placed under a task order or delivery order contract awarded by another agency (i.e., a government-wide acquisition contract or multi-agency contract)<sup>5</sup>
  - ◆ Multiple awards of IDIQ contracts that are the result of a single solicitation for the same or similar supplies or services to two or more sources.<sup>6</sup>

## New Work

As with all consolidated acquisitions, a bundled acquisition—in addition to including one or more previous requirements that were performed *or could have been performed* by a small business—may incorporate new work, that is, work that was not previously performed or provided under contract. However, *the inclusion of new work does not preclude that acquisition from meeting the definition of a bundled acquisition.*

## Substantial Bundling

When the bundling would result in a contract or order with an estimated value of \$7.5 million or more, it is defined as substantial bundling.<sup>7</sup> (The \$7.5 million threshold applies to DoD only; the threshold is \$5.5 million for GSA, NASA, and the Department of Energy and \$2 million for all other agencies.) If the acquisition strategy indicates the award will be for multiple contracts or orders, this \$7.5 million threshold applies to the cumulative maximum potential value, including options, of the acquisition.<sup>8</sup> Substantial bundling brings with it additional requirements that will be addressed in subsequent chapters.

## RELATIONSHIP BETWEEN CONSOLIDATION AND BUNDLING

In the most general terms, for DoD, a consolidation is the combining of two or more previous contracts into a single solicitation, and a bundled contract is a consolidation that is unsuitable for award to a small business as a prime contractor even though one or more of the previous contracts was performed (or could have been performed) by a small business. To put it another way, a solicitation that consolidates requirements does not always bundle them, but a solicitation that bundles requirements always consolidates them. This distinction is important because the rules that apply to bundling are more restrictive; hence, as your team develops its acquisition strategy, it must first decide whether the solicitation will

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<sup>5</sup> [FAR 16.504\(c\)](#).

<sup>6</sup> [FAR 2.101](#).

<sup>7</sup> A Final Rule was published (FAC 2005-13, FAR Case 2004-033, *Federal Register*, Vol. 71, No. 188, pp. 57363–57374) raising the thresholds from \$75 million to \$85 million and from \$7.5 million to \$8.5 million effective September 28, 2006.

<sup>8</sup> [FAR 7.104\(d\)\(2\)](#).

result in a consolidation *or* in a consolidation and a bundle. Throughout this guidebook, we use “and/or”—as in “consolidation and/or bundle”—when referring to the type of solicitation.

Only for DoD is there a specific definition for the term “consolidation,” a corresponding regulatory coverage that differentiates consolidation from bundling, and unique requirements for acquisition personnel to follow when considering consolidations.

The bundling regulations do not apply to bundled acquisitions in which the award will be made or the work will be performed entirely outside of the United States. Consolidation regulations do not apply to consolidated acquisitions with an estimated total value of \$5.5 million or less.

## SUMMARY

Consolidation is the combination of two or more requirements, previously purchased separately by the government, into a single solicitation. The solicitation may be for a single contract or for multiple award contracts. Bundling is a subset of consolidation that occurs when at least one of the previous awards was performed or could have been performed by a small business firm and the proposed acquisition strategy is unlikely to be suitable for award to small business. Substantial bundling occurs when the cumulative estimated value of the acquisition is anticipated to meet or exceed \$7.5 million.

# Chapter 2

## The View from 10,000 Feet

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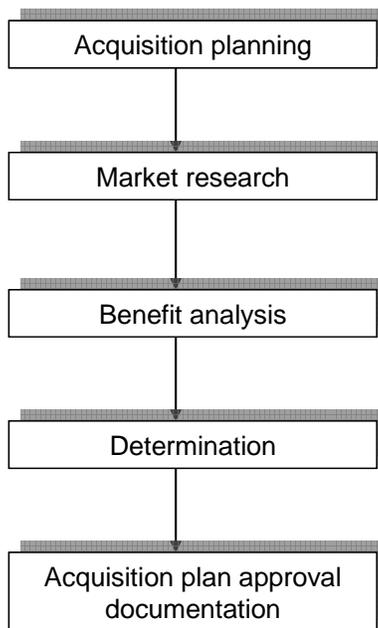
### Chapter Highlights

*In this chapter, we present a high-level view of the process your team should use before issuing a solicitation that consolidates and/or bundles requirements. We leave the in-depth explanation of the details of that process to subsequent chapters. We begin with a triggering event—a solicitation that may consolidate and/or bundle requirements. Your job is to determine whether this solicitation does consolidate and/or bundle the requirements and, if so, whether it can still be issued. Fortunately, because of the similarity between consolidation and bundling regulations, you can follow the same basic steps in making that determination. Your team begins with market research, develops a benefit analysis, makes a determination, and, finally, documents its efforts.*

## THE TRIGGERING EVENT

The triggering event is always the same: an acquisition strategy team is contemplating issuing an order or a solicitation that would combine two or more requirements that previously had been procured under separate contracts. That is the essence of a consolidation; for that solicitation to bundle requirements, there also must be a small business impact—either a small business is displaced or could have been displaced. When either situation exists, your team should follow the steps depicted in Figure 2-1 to determine if it can still execute its acquisition strategy.

Figure 2-1. The Basic Process



## MARKET RESEARCH

Market research is the collection and analysis of information about capabilities within a market. Market research encompasses reviewing acquisition history, identifying potential sources, and, based on a review of industry practices, structuring the acquisition strategy so as to afford both maximum practicable competition and a cost-effective means for meeting the government's needs.

To determine if the solicitation is a consolidation that also bundles requirements, the acquisition strategy team uses market research to answer these basic questions:

1. Was a small business the incumbent contractor on any of these requirements?
2. Could a small business have been the contractor on any of these requirements?
3. Will the solicitation likely result in a contract that is unsuitable for award to small business because of its size, diversity, geographical dispersion, aggregate dollar amount of the award, or any combination of those factors?

The underlying implications of these questions and how to answer them will be addressed in Chapter 3.

## BENEFIT ANALYSIS

For the purposes of this guidebook, a benefit analysis is a document that makes the case for an acquisition strategy that consolidates and/or bundles requirements by identifying, quantifying, and comparing the benefits arising from its implementation to the benefits resulting from alternative strategies. The benefits may include cost savings, quality improvements, reductions in acquisition cycle times, better terms and conditions, and any other identifiable benefits.

If the acquisition strategy involves consolidation, the benefit analysis must demonstrate that the benefits accruing from the proposed acquisition strategy *substantially exceed* the benefits of each of the alternative strategies. This is the threshold for a benefit analysis involving a consolidation. “Substantially exceed” is not defined in statute or regulation. This leaves your team with the challenge of using the benefit analysis to prove that the acquisition strategy’s benefits *are much greater* than the benefits of the alternative approaches.

If the acquisition strategy involves bundling, the benefit analysis must demonstrate that the dollar value of the benefits accruing from the proposed acquisition strategy is *measurably substantial*. This is the threshold for a benefit analysis involving a bundle. Measurably substantial benefits equal or exceed<sup>1</sup>

- ◆ 10 percent of the estimated contract value (including options) if the value is \$86 million or less, or
- ◆ 5 percent of the estimated contract value (including options) or \$8.6 million, whichever is greater, if the value exceeds \$86 million.

## DETERMINATION

The outcome of a benefit analysis is a determination that the benefits accruing from a proposed strategy either meet the threshold or they do not. The basis for the decision can be summarized as follows:

- ◆ If the acquisition strategy team has performed its benefit analysis because the strategy consolidates requirements, then the Senior Procurement Executive (SPE)<sup>2</sup>—after reviewing the market research, benefit analysis, and any other relevant documentation—makes a determination either in favor of or against the issuance of the solicitation. This decision hinges on the team’s assessment (as portrayed in the benefit analysis) that the benefits of

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<sup>1</sup> A Final Rule was published (FAC 2005-13, FAR Case 2004-033, *Federal Register*, Vol. 71, No. 188, pp. 57363–57374) raising the thresholds from \$75 million to \$85 million and from \$7.5 million to \$8.5 million effective September 28, 2006.

<sup>2</sup> SPE is defined at [FAR 2.101](#) and [DFARS 202.101](#). In accordance with FAR 1.108(b), the authority to make this determination is delegable since the Defense Federal Acquisition Regulations Supplement (DFARS) does not state otherwise..

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the consolidation *substantially exceed* the benefits of each of the alternative contracting approaches.

- ◆ If the acquisition strategy team has performed its benefit analysis because the strategy bundles requirements, then the contracting officer—after reviewing the market research, benefit analysis, and any other relevant documentation—may determine that the solicitation can be issued if its benefits reach the *measurably substantial* threshold.

The details, exceptions, and nuances on how the determination is made are in Chapter 5.

## DOCUMENTATION

The final step in this process is documentation. Because solicitations that consolidate requirements and especially those that bundle them are subject to subsequent review, it pays to document your analysis carefully. At a minimum, your team should retain the following:

- ◆ Market research results
- ◆ Assessment of alternative contracting strategies and an explanation of why they were not adopted
- ◆ Benefit analysis
- ◆ Determination.

## SUMMARY

This chapter describes in very broad terms the processes used to determine whether a proposed acquisition strategy will result in a consolidation and/or bundle. Before issuing a solicitation, your team should determine whether the proposed strategy will consolidate and/or bundle requirements:

- ◆ If the proposed acquisition strategy consolidates requirements, its benefits must substantially exceed those of alternative strategies.
- ◆ If the proposed acquisition strategy bundles requirements, its benefits must be measurably substantial.

To make this determination, your team starts with market research. Then, it conducts a benefit analysis, makes a determination, and documents the process. Until all of this work is completed, you may not issue the solicitation.

# Chapter 3

## Developing Your Strategy

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### Chapter Highlights

*This chapter starts you on a road map to follow when considering a proposed acquisition strategy that consolidates and/or bundles previous requirements. We begin with the assumption that you have become familiar with the definitions for consolidation and bundling and that you have identified a specific requirement as a consolidation. You must now look at the proposed strategy, review procurement history, conduct additional market research, and identify alternative approaches. To simplify the presentation of the material in Chapters 3 through 5, we address the process for consolidated requirements; we provide the additional requirements for bundled acquisitions in highlighted boxes.*

## THE REQUIREMENT

As with any procurement action, we begin by identifying the requirement. What is the need to be met? What services are we seeking to obtain? What is our proposed acquisition strategy? Because you are this far along in the guidebook, we can assume you are considering a strategy that is a consolidation or one that may be both a consolidated and a bundled acquisition. Put simply, this means that you are looking at the combination of two or more requirements (products, services, or both) that were previously provided or performed under two or more separate contracts. The solicitation may be for a single contract or a multiple award contract.

You should consider if the requirements being consolidated were purchased by your contracting activity or if they were purchased by other means or by another contracting activity. This can be important in identifying the acquisition history of the requirements being consolidated.

Similarly, it is important to note the place of performance and the place of award because they may determine whether you will need to comply with bundling regulations.

*Bundling regulations do not apply to a contract that will be awarded and performed entirely outside of the United States.*

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## MARKET RESEARCH—ACQUISITION HISTORY

For proposed acquisition strategies that consolidate requirements, we begin by looking at acquisition history. What firms performed the previous requirements that are being consolidated? Were these large or small businesses? If small, is the firm still a small business? What kind of competition was received on previous requirements? Did small firms participate? Did they bid as prime contractors? How was the procurement structured so as to encourage (or limit) competition or teaming?

If the proposed strategy satisfies the requirements of multiple contracting activities, agencies, or departments, it may be necessary to gather procurement history from a variety of sources.

*One of the criteria for a bundled acquisition is that at least one of the requirements being consolidated must have been awarded to or have been suitable for award to one or more small business firms.*

*It is important to identify the small businesses that may be displaced by the proposed acquisition. Remember, if a determination is made to proceed with the bundled acquisition, these firms must be notified of the government's intent to bundle the requirements 30 days prior to the release of the solicitation.<sup>1</sup>*

Once you have identified how the government previously met these requirements and what firms performed them, you are well on your way to a decision as to whether it is solely a consolidated requirement or a consolidation and bundled requirement.

Looking at the acquisition history can also help you to structure the requirement by reviewing which requirements were subject to limited or no competition in previous buys. Acquisition history can provide you with the insight to avoid past mistakes.

## MARKET RESEARCH—POTENTIAL SOURCES

Acquisition strategy teams perform market research as a continuous process that is initiated at the earliest stages of the development of the acquisition strategy and continues through many subsequent stages of the acquisition process. Market research enables the team to gather data on the product or service, to learn about the capabilities of potential sources, and to better understand the business practices of the marketplace. You are probably already aware of many resources available to assist you with conducting market research. If not, you should begin by consulting FAR Part 10. Also helpful are the online resources of the Defense Acquisition University (DAU): [www.dau.mil](http://www.dau.mil).

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<sup>1</sup> [FAR 10.001\(c\)\(2\)](#).

In the context of consolidating requirements, market research is used to determine whether a contract consolidation makes sense.<sup>2</sup> How many and what kind of firms can do the work? Will the strategy require extensive teaming among firms? Will there be sufficient competition? In most cases, the lack of competition may prompt you to rethink the strategy. Perhaps an alternative strategy will afford more competition.

*For acquisitions that may be bundled, [FAR 10.001\(c\)](#) encourages you to consult with the SBA while conducting your market research.*

As you identify the firms and types of firms that are most likely to participate as prime contractors, you should be seeking the advice of small business subject matter experts. They can assist with locating qualified small businesses, structuring the requirement to promote small business participation, and identifying those firms that may meet the specific small business size standard for that particular acquisition.<sup>3</sup> Another important resource for identifying potential small business sources is the Central Contractor Registration, which may be accessed at [www.bpn.gov/ccr](http://www.bpn.gov/ccr).

Once you have identified potential sources through your market research and know the size of these firms, you are in the final stages of making a determination as to whether this consolidation will also bundle requirements.

*One of the criteria for a bundled acquisition is that it is likely to be unsuitable for award to a small business.*

## DECISION TREE: CONSOLIDATED AND/OR BUNDLED?

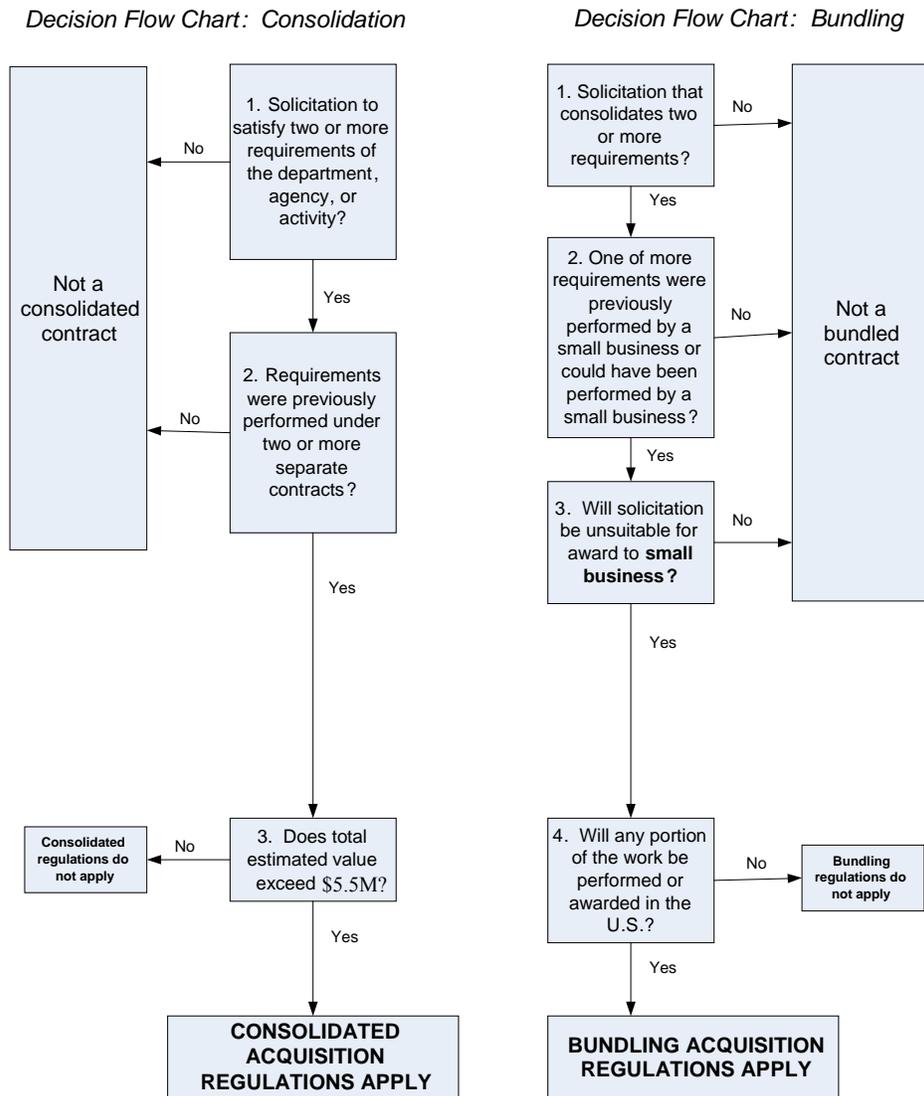
Once you have looked at the proposed structure of the requirements in light of acquisition history and considered potential sources, you have probably settled on a strategy that you believe will be the most cost-effective method for meeting the government's needs.

Before proceeding with the consolidation, you must first identify if it is solely a consolidated requirement or both a consolidated and a bundled requirement. To assist you with this process, we have constructed a decision tree, Figure 3-1, that provides a side-by-side view for determining if a requirement meets the definitions of both consolidation and bundling.

<sup>2</sup> See [DFARS 210.001\(a\)](#).

<sup>3</sup> For bundled acquisitions, the appropriate size standard is applied to each of the individuals or business concerns as opposed to the combined assets of a joint venture. See [FAR 19.101\(7\)\(i\)\(A\)](#).

Figure 3-1. Consolidated or Bundled? A Side-by-Side View



The steps are as follows:

- ◆ *Consolidation Step 1—Will the solicitation satisfy two or more requirements of a department, agency, or activity?* The proposed solicitation may be for either a single contract (or order) or for multiple awards.

- ◆ *Consolidation Step 2—Were the requirements being consolidated previously performed under two or more separate contracts?*<sup>4</sup>

If the answer to the two previous questions is “yes,” the acquisition is a consolidation. Now, let’s determine if the regulations apply to this acquisition.

- ◆ *Consolidation Step 3—Will the total estimated value of the acquisition exceed \$5.5 million?*

If the answer to step 3 is “yes,” the consolidation regulations apply to this acquisition.

Now, let’s look at the applicability of bundling regulations.

- ◆ *Bundling Step 1—Will the solicitation result in a consolidation? We know from the foregoing answers that it will.*
- ◆ *Bundling Step 2—Did a small business previously provide/perform one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?*
- ◆ *Bundling Step 3—Will the proposed acquisition be unsuitable for award to a small business?*

If the answers to the three previous questions are “yes,” the proposed acquisition is both consolidated and bundled.

Now, let’s look at possible exceptions to the application of bundling regulations.

- ◆ *Bundling Step 4—Will any portion of the work be performed or awarded in the United States?*

If the answer to this question is “yes,” then the bundling regulations apply to this acquisition. Requirements that are awarded and performed entirely outside of the United States are exempt from bundling regulations.

Now that you understand what constitutes a consolidated and/or bundled acquisition, whether or not a particular acquisition is solely a consolidation or both consolidated and bundled, and which regulations apply, you are ready to identify feasible alternative strategies.

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<sup>4</sup> “Previously” means that the acquisition of these requirements occurred immediately prior to this one. If two or more items were previously purchased under a single contract, and the follow-on contract is for the same requirement, the second acquisition would not meet the definition of a consolidation. If the follow-on acquisition further combined with one or more requirements that were previously provided or performed for the government, it would meet the definition of a consolidation. Follow-on acquisitions may also fall into the category of “CICA bundling.” For further information on this topic, see Appendix B.

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## MARKET RESEARCH—ALTERNATIVE STRATEGIES

One key requirement for potentially consolidated contracts is to identify and explore feasible alternative strategies for procuring the product or service.<sup>5</sup> Probably as you settled on the proposed strategy, you explored some alternative strategies. This is not unique to consolidated and bundled acquisitions; however, in the case of consolidated requirements, the team must identify any alternative approaches that would specifically involve a diminished degree of consolidation.<sup>6</sup> These alternatives and the rationale for not choosing them must be documented in the acquisition strategy.

As with other requirements, you are encouraged to solicit industry participation by using draft solicitations, presolicitation conferences, and other means for stimulating industry involvement during the design and development of the solicitation.<sup>7</sup> If the acquisition strategy requires extensive teaming on the part of the prime contractors, you will have to allow sufficient lead-time to enable firms to partner, giving full consideration to encouraging all firms to partner with small business concerns.

*For bundled acquisitions that involve “substantial bundling” (i.e., \$7.5 million or more in cumulative estimated value, including options), the acquisition strategy team must identify alternative strategies, with the assistance of the SBS, that would reduce or minimize the scope of bundling and identify the rationale for not choosing each of those alternatives.<sup>8</sup>*

If your requirement is both a consolidated and a bundled acquisition and meets the threshold for substantial bundling, you must comply with both requirements—seeking alternative strategies that have diminished consolidation and reduced bundling.

Coincident with the exploration of alternative approaches is the identification of the benefits of each approach. The litmus test for moving forward with a contract consolidation rests on the determination that the benefits to be accrued from the consolidation *substantially exceed* the benefits of each of the possible alternative contracting approaches.

*For bundled acquisitions, the litmus test for proceeding with the acquisition is met if the benefits derived from the bundled acquisition, as compared with not bundling the requirement, are measurably substantial.*

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<sup>5</sup> [FAR Part 7.](#)

<sup>6</sup> [DFARS 207.170-3\(a\)\(2\).](#)

<sup>7</sup> [FAR 7.105\(a\)\(8\)\(i\).](#)

<sup>8</sup> [FAR 7.107 \(e\).](#)

Comparing the benefits and benefit analyses are discussed in more detail in the following chapter.

## SUMMARY

The process of reviewing a consolidated and, possibly, bundled acquisition begins by identifying the requirement. In particular, you must review the acquisition history of the requirements being consolidated. This includes reviewing the firms that may have submitted proposals or bids, the way the previous acquisitions were structured, and the extent of competition that was realized.

As with all acquisitions, your market research should yield information on the size and structure of potential sources for the proposed requirement. The small business subject matter experts (e.g., the SBS and the SBA representative) can be invaluable in assisting you, particularly through the market research phase.

If the consolidated requirement is displacing small business firms, that is, one or more of the previous requirements were performed by a small business firm and the proposed strategy is unlikely to result in an award to small business, then you are looking at a requirement that is both consolidated and bundled. The decision tree (Figure 3-1) is provided to assist you with making this decision.

For both consolidated and bundled acquisitions, the next step is to identify feasible alternative strategies that will provide a lesser degree of consolidation and, in the case of substantially bundled contracts, a reduction in the scope of bundling. For each of these alternatives, you are required to document the rationale for not choosing it. Comparing the benefits to be derived is critical to the decision as to whether or not to proceed with the acquisition.

# Chapter 4

## The Benefit Analysis

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### Chapter Highlights

*In this chapter, we begin with the assumption that you have developed your strategy for a consolidated acquisition. You have followed the road map in Chapter 3, know whether your consolidation is also a bundled acquisition, and have identified feasible alternative strategies. Now, we take a look at the benefit analysis process and the steps to take in order to determine if your strategy is necessary and justified.*

### ABOUT BENEFIT ANALYSIS

Although the term “benefit analysis” has been used in connection with bundling, the regulations on contract consolidation have a similar requirement for making a determination with regard to the benefits to be derived from the proposed approach. For simplicity’s sake, we have elected to use “benefit analysis” to describe the calculation and comparison of benefits for both consolidated acquisitions and bundled acquisitions.

The purpose of the benefit analysis is to determine the relative benefit to the government among two or more alternative acquisition strategies. This means that, before issuing the solicitation for a contract over \$5.5 million that consolidates previous requirements for products or services, the SPE must make a determination that the consolidation is necessary and justified.<sup>1</sup> More specifically, this means that the benefits of the proposed consolidation *substantially exceed* the benefits of each of the feasible alternative strategies that you identified.

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<sup>1</sup> The phrase “necessary and justified” is used consistently in the regulations and this guidebook. It describes both consolidated and bundled acquisitions for which sufficient justification warrants proceeding with the issuance of the solicitation.

*The purpose of the benefit analysis for bundled acquisitions (regardless of dollar value) is to serve as a tool by which the contracting officer may determine that bundling is necessary and justified. The proposed bundled acquisition is necessary and justified if the government would derive measurably substantial benefits from the bundled strategy as compared to the benefits derived if the requirements were not bundled.*

*When the requirement constitutes substantial bundling (i.e., \$7.5 million or more in cumulative potential value, including options), the benefit analysis must include the following:*

- *Identify specific benefits that will occur as a result of bundling*
- *Identify alternative strategies that would minimize the scope of the bundling and the rationale for not choosing those alternatives*
- *Make a specific determination that anticipated benefits justify the bundling.*

From the foregoing, you can see that for consolidations valued at more than \$5.5 million and for bundled requirements regardless of dollar value, there must be a determination regarding the benefits that will accrue to the government from the proposed strategy. The means for reaching this determination is a benefit analysis.

There is only one exception to the requirement for a benefit analysis, and it applies solely to bundled acquisitions.

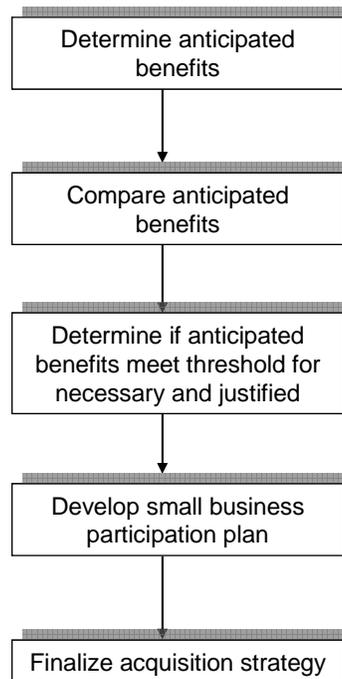
*A benefit analysis is not required for bundled requirements that will be awarded under [Office of Management and Budget \(OMB\) Circular A-76](#) guidance if a cost comparison has been done.<sup>2</sup> However, you must comply with all other requirements for consolidated and bundled acquisitions. This includes the requirement to document the team's rationale, explore alternative strategies, and quantify the comparative benefits to be derived.*

## RECOMMENDED BENEFIT ANALYSIS FRAMEWORK

The framework described in this chapter and displayed in Figure 4-1 depicts the benefit analysis process as a test you perform to ascertain whether a proposed acquisition strategy that consolidates and/or bundles requirements meets the criteria for necessary and justified. (Figure 4-1 implies that the acquisition strategy team conducts the benefit analysis sequentially. Although the analysis can be done that way, the team may find that it needs to revert to an earlier step and conduct additional market research because its original data were inadequate.) If you can demonstrate that the anticipated benefits will be sufficient to meet the criteria, you may recommend approval of consolidation and/or bundling determinations and proceed with the acquisition.

<sup>2</sup> See [FAR 7.107 \(h\)](#).

Figure 4-1. Recommended Benefit Analysis Framework



## DETERMINING THE BENEFITS

The regulations on both consolidation and bundling are consistent as to what constitutes a benefit. The following benefit categories provide you the means to present a justification to express the tangible and intangible benefits that you anticipate from the consolidation:

- ◆ Cost savings or price reductions
- ◆ Quality improvements
- ◆ Reduction in acquisition cycle times
- ◆ Better terms and conditions
- ◆ Any other benefits that may accrue to the government from the strategy.

The specifics of an individual acquisition will dictate the selection of the benefit categories and whether the analysis requires the use of more than one category. The benefits may be treated individually or in any combination or aggregate. In other words, you can meet the criteria for determining that a consolidation is necessary and justified by using only one benefit category or by combining the dollar value of the benefits from more than one category.

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Inevitably, some benefit categories will overlap. For example, if an acquisition strategy team identifies a reduction in acquisition cycle time, it might also categorize this benefit as a quality improvement, but the benefit may not be counted twice. Ultimately, what categories the team chooses is not as important as having an accurate benefit analysis.

The fact that benefits can be either tangible or intangible may complicate your selection of benefit categories. Tangible benefits, such as price reductions, typically are already stated in dollars or are relatively easy to convert into dollars. Benefits not readily convertible to dollars are intangible benefits. “Improved service” and “improved morale” are examples. In Appendix C, both tangible and intangible benefits are illustrated.

If the justification is for a consolidated acquisition over \$5.5 million that does not bundle requirements, the *benefits may include costs regardless of whether they are quantifiable in dollar amounts.*<sup>3</sup> For those acquisitions that are both consolidated and bundled, however, the bundling regulations regarding quantifying benefits apply. *Regardless of the nature of the consolidation, we strongly encourage you to quantify the benefits.*

*The acquisition strategy team must quantify identified benefits on bundled acquisitions.*

As we have seen, if the proposed strategy is a consolidated requirement that is not bundled, we may express the benefits other than in quantifiable (dollar) terms. *However, keep in mind that for all consolidated requirements, you will be seeking a determination from your SPE, and quantifiable benefits provide a stronger case for proceeding with the proposed acquisition strategy.*

## COMPARING BENEFITS

As you are identifying, determining, and quantifying the benefits that you will derive from the proposed acquisition strategy, you will need to compare those same benefits against each of the feasible alternative strategies that you have identified.

For a valid comparison, you must identify, determine, and quantify the benefits for each of the feasible alternative strategies in the same way as you did for the proposed strategy. This comparison of benefits constitutes the essence of the benefit analysis and, hence, the essence of any determination to proceed with the acquisition.

A justification based on cost savings may depend on developing a price analysis that contrasts previous versus new prices. The analytical approach hinges largely on the specifics of the acquisition.

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<sup>3</sup> [DFARS 207.170-3\(a\)\(3\)\(i\)](#).

Obtaining data for quantifying the benefits can be difficult. If quantifying a benefit depends on access to data files or requires a review of old contract files, then, before undertaking an analysis, the acquisition strategy team should determine whether access issues would impede or preclude progress. When data are unavailable, the team can use estimating techniques. Appendix D discusses some techniques and data gathering sources for quantifying benefits.

Documenting the method used and the supporting data are important but easily overlooked aspects of the process. It is important to document the rationale explaining why and how the decisions affecting the analysis were made.

## APPLYING THE THRESHOLD TEST

Once the dollar values of the anticipated benefits of the proposed and alternative strategies have been calculated, you must compare them to the appropriate threshold. Depending on the complexity of the acquisition and the strategy used to derive the value of the benefits, you may reach the threshold by aggregating benefits in a single category or across several. When aggregating benefits across several benefit categories, be careful not to double count.

To apply the threshold test, you must compare the benefits of the proposed consolidation to those of each of the feasible alternative strategies that you identified. If the benefits of the proposed strategy *substantially exceed* the benefits of the alternative strategies, the consolidation may be determined to be necessary and justified. Keep in mind that, for consolidations, all benefits need not be quantifiable and there is no dollar-value threshold defining what constitutes “substantially exceed.”

In contrast, bundled acquisitions must meet specific dollar-value thresholds.

*For the contracting officer to determine if the bundling is necessary and justified, the government must derive measurably substantial benefits. To meet this threshold, the benefits must equal or exceed*

- *10 percent of the estimated contract value (including options) if the value is \$86 million or less, or*
- *5 percent of the estimated contract value (including options) or \$8.6 million, whichever is greater, if the value exceeds \$86 million.*

For consolidated acquisitions, a reduction of administrative or personnel costs alone is not a sufficient justification for proceeding with the acquisition unless the total amount of cost savings from these areas is expected to be *substantial* in relation to the total cost of the procurement. For bundled acquisitions, this exception is defined in terms of a quantifiable threshold.

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*A reduction in administrative or personnel costs alone is not sufficient justification for a bundled acquisition to proceed unless the cost savings are anticipated to be at least 10 percent of the estimated value (including options) of the bundled acquisition.*

You can see that the threshold test for proceeding with a *consolidated* acquisition becomes a judgment call on the part of the SPE.

The threshold is clearer when the consolidated acquisition is also a *bundled* acquisition. By meeting the quantified threshold test for bundled acquisitions, the acquisition strategy team satisfies both the requirement for a bundled acquisition and the requirement for a consolidated acquisition.

***We strongly encourage you to use the “measurably substantial” threshold for bundled acquisitions as a guide for all consolidated acquisitions absent any alternative guidance from your agency.***

## PLANNING FOR SMALL BUSINESS PARTICIPATION

As we discuss in Appendix A, statutory provisions for consolidation and bundling came from a congressional concern about the impact of these types of acquisitions on small business participation in federal procurement.

As with other acquisitions, the strategy should be structured, as much as practicable, to facilitate competition by and among small businesses. And the FAR requires coordination of the acquisition strategy with the activity SBS on every acquisition of \$7.5 million or more, unless the contract or order is entirely reserved or set aside for small business.<sup>4</sup>

Given that the definition of bundling leads to those requirements that specifically will displace small business or will make small business participation unlikely, the regulations provide additional requirements for those bundled acquisitions that involve substantial bundling.<sup>5</sup> Specifically, if the cumulative maximum potential value, including options, of the contract (or order) is \$7.5 million or more, you must provide additional documentation—a small business action plan—before proceeding with the solicitation. *We recommend such documentation for all consolidated and/or bundled acquisitions*, particularly those that may not afford much opportunity for small business participation.

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<sup>4</sup> [FAR 7.104\(d\)](#).

<sup>5</sup> [FAR 7.107\(e\)](#).

*For substantially bundled acquisitions, the acquisition strategy team must provide the contracting officer with an **action plan** to mitigate the effects of the bundling upon small business. This plan must include the following:*

- *Identification of the specific benefits expected as a result of bundling the contract*
- *Assessment of the specific impediments to small business participation in the contract*
- *Action plan to maximize participation by small businesses as contractors, including efforts that will encourage small business teaming*
- *Outline of the specific steps that will be taken to ensure participation by small businesses as subcontractors*
- *Specific determination that the anticipated benefits justify the decision to bundle.*

Although bundled acquisitions are not likely to afford opportunities for small business firms to participate as prime contractors, the contracting officer must take steps to ensure that small business firms have increased opportunities to participate as subcontractors. Appendix E provides some specific strategies to encourage small business participation at the prime contracting and subcontracting levels.

*If the bundled acquisition offers a significant opportunity for subcontracting,<sup>6</sup> the contracting officer must include, in the solicitation,*

- *a factor to evaluate past performance indicating the extent to which the offeror attained prior small business participation goals under former contracts,*
- *a factor to evaluate the offeror's proposed small business subcontracting, and*
- *a provision so that offers from small business receive the highest rating for the two preceding factors.*

## ACQUISITION STRATEGY

At this stage, you have identified the benefits of your proposed strategy and compared them with the benefits of alternative strategies. You have determined whether the benefits have met the threshold test for consolidated and/or bundled acquisitions and have created your plan for small business participation.

<sup>6</sup> See [FAR 15.304\(c\)](#).

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If the benefits have met the threshold test, your last task, in this stage of the process, is to finalize your proposed acquisition strategy based on your findings and seek the appropriate determinations required before you issue the solicitation.

If the threshold test has *not* been met and a determination regarding mission criticality cannot be made (in the case of a bundled acquisition), you must return to the market research step and identify an alternative strategy that does not involve consolidation and/or bundling or one that, although it may include consolidation, can be found to be necessary and justified.

Before seeking the appropriate determinations, you may find the checklists in Appendix F helpful in ensuring that you have included all the required elements in your acquisition strategy (and contract file).

## SUMMARY

This chapter has described a benefit analysis process framework to follow before proceeding with a consolidated and/or bundled acquisition. You must analyze the proposed strategy and all feasible alternative strategies to ascertain if the benefits to be derived from the proposed strategy are sufficient to consider the acquisition strategy necessary and justified.

A variety of benefit categories may be identified as relevant to your particular requirement. As you determine the benefits for each of your strategies, we encourage you to quantify them. Thorough documentation and justification of the benefit analysis will make it easier to obtain a determination by the SPE.

After comparing the anticipated benefits of your strategy with those of alternative strategies, you can ascertain whether your approach meets the relevant threshold test that permits you to proceed with the acquisition. *We encourage you to use the “measurably substantial” benefit threshold for bundled acquisitions in all cases.*

Your strategy should include an action plan to enhance and encourage small business participation at both the prime contractor and subcontractor levels. This includes encouraging teaming and joint venture arrangements with small firms.

# Chapter 5

## Determinations, Notifications, Documentation, and Reviews

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### Chapter Highlights

*In this chapter, we conclude the process for proceeding with a consolidated acquisition. We assume that, by this point, you have conducted market research and performed the benefit analysis. Furthermore, we assume that (1) the benefit analysis has indicated that the benefits are sufficient to warrant proceeding with the acquisition (i.e., they meet the threshold test) or (2) the consolidation is a bundled acquisition and you intend to seek a determination that a mission-critical need justifies your proceeding without meeting the threshold test. We now discuss the determinations required to proceed with the acquisition, the notifications, and the documentation you will need to file. In addition, we provide an overview of the checks and balances and the reviews in the process.*

## DETERMINING WHETHER TO PROCEED

Although the definition of a consolidation does not include a dollar threshold—a consolidation may exist at any dollar level—the contracting activity may not proceed with a consolidation valued at more than \$5.5 million unless the acquisition strategy includes the following:

- ◆ Consideration of alternative contracting approaches involving less consolidation
- ◆ Results of market research indicating that the benefits of the proposed strategy *substantially exceed* the benefits of each of the possible alternative contracting approaches
- ◆ Determination by the SPE that the consolidation is necessary and justified.<sup>1</sup>

These are necessary whether or not the acquisition is also a bundled requirement. For bundled requirements, an additional determination is needed from the contracting officer.

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<sup>1</sup> [DFARS 207.170-3\(a\)](#). Also, see agency regulations for delegation authority.

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*For bundled acquisitions, the contracting officer must determine the bundling to be necessary and justified if, as compared to the benefits that it would derive from contracting to meet the same needs without bundling, the government would derive measurably substantial benefits by proceeding with the acquisition.*

*The benefit analysis is the basis for this determination.*

If the results of the benefit analysis meet or exceed the threshold test, the acquisition strategy team may seek a final determination from the SPE.<sup>2</sup> If that determination is received, the team may proceed with the solicitation of the consolidated acquisition. Although the regulation provides no relief for consolidated requirements that do not meet the threshold test, the same is not true of bundled acquisitions.

*If the agency does not reach the measurably substantial benefits threshold test on a bundled acquisition but the agency has a compelling need to issue the solicitation, it may do so only with a special determination.<sup>3</sup>*

*This determination must be made, within DoD, by the Senior Acquisition Executives (SAEs) of the military departments, or the Under Secretary of Defense (Acquisition, Technology and Logistics)(USD(AT&L). For civilian agencies, the Deputy Secretary or equivalent has the authority to make this determination.*

*These determinations may be made only if the benefits to the government from the proposed bundled acquisition strategy are critical to mission success and the acquisition strategy provides for maximum practicable participation by small business concerns.*

The bundling regulations apply regardless of the dollar value of the proposed acquisition.

## NOTIFICATION REQUIREMENT

Before proceeding with the release of the solicitation, you must issue some specific notifications when the consolidation is also a bundled acquisition.

*Thirty days before releasing a solicitation or placing an order without a solicitation, the contracting officer must notify any affected incumbent small business firms of the government's intent to bundle the requirement. The contracting officer must also notify the firms how to contact the SBA.<sup>4</sup>*

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<sup>2</sup> The SPE may document and sign the acquisition plan to satisfy this requirement for a determination, provided that the acquisition plan addresses all the elements required by [DFARS 207.170-3](#) for consolidated acquisitions.

<sup>3</sup> [FAR 7.107\(c\)](#).

<sup>4</sup> [FAR 10.001\(c\)](#).

## DOCUMENTING THE FILE

For consolidations, you must include several key items in the contract file, along with, or as part of, the acquisition strategy:

- ◆ Results of the market research
- ◆ Benefit analysis
- ◆ Identification of any alternative contracting approaches that would involve a lesser degree of consolidation and the justification for not choosing these alternatives
- ◆ Determination by the SPE that the consolidation is necessary and justified.

*For bundled acquisitions, in addition to the foregoing documentation requirements for consolidations, there must also be either*

- *a determination by the contracting officer that the bundling is necessary and justified (i.e., the benefits to be derived from the strategy meet the threshold test for measurably substantial), or*
- *a determination by the SAE or USD(AT&L) that the benefits are critical to the mission's success and the acquisition strategy provides for maximum practicable small business participation.*

*For substantially bundled acquisitions, there must also be an action plan to mitigate the effects of the bundling upon small business. The plan must include the following:*

- *Identification of specific benefits expected to accrue as a result of the bundling*
- *Assessment of the specific roadblocks to small business participation in the contract*
- *Specific actions to be taken to maximize participation by small businesses as contractors, including efforts that will encourage small business teaming*
- *Outline of the specific steps that you will take to ensure participation by small business as subcontractors, including evaluation factors on both the firm's past performance in small business subcontracting and proposed small business subcontracting.*

Remember that the oversight of consolidation and bundling involves both your agency's Director, Office of Small Business Programs (OSBP), and the SBA. These organizations are required to report on contract bundling annually. Because these reporting requirements are relatively recent, you may have to provide additional information on these awards. We encourage you to collect and maintain this

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information in the contract file. This will make responding to special requests easier.

*The SBA annual report, required by [15 USC 644\(p\)](#), focuses on the impact of bundling on small business concerns. Note, however, that the focus is not just on the initial bundled requirement but also on the result of the bundling in terms of savings realized, small business subcontracting realized, and the impact on small business industries. This report also has a forward-looking component that addresses whether maintaining the bundled status of the requirements in subsequent awards will result in continued savings. Specifically, the SBA report includes the following information:*

- *Data on the number, arranged by industrial classification, of small business concerns displaced as prime contractors by the award of bundled contracts*
- *Number and total dollar amount of contract requirements that were bundled*
- *For each bundled contract,*
  - *justification for the bundling,*
  - *cost savings realized by the bundling over the life of the contract,*
  - *extent to which maintaining the bundled status of a contract requirement is anticipated to result in continued cost savings,*
  - *extent to which the bundling of contract requirements complied with the small business subcontracting plan (including the total dollar value awarded to small business concerns as subcontractors and the total dollar value previously awarded to small businesses as prime contractors), and*
  - *impact of the bundling of contracting requirements on small businesses unable to compete as prime contractors for the consolidated acquisition and the impact on the industries of such small business concerns, including changes to the proportion of small business concerns in that industry.*

The checklists in Appendix F can assist you with identifying which documents should be included as part of the acquisition strategy and the contract file.

Once the market research is performed, alternative strategies explored, a benefit analysis performed, appropriate determinations received, a small business action plan prepared, the file documented, and the acquisition strategy completed, you may proceed with issuing the solicitation for the consolidated and/or bundled requirement.

## CHECKS AND BALANCES

The requirement for determinations by the contracting officer (for bundled acquisitions) and the SPE (for all contract consolidations) provides oversight and review that a specific acquisition strategy meets the threshold tests or other criteria

that permit issuing the solicitation. For bundled acquisitions, however, an additional safeguard is in place.

*For bundled acquisitions, the SBS is required to notify the Director, OSBP, if the proposed strategy for the acquisition is unnecessary, unjustified, or not identified as bundled by the agency.*

## REVIEWS

The Director, OSBP, is required to perform an annual review related to consolidations. The purpose of this review is twofold:

- ◆ Assess the extent of consolidation that has occurred
- ◆ Assess the impact of the consolidations on the availability of small businesses to participate in federal requirements as both prime contractors and subcontractors.

The Director, OSBP, also has additional review responsibilities with regard to bundled acquisitions.

*The Director, OSBP, must perform an annual review to do the following:*

- *Assess the extent to which small businesses are receiving a fair share of federal procurements*
- *Assess the adequacy of contract bundling documentation and justification*
- *Assess the actions taken to mitigate the effects of necessary and justified bundling upon small business.*

*A copy of this report must be provided to the head of the agency and the Administrator, SBA.*

## SUMMARY

Before proceeding with a consolidated and/or bundled acquisition you must obtain the required determinations that the execution of the proposed strategy is necessary and justified. This determination is made by the SPE based on the benefit analysis and other relevant data within the acquisition strategy. If the acquisition is also a bundled requirement, the contracting officer must make a separate determination. There is a provision for an exception to the latter determination in the case of those requirements that are mission critical and have been so determined by the SAE or USD(AT&L) (or civilian agency equivalent).

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The contract file should be documented with all the backup material upon which these determinations were made as well as other information—such as market research—that guided the strategy development.

The activity SBS and the agency Director, OSBP, have certain oversight authorities and responsibilities. Primary among these is the responsibility of the Director, OSBP, to conduct annual reviews to assess the impact of consolidated and/or bundled acquisitions upon small businesses.

# Appendix A

## Historical Overview

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### PROCUREMENT TRENDS

From FY95 through FY03, the total number of DoD procurement actions increased 53 percent, from about 94,000 to more than 144,000.<sup>1</sup> According to the GAO, the rise in procurement actions has created bottlenecks in the acquisition process, such as an increased backlog in closing out completed contracts, lost opportunities to develop cost savings initiatives, and insufficient staff to manage requirements. GAO reported that the DoD civilian acquisition workforce was shrinking in size; in 2000, it was only half the size it was in 1990.<sup>2</sup> The end result of the workforce reductions, coupled with rising procurement actions, have motivated Defense buyers to seek more efficient contracting methods and look for ways to reduce the number of contracts to award and administer.

#### Contract Consolidation

A number of causes may create the need to consolidate. Buyers may need to reduce the total acquisition cycle time or overhead expenses. In addition, as budgets become tighter, buyers look for ways to reduce prices through leveraging the government's buying power. This may be the result of strategic sourcing strategies initiated in an effort to buy more efficiently. Consolidation limits the number of firms participating in the federal marketplace. In particular, the size and scope of some consolidated requirements can make small business participation unlikely. Nevertheless, federal buyers, government-wide, are consolidating indirect expenditures (such as office supplies, carpeting, furniture, and desktop computers) as well as direct program expenditures—especially for large projects that require a prime contractor to integrate numerous systems.

A subset of contract consolidation is contract bundling. Bundling occurs when small businesses are displaced.

#### Contract Bundling

When consolidated acquisitions include one or more requirements that were previously performed (or were suitable to have been performed) by a small business and are structured so as to make it unlikely that small business can participate as a

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<sup>1</sup> FY95–FY98 data were obtained from Eagle Eye CD-ROM, Federal Procurement Data. FY99–FY03 data were obtained from the DoD Directorate of Information Operations and Reports.

<sup>2</sup> *DoD Acquisition Workforce Reduction Trends and Impacts*, Report D-2000-088, February 29, 2000.

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prime contractor, the proposed acquisition may be a bundled contract. Although, according to a May 2004 GAO report, only 24 documented incidences of bundling occurred in FY02, contract bundling remains a major concern for the White House, members of Congress, and small businesses.<sup>3</sup> Since the mid-1990s, some small businesses, their trade associations, and several members of Congress have argued vigorously that contract bundling is reducing the share of prime contracts going to small businesses.

## SMALL BUSINESS POLICY

In the Armed Services Procurement Act of 1947<sup>4</sup> and the Small Business Act,<sup>5</sup> Congress established a national policy to ensure that a fair proportion of total federal purchases and contracts be awarded to small business concerns. Small businesses continue to be recognized as vital to the nation's economic health, creating "7 out of 10 new jobs in America and account[ing] for more than half of the output of our economy." With the nearly 8 million U.S. small businesses employing over half of all U.S. workers, the health of these firms is "critical to ensuring continued job creation."<sup>6</sup>

The FAR implements the small business statutory coverage by

- ◆ requiring that each acquisition be reviewed for suitability for small business participation as prime contractors;
- ◆ providing for restricted competition among small businesses through set-aside programs;
- ◆ providing for review and potential appeal by the activity SBS and the SBA to the contracting officer's set-aside decision;
- ◆ requiring small business goals and subcontracting plans for recipients of federal contracts that are other than small businesses (e.g., large businesses, universities, or not-for-profit entities); and
- ◆ providing for incentives to encourage subcontracting to small business concerns.<sup>7</sup>

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<sup>3</sup> GAO, *Contract Management: Impact of Strategy to Mitigate Effects of Contract Bundling on Small Business Is Uncertain*, GAO-04-454, May 2004.

<sup>4</sup> Public Law 413, 80th Congress.

<sup>5</sup> Public Law 85-536.

<sup>6</sup> White House, President George W. Bush, "Fact Sheet: Supporting America's Small Businesses," June 17, 2004.

<sup>7</sup> FAR Part 19.

## CONSOLIDATION AND BUNDLING: RELEVANT STATUTES AND GUIDANCE

More recently, Congress passed two statutes to safeguard the interests of small business from excesses that may occur in the government's drive to purchase products and services more efficiently.

Congress addressed contract bundling in the Small Business Reauthorization Act of 1997.<sup>8</sup> This law authorizes contract bundling if—and only if—it is necessary and justified. To determine whether a bundled contract is justified, the acquisition strategy team must perform a benefit analysis. In October 2002, the Office of Federal Procurement Policy (OFPP) recommended improvements to the government's implementation of the contract bundling provisions;<sup>9</sup> most of these recommendations were subsequently implemented as changes to the FAR.<sup>10</sup>

In the National Defense Authorization Act for Fiscal Year 2004,<sup>11</sup> Congress supplemented the provisions on bundling for DoD by requiring a specific documentation and approval process for acquisitions that consolidate two or more requirements into a single solicitation or contract with a total value exceeding \$5.5 million. The objective of this statute and the subsequent DFARS rule was to ensure that acquisition personnel consider providing small business concerns with appropriate opportunities when making decisions to consolidate requirements.<sup>12</sup>

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<sup>8</sup> Public Law 105-135.

<sup>9</sup> Executive Office of the President, OMB, OFPP, *Contract Bundling: A Strategy for Increasing Federal Contracting Opportunities for Small Business*, October 2002.

<sup>10</sup> Federal Acquisition Circular 2001-17.

<sup>11</sup> Public Law 108-136, Section 801.

<sup>12</sup> *Federal Register*, March 21, 2006 (Volume 71, Number 54).

# Appendix B

## References

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This appendix provides a list of reports and GAO bid protest decisions relative to contract consolidation or contract bundling. While these reports and decisions may be useful to acquisition strategy teams as background material, it is important to note that this list may not be comprehensive and includes only reports/decisions that were issued after October 2002 and before December 31, 2005.

### CICA BUNDLING

Of particular note, to the reader, should be the impact of recent GAO decisions upon future interpretations of what does or does not constitute bundling. In particular, when recompeting a requirement that has been previously bundled, the proposed action may fall into the realm of what the GAO describes as “CICA bundling,” i.e., keeping bidders who can perform only one of the functions out of a competition may be a violation of the Competition in Contracting Act. GAO maintains that, as with bundling and consolidation, “administrative convenience” could not, of its own merits, justify the combining of requirements under one solicitation; real savings need to be demonstrated. GAO has determined that CICA bundling may even occur when the proposed consolidation is a small business set-aside. For further information on GAO’s determinations regarding CICA bundling, please see the results of protests by Vantex Services Corporation (B-290415), EDPEnterprises (B-284533.6), Teximara, Inc. (B-293221.2), and Phoenix Scientific Corporation (B-286817), referenced below.

### OFPP REPORT

*Contract Bundling: A Strategy for Increasing Federal Contracting Opportunities for Small Business*, October 2002, Executive Office of the President, OMB, OFPP. This report presents a specific strategy for holding agencies accountable for eliminating unnecessary contract bundling and mitigating the effects of necessary contract bundling. It includes recommendations for regulatory changes to maximize compliance with current contract bundling laws. Most of these recommendations were implemented in the FAR.

<http://www.acqnet.gov/Notes/contractbundlingreport.pdf>

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## GAO BID PROTEST DECISIONS AND OTHER REPORTS ON INDIVIDUAL ACTIONS

The decisions and reports in this section are limited to those that were issued after implementation of the FAR rules on contract bundling and before December 31, 2005. This list may not be comprehensive.

*Sigmattech, Inc., B-296401, August 10, 2005.* GAO sustained a protest by a small business concern challenging the bundling of Army requirements under a blanket purchase agreement issued under the awardee's Federal Supply Schedule contract. GAO found that the agency failed to perform a bundling analysis or notify Sigmatech of its acquisition strategy as required by the FAR.  
<http://www.gao.gov/decisions/bidpro/296401.htm>

*B. H. Aircraft Company, Inc., B-295399.2, July 25, 2005.* GAO denied the protest by a small business concern of DLA's consolidation of consumable (spare) parts for the F404 engines into a single "performance-based logistics supply chain management" contract. GAO found that DLA established measurably substantial benefits to the government from the consolidation and established that a single contract is necessary to meet agency needs.  
<http://www.gao.gov/decisions/bidpro/2953992.htm>

*Teximara, Inc., B-293221.2, July 9, 2004.* GAO denied the protest by Teximara, Inc., regarding the Air Force action to combine 14 requirements, including grounds maintenance and other base operations support functions, under an A-76 study. The Air Force prepared a 114-page study analyzing the proposed acquisition strategy and demonstrating the cost savings and significant efficiencies, on a task-by-task basis, that would result from the consolidation.  
<http://www.gao.gov/decisions/bidpro/2932212.htm>

*EDPEnterprises, Inc., B-284533.6, May 19, 2003.* GAO ruled that an Army A-76 study constituted improper bundling. EDPEnterprises, Inc., the incumbent food services contractor, protested that it could not bid on the whole package of logistics functions represented in the A-76 RFP. The RFP was issued as a small business set-aside, and because of the subcontracting limitation provision, EDP could not bid as a prime contractor, i.e., it was not able to perform 50 percent of the cost of the contract performance. The range of logistics functions in the solicitation included base, vehicle, and aircraft maintenance, as well as food services. Although the Army contended that the RFP covered the full range of logistics support functions administered by that office, the GAO found in favor of EDP, noting that combining requirements consistent with the varied functions of an office was insufficient justification for the bundling.  
<http://www.gao.gov/decisions/bidpro/2845336.htm>

*TRS Research, B-290644, September 13, 2002.* The GAO sustained a protest by TRS Research with regard to an Army RFP that consolidated requirements for both standard and refrigerated shipping containers. These two types of containers were previously provided under separate contracts. The GAO found that the Army did not submit the bundled RFP to the SBA before issuing the solicitation, making the RFP invalid.

<http://www.gao.gov/decisions/bidpro/290644.htm>

*Vantex Services Corporation, B-290415, August 8, 2002.* The GAO found that an Army small business set-aside solicitation illegally bundled a requirement for leasing portable latrines with waste removal requirements, despite the fact that the Army had a history of procuring these requirements as a consolidation. The GAO sustained the protest noting that CICA requires that whenever concerns of economy and efficiency are being weighed, “the scales should be tipped in favor of ensuring full and open competition.” This case established the “CICA bundling” concept.

<http://pubklaw.com/rd/gao/2002/B-290415.html>

*Phoenix Scientific Corporation, B-286817, February 22, 2001.* The GAO denied the protest by a small business regarding an Air Force RFP for multiple-award IDIQ task order contracts for the maintenance of Air Force weapon systems. The program is referred to as Flexible Acquisition and Sustainment Tool (FAST). GAO found that the solicitation will not result in contracts that are “unsuitable for award to a small business concern.” This decision provides a discussion of the applicability of CICA to bundling.

<http://www.dla.mil/j-3/j-336/logisticspolicy/smb%20ACQPln%20w%20attachment.pdf>

## GAO REPORTS AND TESTIMONY

*Contract Management: Impact of Strategy to Mitigate Effects of Contract Bundling on Small Business Is Uncertain* (A10277, GAO-04-454, May 27, 2004).

This letter report to the Committee on Small Business, House of Representatives, provides a status of performance toward the recommendations in the OFPP report of October 2002 (see above).

<http://www.gao.gov/docdblite/pubdb.php?accno=A10277>

*Small Business Contracting: Concerns About the Administration’s Plan to Address Contract Bundling Issues* (A06317, GAO-03-559T, March 18, 2003). This testimony focuses on two specific concerns regarding implementation of the OFPP report recommendations: (1) individual agency progress toward eliminating contract bundling and mitigating the negative impact of contract bundling upon small business concerns, and (2) the ability of the SBA and agency Small Business Offices to meet the responsibilities outlined in the Administration’s plan.

<http://www.gao.gov/docdblite/pubdb.php?accno=A06317>

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*How Selected DoD Consolidation Efforts Affected Small Business Opportunities* (NSIAD-83-30, B-209001, August 12, 1983). This is a GAO report indicating that by consolidating procurements, the DoD may be limiting prime contract awards to small business concerns. In addition, this practice may not always result in the lowest cost to the government. Current decisions lack adequate economic analysis, and activities may be relying on subcontracting opportunities to offset the loss of prime contracting opportunities for small business concerns.  
<http://www.gao.gov/docdblite/pubdb.php?accno=122131>

## SBA REPORTS

*Audit of the Contract Bundling Process* (Audit Report Number 5-20, May 20, 2005). This audit report identifies problems and deficiencies with SBA's tracking, receiving, and reviewing of bundled actions.  
<http://www.asbl.com/documents/05-20.pdf>

# Appendix C

## Benefit Analysis Examples

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The fact that benefits can be either tangible or intangible may complicate the selection of benefit categories. Tangible benefits typically are already stated in dollars or are relatively easy to convert into dollars. Intangible benefits are not readily convertible to dollars. This appendix contains examples of how to estimate the following types of tangible and intangible benefits:

- ◆ Cost savings, which result from price reductions, administrative cost reductions, cost avoidance, and personnel cost reductions
- ◆ Improvements in quality (i.e., technical benefits)
- ◆ Better terms and conditions (e.g., warranties)
- ◆ Other benefits (e.g., improved service).

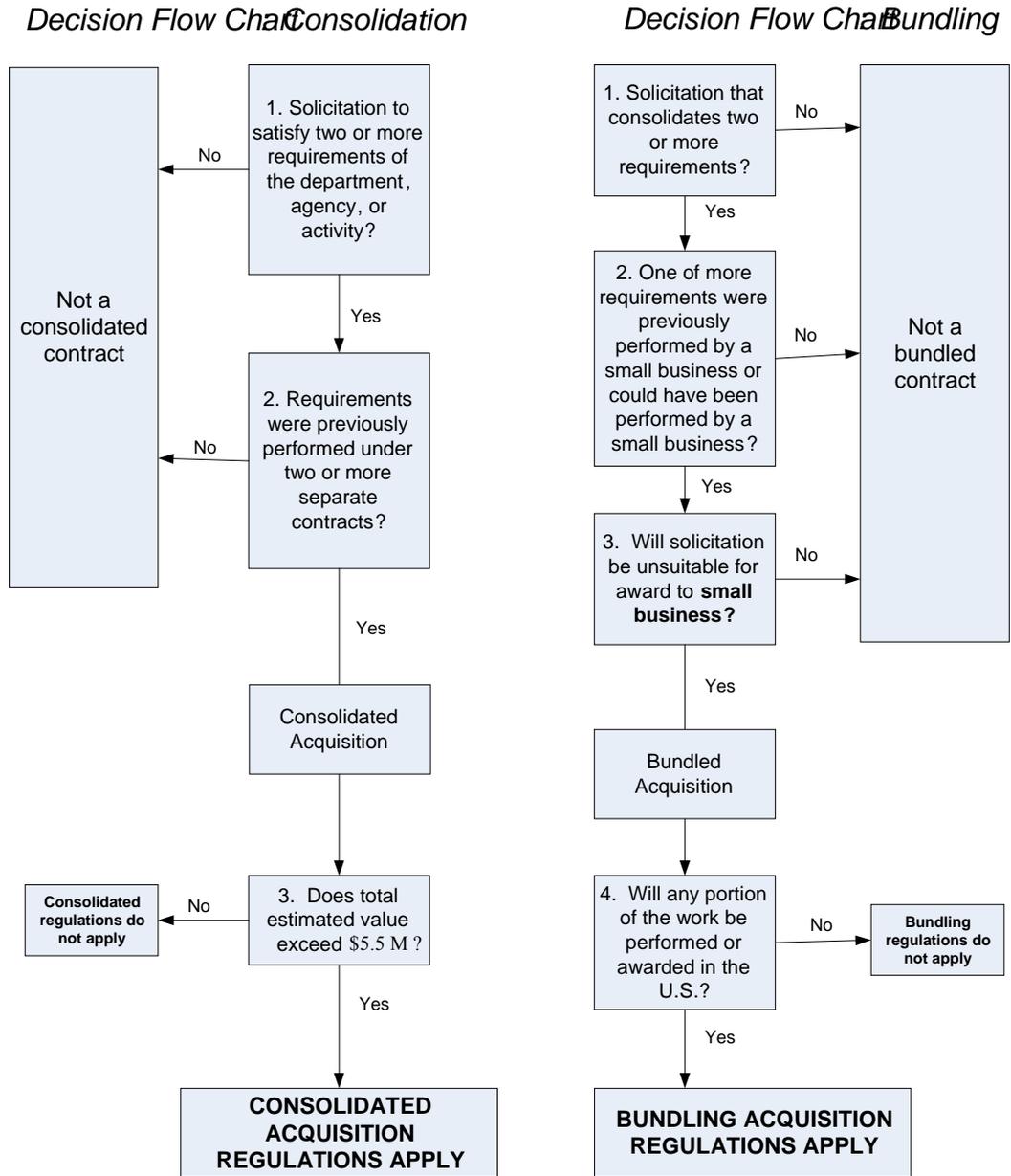
Each example follows the same format:

- ◆ A description of the factors that give rise to consolidation and/or bundling—the current environment
- ◆ A step-by-step determination of whether the proposed strategy would be a consolidation and/or a bundle, using questions derived from Figure C-1<sup>1</sup>
- ◆ A description of the market research that the acquisition strategy team might conduct, including a discussion of alternative strategies
- ◆ Identification of the anticipated benefits from the proposed strategy
- ◆ Illustration of the benefit calculations and comparisons
- ◆ A determination as to whether the benefits meet the relevant threshold tests.

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<sup>1</sup> Consistent with the recommendation of this guidebook to utilize the contract bundling threshold even when the acquisition is a contract consolidation and not bundled (see page 4-6), all examples use the quantitative (measurably substantial) threshold associated with contract bundling.

Figure C-1. Consolidated or Bundled? A Side-by-Side View



Questions concerning whether consolidated acquisition regulations apply are as follows:

1. *Will the solicitation satisfy two or more requirements of the department, agency, or activity?*
2. *Were these requirements previously performed under two or more separate contracts?*

If the answer to both questions is “yes,” then the proposed acquisition is a consolidation.

3. *Does the total estimated value of the award exceed \$5.5 million?*

If the answer is “yes,” then the consolidation regulations apply to this acquisition. If the answer is “no,” the requirement is a consolidation but the regulations do not apply.

The following questions concern whether bundling acquisition regulations apply:

1. *Will the solicitation result in a consolidation? (See the three questions above.)*
2. *Did a small business previously provide or perform one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?*
3. *Will the contract be unsuitable for award to small business?*

If the answer to all three of these questions is “yes,” then the proposed acquisition is a consolidation and a bundle.

4. *Will any portion of the work be performed or awarded in the United States?*

If the answer is “yes,” then the bundling regulations apply to this acquisition. If the answer is “no,” the requirement is a bundle, but the regulations do not apply.

The following pages contain the benefit analysis examples; they are organized as follows:

- ◆ Tangible benefits
  - Example 1: Price Reduction—Services
  - Example 2: Cost Savings—Services
  - Example 3: Price Reduction—A-76

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- Example 4: Price Reduction—Services
  - Example 5: Administrative Cost Reduction
  - Example 6: Cost-Avoidance Savings
  - Example 7: Personnel Cost Reduction
  - ◆ Intangible benefits
    - Example 8: Technical Benefits
    - Example 9: Cycle Time Reduction
    - Example 10: Better Terms and Conditions (Warranties)
    - Example 11: Improved Service.

An effort was made to select “real-world” examples that reflect the issues being faced by acquisition personnel. Changes have been made in some cases to provide a more complete illustration of a particular type of benefit analysis.

Although the examples do not address all benefits, they are sufficient to demonstrate the principles, which can be applied across a broader spectrum of benefits.

# EXAMPLE 1: PRICE REDUCTION—SERVICES

A price reduction is the most basic type of cost savings. It occurs when the government realizes a lower price for products or services. Price reductions originate from suppliers and are external savings to the government. Typically, they result from competition, but in the case of contract consolidation, they may arise from economies of scale, the application of improved technologies, management efficiencies, and other factors.

The following hypothetical example of a benefit analysis demonstrates how to forecast price reductions based on market research and simple estimating techniques.

## Current Environment

In the current environment, the acquisition strategy team plans to issue a solicitation for a wide range of engineering support services to be provided to its eastern region locations. The team envisions this procurement as part of an overall effort to realign support services throughout the region to reduce costs to the agency through increased efficiencies.

The 10 locations in the eastern region currently receive engineering support services from five small and two large businesses. Contract history reveals the agency paid \$83 million annually for these services. This procurement will consolidate contractor-provided engineering services into a single contract. The scope of these services falls into 12 functional areas:

1. Desktop computing (personal computers, scientific workstations, peripherals, etc.)
2. General support (file, Internet, database, and special-use servers; minicomputers; etc.)
3. Training (hardware and software)
4. Installation, operation, and maintenance of desktop computing systems (hardware and software)
5. Technology upgrades
6. Network (local area, wide area, and metropolitan) operations and maintenance
7. Computer center operations
8. Application software development and maintenance
9. Help desk operation
10. Telecommunications (voice, video, and data)
11. Data collection and analysis
12. Unclassified computer security.

Currently, each location purchases these services from one or more of the seven contractors on a firm-fixed-price basis. Driven by the need to streamline agency operations, the acquisition strategy team proposes that consolidating requirements with a single source will reduce costs to the agency.

The term of the anticipated contract, including options, will be 5 years. A firm-fixed price is expected for most of the effort, with the ability to issue fixed-rate task orders as appropriate.

## Consolidation and/or Bundle?

Because the proposed acquisition strategy combines two or more previous requirements, the acquisition strategy team uses the decision flow chart (Figure C-1) to determine whether the proposed acquisition will result in a consolidation and/or a bundled contract.

The team answers the following questions before ascertaining if it is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, the proposed acquisition encompasses multiple services at multiple locations within the agency.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes, the agency currently buys the services through separate contracts.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes.

This establishes that it is, in fact, a consolidation and subject to the consolidated acquisition regulations. Similarly, the acquisition strategy team answers the following questions to ascertain if the proposed acquisition is also a bundled acquisition:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, five small businesses have contracts to sell engineering support services to the agency.
- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Because the agency's entire requirement for engineering support services will be procured under a single contract, the diversity of the contract's requirements, and its size and aggregate dollar amount, will make it unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

The team has established that this solicitation will result in both a consolidated and a bundled contract and both sets of regulations apply to this acquisition. The acquisition strategy team proceeds with its benefit analysis by conducting market research.

## Market Research

The acquisition strategy team performs market research to determine what the current competitive environment is for engineering support services within the eastern region. With the exception of three full-service organizations, the team found many “niche player” contractors that lacked the broad-based expertise required to provide consolidated engineering support services. Full-service firms, the team discovered, had the wherewithal to integrate these functions, thus saving the customer money. The team believes that the diversity of these services, and the size and aggregate dollar amount of the potential contract, might be beyond the reach of small businesses.

In discussions with its agency’s SBS and SBA representative, the acquisition strategy team discovers that the proposed consolidation might cause significant harm to small businesses in one of the 10 locations. A significant number of small businesses that provide engineering support services in that location recently had been displaced due to the closing of a major network equipment manufacturer. A further negative impact on the existing firms may result in irreparable harm to the Defense industrial base.

Because of its concern about causing more displacement to these small businesses, the acquisition strategy team decides to exclude this location, which accounts for roughly \$12 million of expenditures to small businesses, from its proposed consolidation.

The acquisition strategy team has arrived at a proposed strategy (i.e., breakout) that mitigates the negative impact of the proposed acquisition upon small business firms. For all consolidated acquisitions, the team must assess benefits in relation to alternative strategies.

The team identifies maintaining the current acquisition strategy (the status quo) as the alternative strategy to which it will compare the proposed strategy.

## Anticipated Benefits

The results of market research reveal that the agency might achieve significant price reductions if it consolidates its engineering support services requirements within the eastern region. The acquisition strategy team believes a price reduction is likely, because contractors will be motivated to offer a more competitive bid because of the larger volume and 5-year contract period. Furthermore, the team believes a single contractor could easily find ways to eliminate duplication by centralizing certain functions and cutting unnecessary waste. One area the team wants to centralize is the help desk function, most of which, the team reasons, could be done remotely. The team also expects other potential benefits, including lower administrative cost (cost avoidance) and quality improvements.

## Benefit Calculation Method

To calculate the price reduction anticipated from the proposed bundled contract, the acquisition strategy team uses price analysis. Price analysis is the process of examining and evaluating a proposed price without evaluating its separate elements of cost and profit. The team uses three steps in its analysis, as described below:

- ◆ **STEP 1:** To perform a price analysis, the acquisition strategy team first identifies the current expenditures for these services by contract. For comparison, the team requested rough order of magnitude (ROM) pricing for the consolidated services from three contractors identified during market research (Table 1).

*Table 1. Price Comparison*

| Function                                | Current contract expenditures | Contractor 1 | Contractor 2 | Contractor 3 |
|-----------------------------------------|-------------------------------|--------------|--------------|--------------|
| 1. Desktop Computing                    | \$10,685,451                  | \$8,782,251  | \$9,756,785  | \$7,988,991  |
| 2. General Support                      | 2,341,751                     | 1,276,980    | 1,578,234    | 1,998,990    |
| 3. Training                             | 5,487,980                     | 3,786,876    | 2,998,789    | 4,234,987    |
| 4. Installation                         | 6,578,981                     | 4,786,987    | 6,034,089    | 5,675,327    |
| 5. Technology                           | 2,231,345                     | 1,987,675    | 2,134,987    | 1,675,987    |
| 6. Network Operations and Maintenance   | 8,781,234                     | 7,200,456    | 8,529,988    | 6,987,567    |
| 7. Computer Center Operations           | 7,896,523                     | 5,987,634    | 6,897,926    | 6,986,563    |
| 8. Application Software Development     | 2,147,890                     | 2,078,987    | 1,987,456    | 985,998      |
| 9. Help Desk Operations                 | 15,234,789                    | 12,002,678   | 13,345,002   | 12,576,890   |
| 10. Telecommunications                  | 6,234,078                     | 4,567,998    | 5,786,967    | 4,890,765    |
| 11. Data Unclassified Computer Security | 3,234,987                     | 2,576,987    | 2,986,567    | 2,009,345    |
| Total                                   | \$70,855,009                  | \$55,035,509 | \$62,036,790 | \$56,011,410 |

- ◆ **STEP 2:** Next, the team compares each contractor's ROM pricing with the current contract expenditures by function. Note that the current expenditures column (the status quo) represents the feasible alternative strategy being considered.
- ◆ **STEP 3:** Using an average of the three ROMs (\$57,694,570), the team estimates an overall annual price reduction of \$13.2 million by subtracting the ROM average from the total of the current contract expenditures ( $\$70,855,009 - \$57,694,570 = \$13,160,439$ ). When compared to the expected contract value (including options), this estimate yields a 23 percent savings ( $13,160,439 \div 57,694,570 = 0.228$ ).

## Consolidation and Bundling Threshold Test

Because the price reduction would yield an estimated savings equal to more than 10 percent of the new contract's value—meeting the “measurably substantial benefits” test for bundling and the “substantial” benefits test for consolidation—the acquisition strategy team determines that it can proceed with the consolidated and bundled solicitation. However, the team plans to break out certain small business requirements and to create a separate small business set-aside for services at the location excluded from the benefit calculations. This will mitigate the negative impact of this bundled procurement on small business firms.

## EXAMPLE 2: COST SAVINGS—SERVICES

This example describes the estimated cost savings a transportation command could realize by consolidating its domestic freight transportation requirements under commercial vendors, such as third- or fourth-party logistics providers (3PL, 4PL), which provide similar services for commercial firms.

### Current Environment

Currently, individual transportation offices (TOs) within the agency initiate freight movements to thousands of destinations using commercial transportation providers. These shipments occur with little centralized planning, coordination, or control. Shippers and TOs make decisions independently and without awareness of what other nearby shippers may be sending to similar destinations. They have no knowledge of other agency shipping requirements, thereby missing opportunities for consolidation and transportation cost reductions. In some cases, TOs fail to even take advantage of internal consolidation possibilities, instead processing individual shipments as they free-flow into the warehouse.

The agency believes that by selecting a vendor to coordinate and arrange domestic freight movements, it will achieve significant transportation cost savings. This coordinator would interface with automated transportation systems to see movement requirements. Using costing, routing, and optimization software tools, the 3PL would consolidate shippers' requirements to optimize the movement of goods. The 3PL cost savings will accrue from identifying opportunities to divert shipments from high-cost air mode to surface freight and, more significantly, by emphasizing greater use of consolidating less-than-truckload shipments into full truckload shipments.

### Consolidation and/or Bundle?

Because the proposed acquisition strategy combines two or more previous requirements through the use of a 3PL, the acquisition strategy team uses the decision flow chart (Figure C-1) to determine whether the proposed acquisition will result in a consolidation and/or a bundled contract.

The team answers the following questions before ascertaining if it is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, the agency currently engages multiple transportation carriers to move materiel.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes, the agency currently buys the services through separate, smaller contracts and through separate component purchasing organizations.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, \$200 million is the current estimate.

This establishes that it is, in fact, a consolidation and subject to the consolidated acquisition regulations. Similarly, the acquisition strategy team answers the following questions to ascertain if the proposed acquisition is also a bundled acquisition:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/perform one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, approximately 35 percent of the freight carriers used by the agency are small businesses that operate locally and regionally.
- ◆ *Will the contract be unsuitable for award to a small business?* Yes, the agency believes that the overall management of a nationwide domestic freight operation is beyond the capability of a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

The team has established that this solicitation will result in both a consolidated and a bundled contract and both sets of regulations apply to this acquisition. The acquisition strategy team proceeds with its benefit analysis by conducting market research.

## Market Research

Although the agency has no experience with the use of 3PLs, the use of these firms has evolved in the commercial marketplace over the last 30 years as firms began to outsource their transportation and logistics functions. This outsourcing accelerated in the 1990s when many firms began focusing on their “core competencies” and shed operations deemed otherwise.

The market research included trade journals, the Internet, academic studies, subscription databases, and other openly available sources. Next, the agency interviewed several firms (both customers and 3PLs) and inquired about their experiences. They identified a dozen providers with the experience and resources to perform the proposed acquisition. The criteria used to identify these providers included the following:

- ◆ Size (experience in managing workloads similar to the anticipated workload)
- ◆ Scope (core business/relationships in motor freight and other modes)
- ◆ Financial (sufficient capital to carry costs and cover expenses until agency reimbursement occurred)
- ◆ Technology (automated systems capable of cost-effective planning, routing, and interfacing with agency shipper and carrier systems).

Even with the assistance of the agency SBS and the SBA representative, the team could not identify any small businesses with the depth required for the coordinator role. Indeed, any company with the resources capable of meeting the proposed requirement had long since surpassed the small business size standard.

In assessing possible alternatives, the team could identify only one—the status quo—that would result in less consolidation and/or bundling of contract requirements. A decision to perform this transportation coordination in-house would likely result in some cost savings but would not measurably change the impact on small firms. Moreover, the agency did not possess the budgetary/personnel resources to establish an in-house agency-wide coordinator. Similarly, in-sourcing freight operations—bringing a 3PL contractor in-house to augment government staff—would still result in consolidation of contract requirements.

The team resolved to construct a small business participation plan that would utilize mandatory minimum small business subcontracting provisions and incentives to encourage the successful contract recipient to, as a minimum, retain the current level of participation by small business freight carriers.

## Anticipated Benefits

The acquisition strategy team estimated that the proposed acquisition would yield approximately \$99.2 million in annual domestic freight transportation cost savings—a 33 percent reduction according to the data analyzed—if it were fully implemented. Even implementing the proposed strategy for only the largest component (shipper) yielded estimated savings of over \$48 million annually (a cost savings of 29 percent). The cost savings for the other components were projected to be even larger.

## Benefit Calculation Method

To calculate anticipated benefits, the team examined 1 year’s worth of domestic freight transportation data based on the use of US Bank’s PowerTrack carrier payment system. The team excluded shippers with fewer than 1,000 shipments annually or those with less than \$1 million in annual freight costs. Next, it mapped “clusters” around each of the 19 major TOs, identifying other TOs, within the agency, that could contribute to and benefit from transportation consolidation along the top routes traveled. Further, the team used the rates from the Tailored Transportation Contracts to estimate the approximate transportation costs of the consolidation shipment volume derived from the clusters.<sup>1</sup>

Table 2 contains a summary of the team’s findings. (The historical cost is the transportation cost of the 1 year of data examined. The optimized cost is the amount of estimated savings by consolidating transportation requirements among shippers and destinations.)

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<sup>1</sup> Tailored Transportation Contracts are established by the military Surface Deployment and Distribution Command (SDDC) between major shippers and freight carriers to serve specific lanes of traffic at negotiated prices. DoD essentially guarantees the freight traffic to the carrier in return for favorable pricing and service terms.

Table 2. Potential Savings from 3PL Optimization

| Agency component | Historical shipments | Historical cost | Optimized cost | \$ savings   | % savings |
|------------------|----------------------|-----------------|----------------|--------------|-----------|
| Component 1      | 1,574,794            | \$168,231,586   | \$119,801,830  | \$48,429,756 | 29%       |
| Collocated TOs   | 232,870              | 51,775,265      | 32,739,362     | 19,035,902   | 37        |
| Component 2      | 171,042              | 32,098,001      | 18,725,810     | 13,372,190   | 42        |
| Component 3      | 53,296               | 22,168,442      | 13,330,927     | 8,837,515    | 40        |
| Component 4      | 102,559              | 14,618,009      | 8,043,679      | 6,574,331    | 45        |
| Component 5      | 33,023               | 10,172,585      | 7,134,357      | 3,038,228    | 30        |
| Totals           | 2,167,584            | \$299,063,888   | \$199,775,965  | \$99,287,922 | 33%       |

Thus the proposed strategy has the potential—according to the analysis—to save the agency more than \$99 million in annual domestic freight transportation costs, a reduction of 33 percent over the actual expenditure data the team examined.

## Consolidation and Bundling Threshold Test

Because the anticipated transportation cost reduction under the proposed consolidation and bundle would yield an estimated savings greater than 5 percent of the new contract’s value (estimated at approximately \$200 million to \$225 million), the strategy meets the “measurably substantial benefit” test for bundling and, hence, the “substantial” benefits test for consolidation. The team prepares to proceed with the solicitation taking care to construct a small business participation plan designed to, at a minimum, maintain the current level of small business participation.

## EXAMPLE 3: PRICE REDUCTION—A-76

This example uses a scenario occurring under a competition performed in accordance with OMB Circular A-76. You may recall that a benefit analysis is not required for bundled contracts when an A-76 cost comparison analysis has been performed.

### Current Environment

An acquisition strategy team targets information technology (IT) services (including information systems engineering and systems operation and maintenance), located within the continental United States, for a standard A-76 competition. The IT services include engineering support, cellular phone and PDA/pager services, systems support, switch upgrade, maintenance, administration, and management support. This standard competition may affect approximately 1,500 civilian employees and 750 contractors (285 large and 465 small businesses).

Each of the agency's 10 contracting offices currently buys its IT services separately from multiple contractors. Contract history reveals that, in the past 5 years, the agency paid, on average, \$683 million for these services. This breaks down into more than 1,300 contracts—\$400 million to large businesses, \$275 million to small businesses, and \$8 million to other entities.

### Consolidation and/or Bundle?

The proposed strategy appears to be both a consolidation and a bundle. The team first seeks confirmation that the new requirement is a consolidation by answering the following questions:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, the proposed acquisition encompasses multiple services at multiple locations within the agency.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes, the agency currently buys the services through 1,300 smaller, separate contracts.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, contract history for the past 5 years reveals an average contract value of \$683 million.

The team is well aware that this A-76 consolidation might displace several small business suppliers. Using the decision flow chart (Figure C-1), the acquisition strategy team ascertains whether the proposed A-76 consolidation will create a bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, 465 small businesses provide these services to the agency.

- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Because the agency's entire requirement for IT services will be procured under the contract, the contract's size and aggregate dollar amount will make it unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract award will occur in the United States.

The acquisition strategy team has established that this solicitation will result in a consolidated and a bundled contract. The acquisition strategy team consults the agency small business specialist who confirms that the cost comparison analysis performed in accordance with OMB Circular A-76 may substitute for the benefit analysis required for bundling. *However, the team learns that it must still adhere to all other regulations that pertain to consolidated and bundled acquisitions.*<sup>1</sup> This includes the requirement to document the team's rationale and quantify the benefits of consolidation and bundling in its comparison analysis. To accomplish this, the acquisition strategy team proceeds by conducting market research.

## Market Research

The acquisition strategy team performs market research by, first, identifying and grouping the various IT services into categories and subcategories. Using this information, it establishes 38 integrated product (or commodity) teams composed of contracting officers and program management IT engineers from each of the agency's offices covered by this acquisition. Together, these team members have a broad and deep understanding of the IT services requirements at the agency and office levels. These integrated product teams next perform a commercial type "spend" analysis of demand, technical requirements, etc. They research the commercial marketplace to understand the current industries and trends for their assigned commodities, assessing technology leaders, the role played by small businesses within each industry and substitutes and their impact on price, supply, and demand. After a thorough examination, the teams report their findings and conclusions to the acquisition strategy team. The agency small business office provides assistance to all teams, as resource levels permit.

The results of the market research reveal that the agency might achieve significant price reductions if it consolidates IT services requirements, but not with a single contractor, as noted in the following examples:

- ◆ The systems operations and management integrated product team proposed a 100 percent small business set-aside that would combine all existing contract efforts in this area. In addition, the team recommended consolidating contracts within contracting offices where possible.
- ◆ The cellular phone and PDA/pager services integrated product team found that the agency as a whole had 151 contracts for these services. Some large wireless providers had multiple contracts for the same regions. Six small businesses were providing cellular

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<sup>1</sup> See page 4-2 of this guidebook. If an A-76 cost comparison has been done for a proposed bundled acquisition, then the benefit analysis need not be performed. However, the acquisition strategy team must still develop alternative strategies, compare benefits, apply threshold tests, justify its decision, seek appropriate approvals, and plan for small business participation.

phone or PDA/pager services to the agency. In an effort to identify alternative strategies that include small businesses, the team found that small businesses in this industry were typically agents or resellers for the large wireless service providers. Therefore, the team recommended that the solicitation for these services include evaluation criteria that encourage teaming with small businesses and aggressive small business subcontracting, including the use of small business agents or resellers. The acquisition strategy team proposed a consolidation from 151 contracts to 3 contracts with nationwide wireless providers.

- ◆ The information systems engineering integrated product team found that numerous large and small firms were performing pieces of this effort together with a significant portion of in-house labor. The acquisition strategy team proposed consolidating these requirements under an A-76 action.

## Anticipated Benefits

In the final analysis, the agency's initial plan to consolidate all requirements under a single contract was reversed. The improved plan, achieved through market research, provides for fulfilling the agency's goals to maximize small business participation and for realizing an estimated 30 percent savings, broken down as follows:

|                                         |            |
|-----------------------------------------|------------|
| Price reductions via quantity discounts | 20 percent |
| Administrative cost reduction           | 10 percent |
| Total                                   | 30 percent |

## Benefit Calculation Method

Each of the 38 integrated product teams performs a benefit calculation. This is particularly important because the new proposed strategy is the award of multiple contracts rather than one consolidated action. Each acquisition must be treated separately. For illustration, we provide one example, the benefit calculation for the cellular phone and PDA/pager integrated product team.

A summary of the team's findings indicates that the potential for savings from consolidating requirements for cellular phone and PDA/pager services ranges from 20 to 25 percent. These savings were derived from approximations from industry research, trends, and discussion with experts in cellular phone and PDA/pager pricing. Minutes used are the primary driver of cellular phone costs and storage volume for PDAs. The agency as a whole would experience savings by consolidating its requirements to the following provider plan for its cellular phone and PDA usage:

- ◆ Nationwide wireless service for 1 calendar year, with the following specifications:
  - 400 pooled cell minutes (allowing usage during peak time)
  - Unlimited usage on nights and weekends
  - 250 direct connect or mobile-to-mobile minutes

Nationwide long distance

Caller identification

Voice mail

- ◆ BlackBerry service with two levels of service:

Data and e-mail

Data, e-mail, and phone service.

Although the team's findings anticipate some instances in which it might be necessary to deviate from the proposed nationwide plan, it believes that consolidating requirements for cellular phone and PDA/pager services is in the best interest of the agency. It would provide for an efficient usage of provider plan minutes and enable the agency to optimize its purchases of communication services. First, the agency can pool minutes (share minutes across phones) to optimize aggregate usage; second, the agency as a whole would know how it spends its minutes and can work with the service providers to negotiate better future deals and find plans that best serve its employee needs; third, plans that better fit the agency's needs would help it to reduce overage and roaming charges—key cost drivers of minutes.

In addition to savings from volume discounts, the agency could realize an administrative cost reduction. Currently, several divisions hold multiple contracts from multiple vendors for cellular phone and PDA/pager services. In fact, these services represent a sizable number (151) with 34 separate vendors. A reduction in the number of contracts and vendors would provide for additional savings. For example, consolidating requirements with 3 vendors would eliminate the need to solicit, negotiate, award, and manage 148 of the current 151 contracts. The team conservatively estimates an administrative cost reduction of 5 percent.

## Consolidation and Bundling Threshold Test

Because the savings from the price reduction would yield an estimated 20 percent of the contract's value (without the administrative cost reduction), the test has been met to proceed with the acquisition strategy team's plans for contract consolidation.

It is important to note that a similar bundling analysis and threshold test would need to be performed for each separate acquisition. For acquisitions that will result in an A-76 solicitation (such as the information systems engineering effort), the cost comparison analysis performed under A-76 may be sufficient to yield the information necessary to perform the relevant threshold tests.

## EXAMPLE 4: PRICE REDUCTION—SERVICES

This example of a benefit analysis demonstrates how to forecast price reductions based on market research and simple estimating techniques.

### Current Environment

In the current environment, orders for administrative supplies (paper, folders, pencils, pens, calculators) continually flow to numerous suppliers that support multiple organizations within an agency. These organizations independently purchase the same items from different suppliers without any coordination. The annual contract value of all purchases by the agency is \$40 million. Driven by the need to streamline agency operations, the acquisition strategy team concludes that consolidating requirements with a single source potentially is a more efficient way to buy administrative supplies.

### Consolidation and/or Bundle?

The proposed acquisition strategy combines two or more previous requirements; therefore, the acquisition strategy team uses the decision flow chart (Figure C-1) to ascertain whether the proposed acquisition will result in a consolidation and/or a bundled contract.

The team answers the following questions, confirming that the proposed strategy is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, the proposed acquisition encompasses multiple services at multiple locations within the agency.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes, the agency currently buys the services through multiple small contracts.
- ◆ *Does the estimated total value of the award exceed \$5.5 million?* Yes, the estimated annual contract value is \$40 million.

Realizing that this consolidation might displace several small business suppliers, the acquisition strategy team (using the decision flow chart) ascertains whether the proposed consolidation will create a bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, several small businesses provide administrative supplies to the agency through blanket purchase agreements.

- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Because the agency's entire requirement for administrative supplies will be procured under the contract, the contract's size and aggregate dollar amount will make it unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

The acquisition strategy team has established that this solicitation will result in a consolidated and a bundled contract and both sets of regulations apply to this acquisition. The team now proceeds with its benefit analysis by conducting market research.

## Market Research

The acquisition strategy team performs market research to determine the current competitive environment for administrative supplies. The team finds a somewhat stable industry with many suppliers. Four large suppliers control more than 60 percent of the market. The four dominant suppliers have major advantages relative to other industry participants. First, they own and control worldwide distribution centers. Second, they sell a variety of administrative supplies in significant volumes. Third, all four suppliers provide price discounts over a broad range of products and specific quantity ranges.

When considering alternative strategies that provide for more small business participation, the acquisition strategy team cannot find a comparable small business friendly strategy, such as breakout or small business set-aside. It cannot identify a small business supplier with the capability of competing within the entire or a given market. The team resolves to identify mitigation strategies to advance small business participation in the new requirement. For the comparison of alternative strategies, required for consolidations, the team identifies the current approach (the status quo) as the only viable alternative.

## Anticipated Benefits

The results of market research reveal that the government might achieve significant price reductions if it consolidates administrative supply requirements agency-wide. The acquisition strategy team believes that price reduction is likely, because a supplier will realize lower unit costs with larger volume over a longer contract period. The team also expects other potential benefits, such as lower administrative costs (cost avoidance) and personnel cost reduction.

## Benefit Calculation Method

To calculate the price reduction anticipated from the proposed bundled contract, the acquisition strategy team uses price analysis. The team takes the following steps:

- ◆ **STEP 1:** To perform a price analysis, the acquisition strategy team first identifies—in a spreadsheet—450 administrative items purchased from different suppliers for the agency users, the annual quantity purchased, and the average price paid for each item.

- ◆ **STEP 2:** The team then compares the information gathered in Step 1 with the catalog discount prices.
- ◆ **STEP 3:** After completing the comparison, the team estimates an overall annual price reduction of \$4.8 million, or a 12 percent savings, when compared to the estimated contract value of \$40 million. It also reasons that discounts are likely to be deeper than the price analysis reveals. Government agencies typically receive “most favored customer” status because of the large volume of business they offer suppliers. Furthermore, the team believes that if a longer-term contract is used, even more savings might be attained.

## Consolidation and Bundling Threshold Test

Because the price reduction would yield an estimated savings equal to more than 10 percent of the contract’s value—meeting the “measurably substantial benefits” test for bundled requirements and the “substantial” benefits test for consolidated requirements—the acquisition strategy team determines that it can proceed with a consolidated and bundled solicitation. The small business participation plan will address incentives and strategies to enhance small business participation in the new requirement.

## EXAMPLE 5: ADMINISTRATIVE COST REDUCTION

This example illustrates cost savings based on an administrative cost reduction. These cost savings are internal to the government and generally are attributable to reductions in the procurement or contract administration cost of a product or service. Eliminating steps in the acquisition process and eliminating paperwork associated with contract administration are examples of administrative cost reduction.

### Current Environment

In the current environment, an agency's major contracting office procures and administers, annually, 50,000 purchase orders from multiple suppliers to buy \$50 million worth of administrative supplies. The cost of processing a purchase order averages \$255. Aware of the need to process purchases more efficiently, the acquisition strategy team speculates that consolidating administrative supply requirements for purchase from a single source would be a more cost-effective way to purchase these supplies.

### Consolidation and/or Bundle?

The acquisition strategy team uses the decision flow chart (Figure C-1) to ascertain whether the acquisition resulting from the proposed strategy would be a consolidation and/or a bundled requirement.

The team answers the following questions, confirming that the proposed strategy is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, the proposed acquisition encompasses supplies purchased to support multiple users within the agency.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes, the agency currently buys the supplies through separate purchase orders.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, the estimated annual contract value is \$50 million.

Realizing that the solicitation is likely to displace small business suppliers, the acquisition strategy team uses the decision flow chart to ascertain whether the proposed consolidation will result in a bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/perform one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, 40 small businesses have existing contracts or blanket purchasing agreements to sell administrative supplies to the agency.

- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Because the agency's entire requirement for supplies will be procured under a single contract, the diversity of the supply requirements, the need to maintain a significant level of inventory, and the overall size and aggregate dollar amount of the proposed acquisition will make it unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

Having established that this solicitation will result in a consolidated and bundled contract, the acquisition strategy team proceeds with the benefit analysis by conducting market research.

## Market Research

The acquisition strategy team finds that the four dominant suppliers in the industry sell administrative supplies business-to-business via catalogs on the Internet. Customers using this approach typically create an electronic "market basket" of items they need and order from that "basket," online. For most orders, this process takes the contracting organization out of the transaction. The team's research also shows that the online system provides real-time tracking so users can determine the status of their orders. In fact, it finds that users can receive order acknowledgment from the supplier, usually with shipping commitment dates.

The acquisition strategy team also finds that electronic catalogs are not exclusive to large businesses. Small business suppliers also use electronic catalog techniques and offer similar benefits regarding order status and tracking. Given this environment, the acquisition strategy team identifies two alternative strategies that afford more participation by small business concerns:

1. Maintain the status quo, allowing small business participation through multiple purchase orders
2. Break out those supplies for which small businesses have the capacity and capability to meet the agency's requirements through electronic catalogs.

The acquisition strategy team must now compare the benefits to be derived from the consolidated and bundled approach (i.e., one dominant supplier) to both the status quo and the small business electronic catalog strategy. We refer to the latter alternative strategy as the small business breakout strategy.

The acquisition strategy team performs further market research related to the small business breakout strategy. Through a review of procurement history the team determines that approximately 80 percent of the purchases are suitable for small business participation. The team further identifies five small business suppliers that can provide some or all of these administrative supplies via an electronic catalog ordering system using a government purchase card. The team then reviews this strategy in light of Figure C-1 and determines that because small business is not precluded from requirements in which they had previously participated, this strategy would be a consolidated but not a bundled acquisition.

## Anticipated Benefits

The acquisition strategy team estimates the following potential benefits:

- ◆ Requisitioning—elimination of time spent by users processing and tracking requisitions and expediting orders.
- ◆ Contracting—reduction in time searching for items, obtaining quotations, negotiating, awarding purchase orders, entering orders, expediting, and maintaining purchasing files.
- ◆ Receiving—elimination of steps in the receiving process (e.g., the need to match incoming material with an invoice).
- ◆ Accounting—reductions in the number of invoices processed. The acquisition strategy team expects the method of payment for the online buying process to be the purchase card, allowing the accounts payable organization to receive one monthly invoice and process one check for payment per month.

## Benefit Calculation Method

The acquisition strategy team calculates the value of the benefits using the following steps:

- ◆ **STEP 1:** The team performs a cost analysis of each step in the purchase order process (requisitioning, contracting, receiving, and accounting).<sup>1</sup> It adds the estimated average cost for each step in the purchase order process, as shown in Table 1. The team calculates the average cost to place a purchase order to be \$255.<sup>2</sup>

*Table 1. Average Cost to Place a Purchase Order*

| Item                     | Requisitioning | Contracting | Receiving | Accounting | Total    |
|--------------------------|----------------|-------------|-----------|------------|----------|
| Est. avg. cost per order | \$57.75        | \$97.00     | \$50.00   | \$50.25    | \$255.00 |

- ◆ **STEP 2:** The team compares the purchase card cost with the cost of ordering via a purchase order. The team notes, as illustrated in Table 2, that the estimated average cost to place an order using the purchase card transaction with one supplier is \$50 versus the current \$255 using a purchase order.

Similarly, the acquisition strategy team looks at the small business breakout option, which would result in six separate suppliers—five small business suppliers (covering 80 percent of the requirements) and one large business supplier for the remainder of the requirements. Under this scenario, the purchases are still made via an electronic catalog and using a purchase card, but there would be some additional costs associated with tracking

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<sup>1</sup> Guidance on personnel costs is available from OMB Circular A-76.

<sup>2</sup> The \$255 is used only for illustration purposes. Costs will vary from organization to organization.

and billing purchases made from six separate suppliers. As illustrated in Table 2, the average cost per order for the small business breakout strategy is \$55.00.

*Table 2. Comparison of Average Costs*

| Item                                                        | Requisitioning | Contracting | Receiving | Accounting | Total    |
|-------------------------------------------------------------|----------------|-------------|-----------|------------|----------|
| Est. avg. cost per order—purchase order                     | \$57.75        | \$97.00     | \$50.00   | \$50.25    | \$255.00 |
| Est. avg. cost per order—purchase card with single supplier | \$27.75        | \$2.00      | \$4.25    | \$16.00    | \$50.00  |
| Est. avg. cost per order—purchase card with six suppliers   | \$27.75        | \$3.00      | \$5.25    | \$19.00    | \$55.00  |

- ◆ **STEP 3:** The acquisition strategy team computes the estimated savings of the consolidated and bundled acquisition strategy by multiplying the current estimated average cost per order (\$255) by the annual number of orders (50,000). The annual administrative cost of placing purchase orders is \$12.75 million. This is the administrative cost for maintaining the status quo.

The team makes the same calculation for the proposed bundled and consolidated strategy, using the same number of orders (50,000) multiplied by \$50, and computes an annual estimated cost to the agency of \$2.5 million to place orders. This is the administrative cost for the proposed consolidated and bundled acquisition. Table 3 reveals total estimated annual savings of \$10.25 million for the proposed bundled and consolidated electronic purchases from one supplier.

The team now makes the same calculation for the alternative small business breakout strategy, using the same number of orders (50,000) multiplied by \$55, the cost for using six suppliers rather than one, via electronic catalog. The resulting annual estimated administrative cost, as illustrated in Table 3, is \$10 million.

*Table 3. Total Estimated Annual Savings*

| Item                                                                                 | Estimated average cost per order | Annual number of orders | Annual cost to agency |
|--------------------------------------------------------------------------------------|----------------------------------|-------------------------|-----------------------|
| Status quo: purchase orders                                                          | \$255.00                         | 50,000                  | \$12,750,000          |
| Purchase card: six sources                                                           | \$55.00                          | 50,000                  | \$2,750,000           |
| Purchase card: single source                                                         | \$50.00                          | 50,000                  | \$2,500,000           |
| Total estimated annual savings from bundled acquisition                              | —                                | —                       | \$10,250,000          |
| Total estimated annual savings from consolidated small business breakout acquisition | —                                | —                       | \$10,000,000          |

## Consolidation and Bundling Threshold Test

On the basis of these computations, the acquisition strategy team determines that consolidating and bundling the requirements is justified, because the administrative cost reduction would save 10.5 percent of the estimated contract value of \$50 million.<sup>3</sup> However, the team is also justified in using the consolidated small business breakout alternative.<sup>4</sup>

The acquisition strategy team must now decide between the two alternatives. The bundled acquisition would result in an estimated additional savings of \$250,000. However, if the team decides to pursue this approach in lieu of the small business breakout strategy, it must justify its reasoning for not choosing this alternative. Any justification for choosing the bundled approach that precludes small business participation should encompass rationale beyond achieving minimal (0.5 percent) additional savings.

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<sup>3</sup> However, the acquisition strategy team may not justify bundling solely on the basis of a reduction of administrative or personnel costs unless the reduction is expected to amount to at least 10 percent of the contract value (including options).

<sup>4</sup> Because the small business breakout alternative as portrayed in this example would be a consolidated but not bundled acquisition, the team would need to meet only the threshold test of “substantial” savings in relation to the total cost of the procurement.

## EXAMPLE 6: COST-AVOIDANCE SAVINGS

Less visible but still important are cost-avoidance savings. Cost avoidance involves avoiding a future cost. The cost avoidance can arise from either an internal or an external source. When a contracting officer acts to delay or reduce the impact of a proposed price increase, he or she is achieving cost-avoidance savings. If a proposed bundling gives the government an opportunity to avoid making a future investment, it too creates cost-avoidance savings. The following hypothetical example illustrates cost-avoidance savings.

### Current Environment

If agency-wide requirements of \$37 million for laboratory supplies are to be consolidated, the acquisition strategy team decides it will need a full-time coordinator (GS-13, Step 5) to manage the consolidation across multiple organizations. The coordinator function is critical to a successful consolidation. Users will require help in making the transition from buying by purchase order to buying via purchase card. Some users also may need training. A full-time coordinator can help the various agency organizations transition smoothly from purchase orders to online purchasing.

### Consolidation and/or Bundle?

Realizing that the solicitation combines two or more previous requirements, the acquisition strategy team uses the decision flow chart (Figure C-1) to ascertain whether the proposed requirement is both a consolidation and a bundled requirement.

The team answers the following questions confirming that the proposed strategy is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, the proposed acquisition encompasses laboratory supplies from several suppliers.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes, the agency currently buys the supplies through separate, smaller contracts.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, the estimated annual contract value is \$37 million.

Realizing that the solicitation is likely to displace small businesses, the acquisition strategy team uses the decision flow chart to ascertain whether the proposed consolidation will result in a bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.

- ◆ *Did a small business previously provide/perform one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, several small businesses have blanket purchase agreements to sell laboratory supplies to the agency.
- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Because the agency's entire requirement for laboratory supplies will be procured under the contract, the contract's size and aggregate dollar amount will make it unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

The acquisition strategy team has established that this solicitation will result in a consolidated and a bundled contract. It now conducts market research.

## Market Research

As an alternative strategy to combining all laboratory supplies under one contract, the acquisition strategy team looks at the possibility of breaking out those requirements that are currently being purchased from small business and consolidating them under one small business set-aside. The team, however, does not see this as a consolidation that would result in cost savings other than administrative costs to award and administer two contracts instead of one.

However, after reading the large business supplier's brochure, the acquisition strategy team believes cost avoidance is possible under the proposed consolidation because the large supplier offers a full-time, on-site representative when purchases exceed \$1 million annually. The on-site representative will provide a wide range of support, including material planning, systems support, training for online buying, expediting, and general problem solving. The cost of the on-site representative is borne by the contractor at no cost to the government.

With this knowledge, the acquisition strategy team elects to compare the consolidated and bundled acquisition (i.e., all laboratory supplies under one contract) to the status quo, which offers more opportunity for small business participation.

## Anticipated Benefits

The acquisition strategy team sees a benefit in being able to use the supplier's on-site representative, at no cost, in lieu of hiring a GS-13 coordinator.

## Benefit Calculation Method

The acquisition strategy team calculates the benefits as follows:

- ◆ **STEP 1:** The acquisition strategy team estimates a cost avoidance of the salary of one full-time GS-13 (Step 5) employee. The team has determined a GS-13 employee to be equivalent to the supplier's on-site representative. OMB recommends using prevailing

wage rates and salaries to determine personnel cost. Fringe benefits, also considered part of personnel cost, should be based on estimates used in OMB Circular A-76.<sup>1</sup> The total factor for fringe benefits (full- or part-time) is 32.85 percent.<sup>2</sup>

The FY05 annual salary for a GS-13 (Step 5) employee is \$73,074. Multiplying this figure by 0.3285 yields fringe benefits of \$24,004.81.

- ◆ **STEP 2:** The acquisition strategy team uses a 12 percent overhead rate obtained from the OMB Circular A-76 Attachment C. The overhead is computed by adding the cost of the salary and fringe benefits ( $\$73,074 + \$24,004.81 = \$97,078.81$ ) and multiplying the sum by 0.12, giving an overhead amount of \$11,649.46. The fully burdened rate is computed by adding the overhead amount to the costs of the salary and fringe benefits ( $\$97,078.81 + \$11,649.46 = \$108,728.27$ ).

This equals a cost-avoidance savings of less than 1 percent when compared to the estimated contract value of \$37 million.

## Consolidation and Bundling Threshold Test

For this example, the acquisition strategy team determines that the consolidation and bundled acquisition cannot be justified solely on the basis of the cost avoidance, because the savings fall short of the “measurably substantial benefits” 10 percent threshold for bundled acquisitions.

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<sup>1</sup> OMB Circular A-76, May 29, 2003, Attachment C, “Calculating Public-Private Competition Costs.”

<sup>2</sup> Ibid.

## EXAMPLE 7: PERSONNEL COST REDUCTION

Reducing the number of in-house labor and supervisory personnel will create a “personnel cost reduction.” Included in the cost of in-house labor and supervisory personnel are salaries, wages, fringe benefits, and other entitlements, such as uniform allowances and overtime.<sup>1</sup> Personnel cost reductions are internal savings to the government. The following is an example of savings from reducing personnel costs.<sup>2</sup>

### Current Environment

In the current environment, multiple suppliers meet agency requirements of \$30 million annually for needed products and services. Because an online buying process would eliminate most of the manual work required to process 55,000 purchase orders annually, the acquisition strategy team decides to investigate whether work can be reallocated or positions can be eliminated.

### Consolidation and/or Bundle?

The acquisition strategy team uses the decision flow chart (Figure C-1) to ascertain whether the proposed requirement is both a consolidation and a bundled requirement.

The team answers the following questions confirming that the proposed strategy is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, currently the agency buys the products and services from several suppliers.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, the estimated annual contract value is \$30 million.

Realizing that the solicitation is likely to displace small businesses, the acquisition strategy team uses the decision flow chart to ascertain whether the proposed consolidation will result in a bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, several small businesses provide products and services to the agency.

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<sup>1</sup> See OMB Circular A-76, May 29, 2003, Attachment C, “Calculating Public-Private Competition Costs.”

<sup>2</sup> However, acquisition strategy teams may not justify consolidation or bundling solely on the basis of a reduction of administrative or personnel costs unless the reduction is expected to amount to at least 10 percent of the contract value (including options).

- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Because the agency's entire requirement for products and services will be procured under the contract, the contract's size and aggregate dollar amount will make it unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

Having established that this solicitation will result in a consolidated and bundled contract, the acquisition strategy team proceeds with market research.

## Market Research

From supplier brochures, the acquisition strategy team identifies three government agencies that have consolidated their procurement of similar products and services under a single contract. The team interviews representatives from those three agencies in an attempt to find out what their experience has been. It finds that—in each case—the workload for placing purchase orders for these products and services has dropped significantly. Consequently, all three agencies have re-allocated some acquisition personnel to higher-level work and have eliminated several positions.

The acquisition strategy team reviews the marketplace and is unable to identify a small business firm (within current size standards) that has the ability and financial capacity to handle the entire requirement. In addition, the team looks at the possibility of grouping commodities and services for potential breakout for small business but is unable to determine logical groupings because of integral linkage between certain products and accompanying services. The team determines that the only logical alternative strategy, offering more potential for small business, is the status quo.

## Anticipated Benefits

The acquisition strategy team estimates that 10 GS-9 positions can be eliminated by using an online buying process. Because users can place their own orders directly with the supplier, GS-9 employees are no longer needed to process the purchase orders manually. The team reasons that there is also the potential for cost-avoidance savings, because reallocation of other GS personnel will avoid future costs.

## Benefit Calculation Method

The acquisition strategy team calculates the benefits as follows:

- ◆ **STEP 1:** The acquisition strategy team estimates a personnel cost reduction using the salary of one full-time GS-9 employee and multiplying it by the number of positions eliminated. OMB recommends using prevailing wage rates and salaries to determine personnel cost. Fringe benefits, also considered part of personnel cost, should be based on

estimates found in OMB Circular A-76, Attachment C, “Calculating Public-Private Competition Costs.”<sup>3</sup> The total factor for fringe benefits (full- or part-time) is 32.85 percent.<sup>4</sup>

The FY05 annual salary for a GS-9, Step 5 employee is \$42,374. Multiplying this figure by 0.3285 yields fringe benefits of \$13, 919.86.

- ◆ **STEP 2:** The acquisition strategy team uses a 12 percent overhead rate obtained from OMB Circular A-76. The overhead is computed by adding the cost of the salary and fringe benefits (\$42,374 + \$13,919.86 = \$56,293.86) and multiplying it by 0.12, giving an overhead amount of \$6,755.26. The fully burdened rate is computed by adding the overhead amount to the costs of the salary and fringe benefits:

$$\$56,293.86 + \$6,755.26 = \$63,049.12.$$

$$\$63,049.12 \times 10 \text{ (positions)} = \$630,491.20.$$

This equals personnel cost savings of 2.1 percent when compared with the estimated contract value of \$30 million.

## Consolidation and Bundling Threshold Test

The acquisition strategy team determines that the proposed consolidation and bundle cannot be justified solely on the basis of the reduction in personnel, because the savings do not meet the “measurably substantial benefits” threshold of 10 percent.

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<sup>3</sup> OMB Circular A-76, Attachment C, May 29, 2003.

<sup>4</sup> Ibid.

## EXAMPLE 8: TECHNICAL BENEFITS

Quality improvements make a product or service better in some way. What constitutes “quality” is somewhat subjective, so metrics measure quality in terms of reliability, maintainability, adaptability, and supportability. This example illustrates how converting to integrated desktop services reduces the cost of help-desk operations.

### Current Environment

Currently, the agency uses multiple contractors for its desktop IT requirements. The total value of all of the agency’s desktop IT contracts is \$40 million. Unfortunately, the agency is beset with incompatible desktop computers, interoperability problems, service interruptions, and system installation problems. Large businesses provide the bulk of the desktop computers and associated peripherals and software, while small businesses provide help-desk services, security, and training. Rather than relying on this fragmented approach, the acquisition strategy team believes that having a single contractor responsible for all of the agency’s desktop IT requirements will improve the agency’s computer support.

### Consolidation and/or Bundle?

The acquisition strategy team uses the decision flow chart (Figure C-1) to ascertain whether the proposed requirement is both a consolidation and a bundled requirement.

The team answers the following questions confirming that the proposed strategy is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, currently the agency buys computer hardware, software, and related services from many suppliers.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, the estimated annual contract value is \$40 million.

Realizing that the solicitation is likely to displace small businesses, the acquisition strategy team uses the decision flow chart to ascertain whether the proposed acquisition is both a consolidation and a potentially bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, several small businesses provide help-desk services, security, and training support through smaller contracts.

- ◆ *Will the contract be unsuitable for award to a small business?* Yes. the contract's potential size and specialized nature make it an unsuitable award for a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

Because it has established that this solicitation will result in a consolidated and bundled contract, the acquisition strategy team proceeds with its benefit analysis, starting with market research.

## Market Research

The acquisition strategy team performs an industry-wide analysis of suppliers of desktop computers and associated software. Many suppliers are in the industry. The team concludes that superior suppliers offer a full complement of integrated products and services. These products and services include desktop computers and associated peripherals, commercial off-the-shelf software, installation, help-desk services, maintenance, security, and training.

In addition to the proposed consolidation of all desktop IT requirements, the team identifies two alternative approaches:

1. Retain the status quo
2. Consolidate services that are currently performed by small business into a small business set-aside and consolidate remaining services into one unrestricted acquisition.

The acquisition strategy team identifies and interviews three government agency customers of two full-service suppliers. The agencies report a 15 to 20 percent savings from consolidating IT requirements with a single source. Most of these cost savings flow from enhanced technical benefits. The agencies also cite a 50 percent reduction in help-desk activity.

The acquisition strategy team concludes that technical benefits can be derived from consolidating IT requirements and making buys in an integrated fashion from a single contractor.

## Anticipated Benefits

By consolidating requirements with one contractor, the acquisition strategy team projects the following technical benefits:

- ◆ Improved infrastructure interoperability and product compatibility
- ◆ Elimination of service interruptions and installation problems
- ◆ Centralized management of software requirements
- ◆ Centralized management of training and security
- ◆ Timely upgrades and refreshment of technology.

The team also expects that the agency will achieve cost savings by buying all of its IT requirements from a single source.

## Benefit Calculation Method

Using the help-desk log of more than 50,000 service requests from the previous year, the acquisition strategy team performs a cost analysis to estimate the cost to the government of the agency’s service interruptions, system installations, maintenance calls, and training. Using an average, fully burdened cost for an agency employee of \$25.00 an hour, the team develops an estimate of help-desk costs as shown in Table 1.

*Table 1. Agency Help-Desk Costs*

| Help-desk activity    | Labor hours                | Cost        |
|-----------------------|----------------------------|-------------|
| Service interruptions | 208,700 hrs. @ \$25.00/hr. | \$5,217,500 |
| Installation          | 73,000 hrs. @ \$25.00/hr.  | 1,825,000   |
| Maintenance           | 94,000 hrs. @ \$25.00/hr.  | 2,350,000   |
| Training              | 12,000 hrs. @ \$25.00/hr.  | 300,000     |
| Total                 | 387,700 hrs.               | \$9,692,500 |

Using the average cost reduction of 50 percent for these activities (from market research), the acquisition strategy team expects the annual cost of help-desk operations to fall from \$9,692,500 to \$4,846,250.

Dividing the estimated savings of \$4,846,250 by the estimated contract value (\$40 million) yields a 12.1 percent improvement.

Now the acquisition strategy team would do a comparative analysis for the second alternative strategy: one small business set-aside and one unrestricted acquisition.

## Consolidation and Bundling Threshold Test

Given the estimated savings of \$4.8 million (or 12.1 percent), the acquisition strategy team may proceed with the consolidated and bundled procurement.<sup>1</sup> This is a simple example of benefit analysis focused on quality improvement (technical benefits). In the example, the acquisition strategy team considered consolidating desktop services as a means of reducing help-desk operational costs. The team decided to move forward with the bundled acquisition only after assessing the procurement and conducting a benefit analysis that showed the consolidation would result in savings above the bundling threshold for measurably substantial benefits (and consequently the consolidation threshold for substantial benefits).

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<sup>1</sup> However, if the benefit analysis of the second alternative strategy—one consolidated small business set-aside and one unrestricted acquisition—yielded a similar or greater estimated savings, the acquisition strategy team would elect to proceed with the alternative strategy that is more small business friendly.

## EXAMPLE 9: CYCLE TIME REDUCTION

Acquisition cycle time is the amount of time that elapses between the identification of a requirement and the delivery of a product or service to the end user. Reducing acquisition cycle time by simplifying the acquisition process may lead to measurably substantial benefits. If, for example, an acquisition strategy team consolidates supply procurements under an award to one contractor that satisfies requirements more rapidly, a number of advantages may accrue. Inventory levels may decrease, the amount of storage space needed may decline, and costs associated with these functions may diminish. In the following example, making the transition to a just-in-time supplier reduces some of the costs associated with holding inventory in different locations.

### Current Environment

Completing facility maintenance actions at one large military installation has become a major problem because of the time needed to acquire the necessary parts. Many maintenance work orders are not completed for months because, after a maintenance problem is identified and the required parts are requisitioned from central supply, it takes 21 days on average for those parts to become available and additional time for the maintenance crew to be assigned. Experience has shown that the central supply is unable to maintain an adequate inventory of high-demand items. The parts held in central supply frequently are low-demand items—the wrong parts are sitting on the shelves. If necessary parts are unavailable, the work has to be rescheduled. In general, the unavailability of required supplies has delayed work and has forced expensive work-arounds and overtime. One result has been that local supply sections hold excessive inventories because of their past experience with central supply support.

The installation's acquisition strategy team has developed a new, just-in-time approach for acquiring and delivering building maintenance and cleaning supplies directly to the central warehouse and the 22 tenant-unit supply sections. A new contract to accommodate this approach will be valued at an estimated \$4.8 million annually. Given the installation's past dependence on small businesses to provide needed supplies through purchase orders or purchase card buys, it appears that using a single, large just-in-time supplier will displace many local small business suppliers and a small business delivery service.

### Consolidation and/or Bundle?

Realizing that the solicitation combines one or more previous requirements, the acquisition strategy team, using decision flow chart (Figure C-1), ascertains whether the proposed acquisition strategy will result in a consolidation.

The team answers the following questions:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, currently the installation buys building maintenance and cleaning supplies from several suppliers.

- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* No. The estimated annual contract value is \$4.8 million.

From the foregoing answers, the team realizes that the proposed strategy is a consolidation, but because it does not meet the \$5.5 million threshold, the acquisition is not subject to consolidation regulations.

The acquisition strategy team then uses the decision flow chart to ascertain whether the proposed acquisition is both a consolidation and a potentially bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes. Remember that even though it is not subject to consolidation regulations, the proposed acquisition would be a consolidation.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, several small businesses have blanket purchase agreements to sell building maintenance and cleaning supplies to the installation.
- ◆ *Will the contract be unsuitable for award to a small business?* Yes. It is unlikely that a small business contractor will have the financial wherewithal to manage multiple suppliers and maintain a warehouse. The financial capacity and physical capacity required for the successful contractor are, the team believes, beyond the scope of firms that meet the small business size standard. Therefore, the team indicates that the acquisition will be unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the installation, where contract performance will occur, is located in the United States.

The acquisition strategy team has established that this solicitation will result in a consolidated and bundled contract. However, the requirement is subject only to bundling regulations. The team now proceeds with its benefit analysis, starting with market research.

## Market Research

The acquisition strategy team performs market research to determine how other, nearby large facilities acquire building maintenance and cleaning supplies. The team finds that a large private university and a state hospital both acquire facility maintenance and cleaning supplies from one, large industrial supply firm that provides both bulk and package delivery services. The university and the hospital both report excellent supplier support using predetermined item lists, with overnight fill rates of at least 98 percent and 3-day fill rates of 100 percent. These institutions report average supply requisition lead-times of less than 2 days. The acquisition strategy team also learns that, depending on the level of supply support required (e.g., same day, overnight, or 2–3 days), a variety of delivery services and pricing arrangements are available from this supplier.

The acquisition strategy team finds a regional market that offers competitive prices across a range of supply and support services. This regional market is sufficient to support the military installation's annual requirements.

In looking at alternative strategies, the acquisition strategy team reviews the list of supplies looking for possible commodity groups that may be broken out for small business participation. The team finds that small businesses appear to lack the capacity to absorb the inventory management aspect at the volume required by the agency. The alternative identified for comparison is the status quo.

## Anticipated Benefits

The acquisition strategy team believes that it can reduce the costs of carrying inventory by eliminating almost all central warehouse and unit supply section inventories. Furthermore, it can achieve a significant improvement in acquisition cycle time and therefore supply support, if it consolidates central supply requisitions and the numerous small purchases for facility maintenance and cleaning supplies into one just-in-time delivery contract. Another benefit of reducing the time required for acquiring facility maintenance supplies will be improved performance by the public works maintenance crews. They no longer will start carrying out a maintenance work order only to suspend it while awaiting parts. Labor resources can be more efficiently applied, resulting in less rescheduling and overtime.

## Benefit Calculation Method

To calculate the estimated benefits anticipated from the consolidation, the acquisition strategy team determines the amount of inventory held at the installation's central warehouse and at the 22 tenant-unit supply sections. It finds that over the past 5 years, the central warehouse facility has held, on average, maintenance and cleaning supplies inventory valued at \$1.06 million, housed in 6,000 square feet of warehouse space. In addition, the team finds that each of the 22 tenant-unit supply sections holds, on average, another \$40,000 of facility maintenance and cleaning supplies. The combined value of inventory held throughout the installation is \$1.94 million (\$1.06 million central supply plus \$880,000 at the local supply sections).

The annual cost of holding \$1.94 million in inventory is based on the government's cost of borrowing (\$1.94 million multiplied by 6.375 percent).<sup>1</sup> This equals \$123,675 of inventory carrying costs.

The cost of leasing comparable warehouse space to store that inventory is estimated at \$4 per square foot multiplied by the 6,000 square feet, for an annual cost of \$24,000.

Having facility maintenance parts available when they are needed will permit better scheduling of work requests and will reduce expensive overtime. The acquisition strategy team estimates an annual cost avoidance of \$174,620 in overtime (8,500 hours at \$33.72 per hour—at wage

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<sup>1</sup> The cost of borrowing fluctuates. The use of 6.375 percent is solely for illustration purposes.

grade 8, step 2, rate of \$16.97 at time-and-a-half, fully burdened).<sup>2</sup> (The cost avoidance example illustrates how to perform this calculation.)

The transportation cost of delivering bulk supplies from the central warehouse to the 22 tenant-unit supply sections is estimated at \$49,800 annually. This figure is based on the estimated number of trips and mileage of the small business trucking company that currently provides on-call delivery services throughout the base. Table 1 summarizes the estimated savings.

*Table 1. Estimated Savings*

| Benefit category        | Annual cost savings |
|-------------------------|---------------------|
| Inventory carrying cost | \$123,675           |
| Warehouse cost          | 24,000              |
| Maintenance overtime    | 174,620             |
| Transportation cost     | 49,800              |
| Total benefit           | \$372,095           |

## Bundling Threshold Test

The projected bundled contract’s value for 1 year is estimated at \$4.9 million. To permit bundling, savings of at least 10 percent (or \$490,000 annually) must be achieved. The savings estimate of \$372,095 per year falls \$117,905 short of the threshold requirement. Stated otherwise,

$$\$372,095 \div \$4,800,000 = 7.8 \text{ percent.}$$

The bundling cannot proceed, because the estimated savings are less than 10 percent.<sup>3</sup> Reducing acquisition cycle time by simplifying the acquisition process in some manner may yield savings. In this example, inventory levels decreased, the amount of needed storage space declined, and costs associated with these functions decreased. Shifting from many suppliers to a single supplier led to savings, but not enough to meet the “measurably substantial benefits” threshold for bundling. The agency may not proceed with this acquisition as currently structured.

Because the acquisition is under \$5.5 million, the consolidation regulations do not apply.

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<sup>2</sup> Wage grade salaries vary from state to state. This wage grade salary is used solely for illustration.

<sup>3</sup> But see FAR 7.107(c).

## EXAMPLE 10: BETTER TERMS AND CONDITIONS (WARRANTIES)

Often, a proposed consolidation will result in better terms and conditions for the government. The following are some of the improved terms and conditions that may be achievable through consolidation:

- ◆ Better warranties or service terms
- ◆ Forward pricing discounts
- ◆ Streamlined ordering processes.

Justifying the consolidation of requirements on the basis of better terms and conditions is difficult because, as is the case with a quality improvement, their value is less obvious than a more tangible benefit like a price reduction. This means that organizations intending to justify bundling on the basis of better terms and conditions must be able to convert the new arrangement into some measure of dollars. Part of a benefit analysis developed to justify a procurement of this type might have to demonstrate a link between the new arrangement and reduced overall cost to the government. This example illustrates how an organization might undertake a benefit analysis based on obtaining better warranty terms and conditions.<sup>1</sup>

### Current Environment

In the current environment, an agency contracts with three suppliers, two large businesses and one small business, for network switches (equipment). The combined value of the three contracts (including option years) is \$35 million. Approximately 90 percent of the equipment in use at the agency is no longer under warranty. The warranties provided by equipment manufacturers under the current contracts were short term (12 months) and offered unfavorable terms that resulted in very high repair costs. The average cost to the agency to repair each equipment failure, once the equipment is out of warranty, is \$1,500; under warranty, the repair cost is \$100 for shipping and handling. Last year, equipment repair costs had grown to over \$2.5 million. Driven by the need to replace its aging equipment and lower its repair costs, the agency seeks to replace the current equipment and its multiple suppliers with a single source offering more favorable warranty terms and conditions.

### Consolidation and/or Bundle?

Realizing that the solicitation combines one or more previous requirements, the acquisition strategy team uses the decision flow chart (Figure C-1) to ascertain whether the proposed acquisition strategy will result in a consolidation.

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<sup>1</sup> A warranty is a guarantee given by a company to the purchaser stating, first, that a product is reliable and free from known defects, and second, that the seller will, without charge, repair or replace defective parts within a given time limit and under certain conditions. Warranty time limits and extent of coverage vary.

The team answers the following questions confirming that the proposed strategy is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, the agency currently buys equipment and services from more than one supplier.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, the estimated annual contract value is \$35 million.

Realizing that the resulting contract may displace a small business, the acquisition strategy team uses the decision flow chart to ascertain whether the proposed acquisition is both a consolidation and a potentially bundled contract by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, a small business has a smaller contract to provide this equipment to the agency.
- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Although it conducted extensive market research, the acquisition strategy team has been unable to identify additional small business sources. The known small business supplier does not have the capacity to compete for the proposed acquisition due to the size and aggregate dollar amount of the requirement.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the agency, where contract performance will occur, is located in the United States.

The acquisition strategy team has established that this solicitation will result in a consolidated and bundled contract. It now proceeds with its benefit analysis, continuing its market research.

## Market Research

The agency plans to replace its obsolete equipment and believes that the key to lowering its repair bills is to obtain more favorable warranty coverage than it has been receiving through procuring equipment from multiple suppliers. The acquisition strategy team performs market research to better understand customary warranty terms and conditions for equipment. The market research reveals that three large commercial equipment manufacturers offer extended warranty coverage for contracts exceeding \$10 million annually:

- ◆ Three-year warranties without additional charge are now available. The current incumbents offer only 1.5 year warranties if new machines are purchased from them.

- ◆ The average mean time between failure guarantee (MTBFG) of 2,000 hours is now customary for equipment.<sup>2</sup>
- ◆ On large procurements, most suppliers provide a full-time maintenance representative at no cost to the customer.

The only viable alternative approach that offers more opportunity for small business participation is the status quo.

## Anticipated Benefits

The acquisition strategy team reasons that, through consolidating requirements with a single source, it can reduce its cost for system failures by

- ◆ extending warranty coverage to 3 years and
- ◆ reducing the number of failures (based on an average MTBFG of 2,000 hours).

## Benefit Calculation Method

The agency expects to buy approximately 3,000 new systems over the next 36 months to replace its current systems. The acquisition strategy team estimates that each system will operate 112 hours a month. From this information, it calculates the total use over 3 years, for each system, to be 4,032 hours (112 hours per month multiplied by the contract period of 36 months). Next, using the MTBFG of 2,000 operating hours, the team determines that it should expect two failures per system (4,032 hours divided by the MTBFG), or 6,000 failures across all systems. In other words, each system will have to be repaired twice. Hence, the differing warranty periods (1.5 versus 3 years) provide a basis for determining which would be more beneficial to the agency.

Using the incumbent suppliers would cost the agency \$4,800,000 (3,000 out-of-warranty repairs multiplied by \$1,600 [\$1,500 repair cost plus \$100 shipping and handling]) and 3,000 under-warranty repairs at \$300,000, for a total of \$5,100,000. The new supplier offering the longer warranty terms would cost the agency only \$600,000. Hence, the agency would avoid significant repair costs.

When compared with the estimated contract value of \$35 million, the cost avoidance would be 12.8 percent:

$$\$4.5 \text{ million} \div \$35 \text{ million} = 12.8 \text{ percent.}$$

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<sup>2</sup> Generally, commercial contractors will provide the MTBFG for their equipment. A practical way to obtain this information is to request it in a ROM, or request for information. When requesting the MTBFG, the acquisition strategy team should specify that contractors must provide minimum values. For additional information on warranties, see FAR Part 46.7 and DFARS 246.7.

## Bundling and Consolidation Threshold Test

On the basis of the benefit calculation, the acquisition strategy team determines that bundling and consolidating the requirements is justified. This is an example of a benefit analysis based on realizing better warranty terms and conditions. The acquisition strategy team sought to consolidate requirements in an effort to reduce equipment repair costs by negotiating better warranty coverage. Upgrading equipment and warranty coverage simultaneously enabled the agency to reduce its costs dramatically.

## EXAMPLE 11: IMPROVED SERVICE

When a benefit analysis is performed, some benefits may not fit into any of the benefit categories this guidebook has discussed. Examples are improved service, customer satisfaction, and improved morale. An acquisition strategy team may classify such intangible benefits as “other benefits.”

This example illustrates how to perform a benefit analysis for improved service. One way to capture the value of an intangible benefit is to quantify it by converting the benefit into labor-hour savings. When contractors provide less-than-adequate service, users generally spend time complaining to the contracting organization. Managing the required corrective actions takes even more of the organization’s time. Less-than-adequate service also may affect productivity when it prevents employees from performing their jobs. By focusing on the measurable impact of labor-hour savings, the acquisition strategy team can express those savings in dollars.

### Current Environment

In the current environment, five prime contractors (two large and three small businesses) provide information management (IM) services to bases in four regions where the government agency is located. The services include posting and updating publications and forms; converting agency publications to an online medium; publishing and distributing base bulletins; sorting, posting, and delivering mail; and managing records. The combined annual dollar value of the five contracts is \$20 million.

The agency has received numerous complaints concerning lost mail and records, inaccurate postings, late deliveries, worker turnover, absenteeism, and slow response by the contractors’ management to these complaints. One major problem caused by slow mail deliveries and inaccurate postings resulted in significant downtime for some bases. Over the past 12 months, the agency has kept a log of 400 complaints received from agency employees and the follow-up actions taken to resolve the complaints. The log measures contractors’ service to the agency, which is factored into overall performance ratings.

To resolve complaints, the agency generally has to set up meetings with each contractor’s senior management to provide user feedback to them and to discuss their plans for corrective action. To monitor progress, the agency schedules quarterly follow-up meetings.

The acquisition strategy team believes that one way to improve service is to consolidate the agency’s IM requirements with a single, more customer-oriented contractor.

### Consolidation and/or Bundle?

Realizing that the solicitation combines one or more previous requirements, the acquisition strategy team uses the decision flow chart (Figure C-1) to ascertain whether the proposed acquisition strategy will result in a consolidation.

The team answers the following questions confirming that the proposed strategy is a consolidation:

- ◆ *Will the solicitation satisfy two or more requirements of the department, agency, or activity?* Yes, currently the agency buys IM services from several suppliers.
- ◆ *Were these requirements previously performed under two or more separate contracts?* Yes.
- ◆ *Does the total estimated value of the award exceed \$5.5 million?* Yes, the estimated annual contract value is \$20 million.

Realizing that the solicitation is likely to displace small businesses, the acquisition strategy team uses the decision flow chart to ascertain whether the proposed acquisition is both a consolidation and a bundled acquisition by answering the following questions:

- ◆ *Will the solicitation result in a consolidation?* Yes.
- ◆ *Did a small business previously provide/performance one or more of the requirements being consolidated or could one or more of the requirements have been performed/provided by a small business?* Yes, several small businesses provide IM services to the agency under separate smaller contracts.
- ◆ *Will the contract be unsuitable for award to a small business?* Yes. Because the agency's entire requirement for IM services will be procured under the contract, the contract's size, geographic dispersion of contract performance, and aggregate dollar amount will make it unsuitable for award to a small business.
- ◆ *Will any portion of the work be performed or awarded in the United States?* Yes, the contract performance will occur in the United States.

The acquisition strategy team has established that this solicitation will result in a consolidated and bundled contract. It now proceeds with its benefit analysis, starting with market research.

## Market Research

The acquisition strategy team concludes that one of several benefits of consolidation might be improved service. To test this hypothesis, the team performs market research on IM providers industry-wide to determine the various advantages that each might have in the marketplace. The team's findings convince it to proceed with a benefit analysis. First, several providers of IM services have sophisticated complaint resolution systems that are part of their overall corporate customer satisfaction programs. Second, after following up with other government agency customers, the team found minimal complaints concerning these IM providers. The agencies attribute this good record to the contractors' emphasis on customer satisfaction and their ability to resolve problems before they become complaints.

The acquisition strategy team sought alternative strategies that would result in less impact upon small business firms. They evaluated the possibility of breakout by regions. They looked at the

services provided within those regions and the size of the current providers. The team noted that one alternative strategy would be to set aside the consolidated requirements in two of the regions. The team decides that this is a feasible alternative, although not the preferred approach. The team then decides to do an initial benefit comparison between the fully consolidated and bundled acquisition and the status quo.

## Anticipated Benefits

The acquisition strategy team concludes that selecting a single contractor that can provide service across all four regions and that has an exemplary customer satisfaction program would eliminate the high cost of less-than-adequate service to the agency. In addition to the savings from improved service, the acquisition strategy team expects cost savings from the consolidation of requirements.

## Benefit Calculation Method

Using the log of 400 complaints, the acquisition strategy team performs an analysis to estimate the cost of less-than-adequate service to the agency. The team identifies four cost drivers:

- ◆ User complaints
- ◆ Investigation of complaints
- ◆ Follow-up time
- ◆ Employee downtime.

Next, the acquisition strategy team estimates the number of lost labor hours (see Table 1). The team determines the GS level with the highest number of transactions in each category by interviewing a sample of the personnel associated with each cost driver. By multiplying the fully burdened, hourly labor rate by the total number of hours for each cost driver, the team concludes that the annual estimated cost of less-than-adequate service is \$639,670.<sup>1</sup>

*Table 1. Cost of Less-Than-Adequate Service*

| Cost driver                 | Labor hours                    | Cost      |
|-----------------------------|--------------------------------|-----------|
| User complaints             | 3,200 hrs. @ \$26.00/hr. GS- 9 | \$83,200  |
| Investigation of complaints | 4,000 hrs. @ \$20.50/hr. GS- 7 | 82,000    |
| Follow-up time              | 5,500 hrs. @ \$32.10/hr. GS-11 | 176,550   |
| Employee downtime           | 16,000 hrs. @ \$18.62/hr. GS-6 | 297,920   |
| Total                       | 28,700 hrs.                    | \$639,670 |

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<sup>1</sup> The acquisition strategy team divides the direct salary (from the General Schedule salary ) by 2,087 hours to obtain the hourly rate.

The acquisition strategy team calculates the value of the benefits as follows: the annual estimated savings (avoided cost of less-than-adequate service) = \$639,670, divided by the estimated contract value (\$20 million) yields a benefit of 3 percent of the value of the contracts.

## Bundling and Consolidation Threshold Test

The acquisition strategy team determines that bundling the requirements is not justified, because the savings from improved service alone would not yield the required 10 percent minimum for bundling. Given this, meeting the consolidation threshold test is not relevant because the proposed acquisition may not move forward as designed.

The team will now do a similar analysis for each region, comparing the breakout (regional) strategy with the status quo. The results of this comparison will determine whether the agency will move forward with the regional contracts or retain the status quo.

When a benefit does not clearly fit into one of the other categories, the acquisition strategy team may classify it under “other benefits.” Because this category of benefits is a catchall category, the team must exercise judgment when deciding where to classify a benefit. This example addressed improved service to illustrate “other benefits.” Because benefit categories may overlap, improved service also might fit into the category of “quality improvement.” However, if the acquisition strategy team treats service and quality as separate performance measures, as in this example, it is appropriate to classify improved service under “other benefits.”

# Appendix D

## Techniques and Data Sources for Quantifying Benefits

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This appendix describes two basic techniques for quantifying anticipated benefits that may justify the consolidation and/or bundling of contract requirements. It also identifies possible data sources that can be useful in helping the acquisition strategy team estimate anticipated benefits. The data presented are relevant to the benefit analyses for both consolidated and bundled requirements; for the sake of simplicity, however, we will use the overarching term “consolidation” in all cases.

### BASIC TECHNIQUES FOR QUANTIFYING BENEFITS

Price and cost analyses are the basic techniques for estimating the potential benefits from a proposed consolidation. To perform a benefit analysis, the acquisition strategy team may use either or both of these techniques. Which technique is most appropriate for a particular situation depends on several factors, such as the type of benefit, the product or service, the availability of data, and the structure of the proposed contract. There is no single preferred or best technique. The choice will ultimately depend on the team’s judgment. The following is an overview of price and cost analysis.<sup>1</sup>

#### Price Analysis

Price analysis is a technique in which estimates are prepared and comparisons are made having reference only to the final prices of the products or services involved. This means that the various costs and profit factors that are the components of those prices are not used in the analysis. The prices are either

- ◆ the total final prices for a collection of products or services (e.g., final prices for engine spare parts or janitorial services), or
- ◆ unit prices for individual products or services (e.g., final prices for desktop computers or long-distance service priced on a per-minute basis).

#### CATALOG PRICES

Because the acquisition strategy team must perform a benefit analysis before proceeding with a consolidated contract, it will have to develop pricing estimates through market research rather than receiving formal quotations from prospective

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<sup>1</sup> For a detailed discussion of price and cost analysis, see the DoD *Contract Pricing Reference Guides*. Available at <http://www.acq.osd.mil/dpap/contractpricing/>.

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suppliers. Frequently, such information is available from catalogs or other published pricing documents. Catalog pricing provides the acquisition strategy team with a base or reference for performing a price analysis.

## WHEN PRICE ANALYSIS IS APPROPRIATE

Price analysis is possible as long as the comparison is “apples to apples.” For example, wireless services within a given geographic area generally are priced on a per-minute basis. A price analysis can be performed using these prices by comparing like services on a per-minute basis (excluding additional features and ancillary fees). A price analysis also can be performed when fixed fees are charged; for example, for a standard medical service (chest x-ray or employment physical) or for landscaping services priced on a per-acre basis.

## CAVEATS

The acquisition strategy team must be careful when relying solely on catalogs or other published pricing documents. Their prices tend to be retail prices, which few government customers pay, because government agencies typically purchase large volumes of products or services. Thus, when performing a price analysis, the team should consider whether “most favored customer” pricing would provide deeper discounts.

Because of market fluctuations in the prices of some products and services, a comparison with established catalog prices may not always be possible. For example, the price for some integrated circuits may fluctuate over a short interval. Manufacturers and distributors of integrated circuits will not publish catalog prices for these items because changes occur too rapidly. But if the acquisition strategy team can establish a price range (through trade journals or other sources) within which manufacturers make sales to the public, that range is acceptable as a basis for comparison.

When the scale and scope of the potentially consolidated contract exceed the range for which published pricing information is readily available, there are several alternatives for acquiring this information. One approach is to request ROM pricing from prospective suppliers. Another approach is to identify similar contracts for the same quantity of products or range of services and use that pricing information to estimate benefits.

When it makes sense to do so, and the method yields good data, using price analysis is always preferable to using cost analysis, because it is simpler and faster and tends to be more objective. However, if judgment reveals that a price analysis is not feasible, then it may be necessary to perform a cost analysis.

## Cost Analysis

Cost analysis is the process of performing projections and evaluations based on the composition of the costs of a good or service. Whereas price analysis does not inquire into or rely upon the composition of the costs and profit that are the components of the prices, cost analysis focuses directly on them. Thus cost analysis is a more complex—and in some ways more difficult—technique to use.

Cost analysis should be used only when price analysis is impractical. It is generally done when there is a need to assess nonstandard products and services that are not readily available in the marketplace. Cost analysis may be the only means available for estimating benefits. For example, if a proposed consolidation will significantly reduce in-house stocks of a nonstandard product, the acquisition strategy team may use cost analysis to estimate the savings to be gained from reductions in warehouse space.

## Estimation Techniques

Whether the acquisition strategy team uses price or cost analysis to estimate the potential benefits from a proposed consolidation, it may need to estimate the cost, price, or quantity of some resource. The following subsections briefly discuss techniques that support these efforts.

### PRICING RESOURCES

During a benefit analysis, the acquisition strategy team may need to estimate the cost or price of a resource (e.g., labor hours, material and supply costs, or equipment and overhead costs) as part of its analysis. Usually this effort requires the team to develop an estimate of the use of the resource and then convert it to dollars. For example, if the resources being estimated are various types of labor, the team could refer to prices for those skills published in GSA schedules or similar labor-category price lists from the Department of Labor. Using the published hourly rates for various labor categories allows the team to work directly at the price level when developing an estimate, rather than having to build up prices from base labor hourly rates and then adding indirect expenses and profit to arrive at final prices. Using published resource prices also has the advantage of showing the real market value of those resources as opposed to synthesizing final prices from the buildup of base labor rates and adding appropriate burden and profit factors from disparate sources.

### REASONING FROM ANALOGOUS SITUATIONS

To the extent that the proposed consolidation is similar to consolidations undertaken by other government agencies, the acquisition strategy team may be able to estimate benefits by analogy rather than by direct price or cost analysis. Even though the scope or scale of that analogous situation may not be identical to the one being proposed, it may provide a compelling case study and basis for estimat-

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ing the extent of possible benefits. The team likely will have to adjust the scope or scale of the benefits claimed in similar situations to make them more applicable to the present benefit analysis.

## PARAMETRIC ESTIMATION

Occasionally, a benefit analysis requires the acquisition strategy team to estimate something that has not been estimated previously. In those cases, parametric estimating techniques may help the team develop an approximation of the cost or price of the new, contemplated item from its constituent parts. Parametric estimating uses historic relationships between the technical, programmatic, and cost characteristics of a product or service and its price to develop estimates for the new product or service being acquired. The *Parametric Estimating Handbook* clearly illustrates this technique when it states that

detailed cost estimates for manufacturing and test of a hardware assembly can be developed using very precise Industrial Engineering standards and analysis. Performed in this manner, the cost estimating process is laborious and time consuming. However, if history has demonstrated that the test has normally been valued at about 25 percent of the manufacturing cost, then a detailed test estimate is not necessary. The test can simply be valued at 25 percent.<sup>2</sup>

## CAVEATS

The acquisition strategy team should carefully evaluate any economic factors affecting the estimated benefits. For example, it should consider price trends (up or down) caused by market or economic conditions that may affect benefit projections. The team must avoid double counting, which can occur when the same cost is included in two areas. Another caution when estimating cost is the problem of the omission of costs. This occurs when applicable costs are simply overlooked or hidden because of errors made in identifying cost elements. Either of these problems can result in a faulty cost estimate and may call into question the credibility of the benefit analysis.

## Netting and Discounting

In principle, costs attributable to the consolidation are deducted from benefits, and the resulting net benefits are used to meet the threshold tests. In all likelihood, however, most costs associated with the consolidation involve government personnel performing evaluations during the benefit analysis, and these personnel costs would be incurred even if the benefit analysis were not performed; hence, they should not be deducted. On the other hand, costs should be deducted if they

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<sup>2</sup> For a detailed discussion on how to apply parametric estimating techniques, see Parametric Estimating Initiative, *Parametric Estimating Handbook*. Available at <http://www.ispa-cost.org/PEIWeb/newbook.htm>.

were incurred only because of the decision to consolidate the requirements. Some of these costs might include contract termination costs and costs of personnel hired or retained to conduct the benefit analysis.

Discounting is a technique used for converting various cash flows occurring over time to equivalent amounts at a common point in time for comparison. If a consolidated contract has a 1-year period of performance, discounting will not be necessary. When a consolidated contract includes option years, the acquisition strategy team should sum the annual benefits and annual contract award amounts, including the option years. Then, a ratio of these totals can be calculated to determine whether the estimated benefits meet the appropriate threshold. However, if the annual contract award amounts are uneven, it is more proper to discount the annual streams using the government's discount rate. The threshold ratio or percentage would then be calculated as the ratio of the present value of benefits to the present value of contract values. The discount rate is published in OMB Circular A-94, Appendix C (available online at [www.whitehouse.gov/omb/circulars/a094/a94\\_appx-c.html](http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html)).

## SOURCES OF DATA FOR ESTIMATING BENEFITS

### Government Sources

A good starting point for obtaining data required to perform a benefit analysis is the organization's comptroller (or resource management) team. The comptroller's team may save the acquisition strategy team not only time, but also the expense of researching data such as an activity's overhead and personnel costs.

For requirements that are unique to the government, or where special pricing such as a supply schedule has been arranged for government purchases, the acquisition strategy team will need to conduct market research of the federal marketplace. The subsections below describe the major sources of data on pricing, terms and conditions, acquisition cycle time, and quality and performance metrics for products and services previously acquired by the government or now available in the federal marketplace.

### FEDERAL PROCUREMENT DATA SYSTEM – NEXT GENERATION AND CONTRACT ACTION REPORTS

The Federal Procurement Data System – Next Generation (FPDS-NG) records all federal contract data over \$3,000. Standard reports from this system are accessible online at <https://www.fpds.gov>. DoD Procurement Reports are also available at <http://siadapp.dmdc.osd.mil>. For each contract action, these systems report the buying office, the supplier, the value of the contract action, and the type of good or service provided by Federal Procurement Classification Code. Thus, it is possible to identify prior DoD or government-wide experience in acquiring products or

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services comparable to those being contemplated by the consolidated or bundled requirement.

These databases are not sufficient in themselves to give the acquisition strategy team the details of the various benefits to be expected from consolidating the requirements. These systems capture the total dollar value of the reported action, the buying office, the performing supplier, and the contract number. The analyst can inquire back to the buying organization to see whether its record of the action contains information relevant to the results that can be expected from the consolidation.

The following example shows how the FPDS-NG system could be used to develop information relevant to the benefit analysis:

A major command is considering consolidating the repair and maintenance of its information technology equipment and supplies to reduce costs and improve the quality of user support. The resulting contract will be large, exceeding \$15 million in value annually. A sort through the Contract Action Reports for awards with similar activity (service code 5070, maintenance and repair of ADP equipment and supplies) reveals 14 actions in excess of \$15 million in FY00. Fourteen distinct contractors performed the contracts. The data available from the Contract Action Report (CAR, formerly known as the DD-350) records identify each contractor, the location of the contractor's organization performing the service, and the point of contact. In addition, the records indicate the purchase office and its location. Details about the transaction include value, contract type, and the kind of action (e.g., modification or order under ID/IQ).

The largest award in FY00 for maintenance and repair of ADP equipment was to IBM in Bethesda, MD, by the Defense Information Systems Agency, National Capital Region, for a firm-fixed price of \$124 million. The smallest award in the range was to NCI Information Systems, Inc., McLean, VA, by the Defense Logistics Agency (DLA), Administrative Support Center, Fort Belvoir, VA, for a firm-fixed price of \$15 million.

## FEDERAL SUPPLY AND OTHER SCHEDULES

Another excellent source of data on prices, terms and conditions, acquisition lead-times, and other matters relevant to determining benefits are the various supply schedules available from GSA, DoD, and other federal agencies. These schedules generally are arranged by Federal Supply Category. For each category, the schedules list suppliers that are qualified as sources and have been awarded contracts. In most cases, supplier catalogs are linked to the schedule to allow searches for price lists, delivery schedules, and other terms and conditions. In particular, pricing information showing quantity discounts, delivery times, and special terms and conditions will help the acquisition strategy team determine benefits likely to be derived from the proposed consolidation.

In addition to schedules for hard-good items, which are arranged by commodity category, there are numerous schedules for services. Examples include schedules for professional services such as engineering, logistics support, and energy management. Because of the nature of services, price information usually is stated in terms of labor categories. Each supplier quotes hourly rates for labor categories that the supplier has defined. This information helps the analyst estimate the cost that the government will incur for the labor utilized on a service contract and the overall cost to the government for the service, based on all of the labor content required to perform it. The acquisition strategy team will need estimates from in-house technical experts as to the labor content and intensity of utilization required to perform the service.

The GSA website ([www.gsa.gov](http://www.gsa.gov)) contains information on how to acquire many of the items that GSA is responsible for providing to government buyers. GSA's online shopping and ordering system, GSA Advantage ([www.gsaadvantage.gov](http://www.gsaadvantage.gov)), provides access to schedules ranging from hard products like automobile parts to services such as environmental advisory services. Each schedule lists suppliers, many of which have their bulletins linked to the GSA site.

Schedules have the added advantage of enabling the acquisition strategy team to identify suppliers that possibly could satisfy the consolidated requirement. Included are small business schedule holders that might be unknown to the buying organization but might well be capable of handling the consolidated requirement, thus making it possible to avoid having the consolidation result in a bundled contract.

## FEDERAL BUSINESS OPPORTUNITIES

Publishing a request for information on FedBizOpps ([www.fedbizopps.gov](http://www.fedbizopps.gov)) can prove an excellent approach to obtaining market research data. FedBizOpps has been designated as the single source for federal government procurement opportunities that exceed \$25,000.

## E-MALL

The DLA Electronic Commerce Mall (E-Mall) is a specialized website that provides pricing and related data and enables ordering by government buyers. E-Mall integrates multiple catalogs into a single site covering parts and supplies, information technology, and training services. Available suppliers have ID/IQ contracts in place with DoD that are integrated with a search engine and ordering systems. E-Mall is located at <http://www.dlis.dla.mil/emall.asp>.

## OMB CIRCULAR A-76

In some cases, it may be necessary to calculate consolidation savings arising because some personnel resources are no longer required for performing certain administrative or operational functions. OMB Circular A-76 can be instrumental for

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these calculations. Usually the reduced level of effort can be estimated by obtaining the salaries (grade levels) of the personnel performing the functions. To obtain full costs, hourly rates must be computed to reflect not only salaries but also fringe benefits and related overhead costs. Guidance on the rates can be found in the circular, which is available online at [http://www.whitehouse.gov/omb/circulars/a076/a76\\_incl\\_tech\\_correction.html](http://www.whitehouse.gov/omb/circulars/a076/a76_incl_tech_correction.html).

## PARAMETRIC ESTIMATING HANDBOOK

The second edition of the *Parametric Estimating Handbook* is a comprehensive guide for government acquisition professionals who prepare, evaluate (perform technical evaluations and contract audits), or negotiate proposals by using parametric estimating techniques. The handbook also is an excellent source for understanding how to apply these techniques to various categories of products and services when performing a benefit analysis. The handbook is available online at <http://www.ispa-cost.org/PEIWeb/newbook.htm>.

## DOD CONTRACT PRICING REFERENCE GUIDES

DoD's Contract Pricing Reference Guides are available online at <http://www.acq.osd.mil/dpap/contractpricing/> and are designed to provide guidance for DoD personnel engaged in analyzing and negotiating contract prices. The information in these guides is based on the policies and procedures of the FAR and the DoD FAR Supplement.

## Private-Sector Sources<sup>3</sup>

The acquisition strategy team likely will make substantial use of private-sector data sources to quantify the expected benefits of a potential consolidation. In many instances, program and technical personnel familiar with sector/industry resources can help identify pricing and related data required for estimating benefits. Program personnel often attend industry conferences, subscribe to specialized trade publications, and generally stay in touch with developments in their sectors of interest.

In addition to sources suggested by program and technical personnel, a number of sources are available on the Internet. This capability expands daily in terms of both the information available and the ease with which required information can be searched for and located.

A key objective is to identify supplier catalogs that provide prices, delivery schedules, terms and conditions, and quality attributes. The market research effort is highly efficient because of the availability of such data online. To locate supplier catalogs online, the acquisition strategy team can use generally available

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<sup>3</sup> These Internet sites are provided for the reader's convenience only. They are by no means the only sites available. Furthermore, their identification in this guidebook does not constitute an endorsement.

search engines such as AltaVista, Google, and Lycos. Besides such standard searches, a number of business-to-business (B2B) and electronic commerce (e-commerce) sites can provide data useful for estimating the benefits of potential consolidations. Many sites include offers to sell, and much of the information associated with those offers can help estimate benefits. The subsections below identify some of the well-known B2B sites. B2B and e-commerce are growing very quickly, and the number of relevant sites and their listings and capabilities are expected to expand rapidly.

#### COVISINT (AUTOMOBILE)

Covisint serves the procurement, development, and supply chain management needs of the automotive industry. Automotive supplies and components are listed and available for purchase. The site can be found at [www.covisint.com](http://www.covisint.com).

#### EXOSTAR

Exostar is a provider of integrated supply-chain solutions to the aerospace and defense industry. The site is available at [www.exostar.com](http://www.exostar.com).

#### GRAINGER

Grainger is a distributor of maintenance, repair, and operating supplies, services, and information. Grainger operates an electronic catalog and ordering capability at [www.grainger.com](http://www.grainger.com).

#### HAYSTACK/CATALOG XPRESS

Haystack, a product of IHS Engineering, provides comprehensive technical information on more than 100 million active and historical items in the Federal Supply Catalog and related databases. In addition, IHS offers a full-text search capability covering more than 300,000 catalogs and over 500,000 manufacturers. This capability is called Catalog Xpress. Visitors to the site can search catalogs by keyword, part number, model number, brand name, industry standard, or military specification, and they can locate distributors and link directly to the manufacturers' websites. Haystack and CatalogXpress can be found at [www.ihsengineering.com](http://www.ihsengineering.com).

#### INSTILL

Instill operates a website at [www.instill.com](http://www.instill.com) to link buyers and sellers in the food service industry.

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## ABILITYONE PROGRAM (FORMERLY JAVITS-WAGNER-O'DAY PROGRAM (JWOD))

The AbilityOne Program Act favors purchasing products and services provided by nonprofit agencies that employ people who are blind and other workers with disabilities. The AbilityOne website (<http://www.abilityone.gov>) offers information on how to buy these products and services, and it offers searchable product and service lists.

## PARTSBASE

PartsBase is a marketplace for aircraft parts. Sellers post their parts inventories, including part number, description, condition code, and on-hand stock list. Some national stock numbers (NSNs) also are listed. Prospective buyers search by part number and can direct requests for quotations (RFQs) to sellers that they identify as potentially having the right part. The site includes government part procurement histories. PartsBase is located at [www.partsbase.com](http://www.partsbase.com).

## SPEC2000

The Airline Transportation Association of America created a website to support the buying and selling of aircraft parts and repair services. This site is the industry's official industry standard e-commerce site. Suppliers list products and services offered, including prices, lead-times, and specifications. Buyers and sellers can exchange RFQs, quotations, purchase orders, invoices, and shipping notices. The site is open to many types of buyers, including airlines, manufacturers, distribution brokers, and repair organizations. It is located at [www.Spec2000.com](http://www.Spec2000.com). (A related site, Aeroxchange, is located at [www.aerexchange.com](http://www.aerexchange.com).)

## Appendix E

# Maximizing Small Business Participation

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A best practice for government buyers is to develop an acquisition strategy that will make the best use of small businesses as prime contractors. As a member of the acquisition strategy team, you must strive for the right balance among competing program goals to maximize small business opportunity. This starts with good planning. Any strategy that begins without a plan for small business participation is more likely to result in a consolidation that excludes them. In this appendix, we tell you how to include opportunities for small businesses in the early stages of your acquisition. We also include tips on mitigating the negative impact of bundling on small business.

## ENSURE EARLY INVOLVEMENT OF SMALL BUSINESS SUBJECT MATTER EXPERT

It is important for the acquisition strategy team to begin with the understanding that, as outlined in Appendix A, the bundling and consolidation regulations originated from a concern about the impact of large procurements on small business opportunities to participate in federal procurements. Therefore, when planning an acquisition that consolidates requirements, it is critical to include small business subject matter experts—the respective contracting activity’s SBS and SBA representative—at the start of the planning process. Whenever possible, they should be on the acquisition strategy team. Planning acquisitions without their input can lead to problems that are costly and more difficult to resolve later in the process. This is particularly true for acquisitions that are likely to result in the bundling of requirements.

The SBS can suggest, in the early stages of the process, acquisition strategies to avoid unnecessary and unjustified bundling. The SBA Procurement Center Representative (PCR) is another important subject matter expert. If a PCR is not available, the team can find information on how to contact an alternate source through the SBA Office of Government Contracting Area Office at the SBA website (<http://www.sba.gov/aboutsba/sbaprograms/gc/index.html>).

## IMPLEMENT STRATEGIES THAT AVOID BUNDLING AND RESULT IN A LESSER DEGREE OF CONSOLIDATION

Contract consolidation has the potential to save the government time and expense. Generally, however, the larger the consolidation, the more likely it is to displace small businesses. This guidebook stresses the need to avoid bundling whenever

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practicable and to implement acquisition strategies that result in lesser degrees of consolidation.

The following are some examples of possible acquisition strategies:

- ◆ *Remove obstacles to small business participation by configuring solicitations to be small business friendly.* For example, if practicable, divide requirements into smaller geographic requirements or quantities or adjust delivery schedules to increase the likelihood of small business participation. Unbundle dissimilar requirements (e.g., food service and shipbuilding). This strategy avoids bundling and lessens the degree of consolidation by breaking requirements into smaller parts.
- ◆ *Conduct industry forums or presolicitation conferences to determine small business interest and obtain suggestions for potential strategies that will allow small businesses to participate as prime contractors.* This strategy not only brings in additional suggestions for reducing the degree of consolidation, but also potentially increases competition by identifying prospective small business prime contractors.
- ◆ *Make further inquiries into the capabilities of small businesses using the Central Contractor Registration System (<http://www.ccr.gov>).* This system, which replaced the former SBA PRO-Net system, offers a dynamic small business search feature that allows you to search for potential sources through a variety of options. This strategy potentially increases competition by identifying prospective small business prime contractors.
- ◆ *Structure solicitations to give offers from small business prime contractors the highest rating for the evaluation factors in FAR 15.304(c)(3)(iii) regarding small business subcontracting past performance and (c)(5) regarding small business subcontracting plans.<sup>1</sup>* This strategy has the effect of enhancing small business participation as prime contractors.
- ◆ *Encourage teaming arrangements or joint ventures involving two or more small businesses.<sup>2</sup>* For bundled requirements, the small business size standard is applied to the individual people or concerns, not to the combined assets of the joint venture. This strategy allows small businesses to leverage their capabilities to participate at the prime level without invalidating their status as small businesses.
- ◆ *Take into account circumstances that may negatively affect the small business supplier base.* For example, the preservation of potential small business sources may be a significant consideration for avoiding large

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<sup>1</sup> FAR 15.305(a)(5).

<sup>2</sup> People or concerns are allowed to combine together in a joint venture as defined by FAR 19.101(g) in order to obtain a bundled government contract as long as each one individually meets the small business size standard contained in the solicitation.

consolidations or bundling. If consolidation or bundling will cause irreparable harm to the small business supplier base, it should be avoided. By focusing on maintaining a healthy small business supplier base, this strategy avoids consolidations harmful to the small business community.

## MITIGATE CONSOLIDATIONS THAT RESULT IN BUNDLING

Consolidations that result in bundling displace small businesses. Even if bundling can be justified by its anticipated benefits, acquisition strategy teams should strive to mitigate its impact on small businesses. Acquisition strategies that increase small business subcontracting opportunities should focus on the entire acquisition process—from the pre-award stage to post-award. That is, to maximize small business participation, the team should develop a strategy that results not only in the setting of goals, but also in tactics to ensure the achievement of these goals.

The following subsections present acquisition strategies to mitigate bundling in the pre-award and post-award stages.

### Pre-Award Strategies

The following are some pre-award strategies to mitigate the effects of bundling:

- ◆ *Conduct industry outreach forums (e.g., matchmakers) in conjunction with prospective (large) prime contractors to determine small business interest and capabilities as subcontractors.* This strategy provides for a team approach to outreach via the government and large contractors to prospective small business subcontractors.
- ◆ *Promote the subcontracting of “high-tech” requirements by offerors to small businesses by ensuring that, when appropriate, solicitations contain a separate evaluation factor or subfactor to encourage this behavior.* This strategy provides an incentive to prospective large prime contractors to consider small businesses in their make-versus-buy and subcontract planning processes.
- ◆ *Encourage offerors to make subcontracting opportunities public in the Federal Business Opportunities (FedBizOpps), Subcontracting Network (SUB-Net), or other communication media.* The FedBizOpps website is available at <http://www.fedbizopps.gov>. The SUB-Net website (<http://web.sba.gov/subnet/>) provides a free forum where prime contractors post subcontracting or teaming opportunities. This strategy provides more visibility for opportunities to team or subcontract.

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The following strategies provide greater incentive to prospective large contractors to increase subcontracting with small businesses:

- ◆ *Structure full and open solicitations and evaluation criteria that encourage teaming with small businesses and aggressive small business subcontracting.*
- ◆ *When there is a significant opportunity for subcontracting, in a full and open solicitation, include a factor to evaluate past performance, indicating the extent to which the offeror attained applicable goals for small business participation under contracts that required subcontracting plans (15 U.S.C. 637(d)(4)(G)(ii))<sup>3</sup> and a factor to evaluate proposed small business subcontracting participation in the subcontracting plan.<sup>4</sup> These factors should represent a meaningful part of the total evaluation.*
- ◆ *Give evaluation points and greater credit to offerors that have identified, by name, protégé firms,<sup>5</sup> small business teaming partners, joint ventures, or other small business subcontractors in their proposals.*
- ◆ *Consider establishing an award fee or other incentive that rewards contractors for meeting or exceeding goals in subcontracting plans.<sup>6</sup> Consider using quantitative evaluation factors, rather than qualitative factors, as criteria for assessing subcontracting plan performance. If the subcontracting performance is just one part of an award fee or other incentive arrangement, it should represent a meaningful part of the total evaluation.*
- ◆ *Consider incentives that might motivate prime contractors to provide substantial subcontracting opportunities to small businesses. For example, consider the exercise of an option to extend the term of the contract being contingent on the achievement of identified aggressive small business subcontracting goals.*
- ◆ *As part of the source selection, consider requiring offerors (large businesses) to submit previous subcontracting plans and associated Standard Forms 294/295 to demonstrate their performance in subcontracting to small businesses.*
- ◆ *Negotiate an aggressive subcontracting plan with the prospective prime contractor. This requires knowledge of the contractor, the industry, and the activity's small business goals. The contracting officer should obtain information available from the cognizant contract administration office and evaluate the offeror's past performance in awarding small business*

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<sup>3</sup> FAR 15.304(c)(3)(iii).

<sup>4</sup> FAR 15.304(c)(5).

<sup>5</sup> Refers to small businesses that are participating as protégés under a mentor-protégé program.

<sup>6</sup> FAR 19.705-1 and 52.219-10 provide one example of an incentive arrangement.

subcontracts for the same or similar products or services.<sup>7</sup> The contracting officer also must notify the SBA PCR of the opportunity to review the proposed subcontracting plan.<sup>8</sup> In addition, establishing subcontracting goals in relation to the contract's total dollar value rather than in relation to the prime contractor's planned subcontract dollars may enhance small business subcontracting opportunities.

- ◆ *When feasible, include language in the solicitation that requires the prime contractor to direct a certain percentage of each labor category to small businesses.*
- ◆ *Ensure that the solicitation and contract address the method for monitoring small business performance.* Aside from the standard subcontract plan reporting requirements, the prime contractor should be required to address performance toward its small business goals in any planned periodic program reviews. The contracting officer should request a subcontracting report if another organization has responsibility for monitoring subcontracting plan performance.
- ◆ *Ensure that an acceptable subcontracting plan is incorporated into, and made a material part of, the contract.*<sup>9</sup> In accordance with FAR 19.705-7, ensure that the solicitation and contract provide for the 15 U.S.C. 637(d)(4)(F) requirement regarding liquidated damages when the contractor fails to make a good-faith effort to comply with its subcontracting plan.

## Post-Award Strategies

The following are some post-award strategies to mitigate the effects of bundling:

- ◆ *Regularly monitor the prime contractor's subcontracting performance as provided in the contract.* This strategy ensures there are no surprises at the end of the period of performance.
- ◆ *Consider having face-to-face meetings with representatives from the prime contractor and SBA.* It is important to have not only the prime contractor's small business representative, but also a senior member of its project management organization, in attendance at each meeting. This signals the importance of meeting subcontracting goals to the large business prime contractor.
- ◆ *In the early stages of the contract, consider meeting frequently (e.g., monthly) to ensure that the prime contractor gets off to a good start toward meeting subcontracting goals.* Create a checklist from the subcontracting plan as a road map for the meetings, to monitor compliance. More

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<sup>7</sup> FAR 19.705-4(d)(1).

<sup>8</sup> FAR 19.705-5(a)(3).

<sup>9</sup> FAR 19.705-5(a)(5).

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dialogue—early on—will provide the prime contractor an opportunity to improve performance, if necessary, before final appraisals are given. Report progress (or lack thereof) to the contractor’s senior management. This strategy helps ensure that the prime contractor starts off on the right footing.

- ◆ *Consider requiring a substitution letter that spells out the prime contractor’s rationale for any anticipated changes from small businesses that are identified by name in the offeror’s proposal.* This strategy guards against “bait and switch,” a practice that occurs when a large contractor names a small business in its proposal and then releases the business after award.
- ◆ *Use the Contractor Performance Assessment Reporting System (CPARS) to document the contractor’s performance in small business subcontracting.* The CPARS offers a consistent means for tracking a contractor’s performance in meeting small business subcontracting plans and makes this information easily accessible to other contracting officers.

## SUMMARY

The strategies described in this appendix can help lessen the impact of consolidations, avoid bundling entirely, and mitigate the impact on small business of bundling that is necessary and justified. Acquisition strategy teams should actively involve small business subject matter experts early and throughout the acquisition process. These individuals include small business specialists, SBA PCRs, and representatives from the Office of Government Contracting Area Office. They can recommend acquisition strategies to enhance small business participation at both the prime and subcontracting levels. Strategies to avoid bundling include conducting industry forums to determine small business interest in participating as primes, making multiple awards using small business set-aside procedures, and encouraging teaming or joint venturing between and among small businesses.

To mitigate the effects of bundling, the acquisition strategy team should develop strategies for the pre-award and post-award stages of the acquisition. In the pre-award stage, the team should place appropriate emphasis on small business subcontracting performance during the source selection, including the establishment of aggressive subcontracting goals and incentives. Also, the team should be aware that more time and attention often is given to setting subcontracting goals than monitoring the realization of these goals or enforcing the plan requirements. To have a successful mitigation plan, monitoring the prime contractor’s subcontracting performance cannot be taken for granted. Acquisition strategy teams should implement a process (established during the pre-award stage) for ensuring the prime contractor’s achievement of subcontracting goals and enforcement of any resultant subcontracting plan, using CPARS to document the contractor’s performance in subcontracting.

# Appendix F

## Checklists

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This appendix provides the acquisition strategy team with some basic checklists to aid in complying with the bundling and consolidation regulations. Completed checklists may be incorporated in contract files or used as a means to assure the contracting officer that all regulatory requirements have been met.

These checklists are as follows:

- ◆ Checklist 1: Applicability of Consolidation and Bundling
- ◆ Checklist 2: Consolidation Regulations
- ◆ Checklist 3: Consolidation and Bundling Regulations
- ◆ Checklist 4: Bundling Regulations.

Checklist 1 provides an overview of both consolidation and bundling and a means for determining if a specific acquisition meets the regulatory definition of one or both terms. In addition, it enables the acquisition strategy team to determine if, in fact, the consolidation and/or bundling regulations will apply to the proposed acquisition.

Checklists 2 through 4 provide a detailed means for assuring the acquisition strategy team that all appropriate requirements have been met. Because the individual circumstances of each acquisition may differ, the checklists have been tailored to meet three possible alternatives:

- ◆ Checklist 2 is utilized when the acquisition has been determined to be a consolidation but not a bundled requirement and consolidation regulations apply. This checklist may also be used when the acquisition is both consolidated and bundled but the bundling regulations do not apply.
- ◆ Checklist 3 is utilized when the acquisition has been determined to be both a consolidation and a bundled requirement and both the consolidation and bundling regulations apply to the acquisition.
- ◆ Checklist 4 is utilized when only the bundling regulations apply to the acquisition. This is most likely to occur when a consolidated and bundled requirement is under the threshold for applicability of consolidation regulations (\$5.5 million).

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These checklists are meant to be an aid to the acquisition strategy team, but they are not meant to be a substitute for becoming familiar with the regulations. The team should refer to the FAR and DFARS regulatory coverage and this guidebook for further information on how to proceed with acquisitions that may be consolidated and/or bundled.

# Checklist 1: Applicability of Consolidation/Bundling

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This checklist is used to determine if a proposed acquisition is a consolidation and or a bundled acquisition and if the appropriate regulations apply.

Acquisition: \_\_\_\_\_



## Part A: Is the proposed acquisition a consolidation?

- The solicitation will satisfy two or more requirements of the department, agency, or activity.
- The requirements being consolidated were previously performed under two or more separate contracts.  
*If the proposed acquisition meets both criteria, it is a consolidation.*
- The total value of the award exceeds \$5.5 million.  
*If the proposed consolidation exceeds \$5.5 million, the consolidation regulations apply to this acquisition.*



## Part B: Is the proposed acquisition bundled?

- The solicitation will result in a consolidation (see Part A).
- One or more of the requirements being consolidated was previously provided or performed by a small business concern or could have been provided or performed by a small business concern.
- The resulting contract is likely to be unsuitable for award to small business.  
*If the proposed consolidation meets all of the foregoing criteria, it is a bundled acquisition.*
- All or some portion of the work will be performed or awarded in the United States.  
*If all or some of the work will be performed or awarded in the United States, the bundling regulations apply to this acquisition.*
- The resulting contract or order will have an estimated value of \$7.5 million or more.  
*If the estimated value is \$7.5 million or more, the bundled acquisition is "substantial bundling" and must comply with appropriate regulations.*



## Summary (check all that apply):

The proposed acquisition:

- Is a consolidation and a bundle.
- Is a consolidation but not a bundle.
- Must comply with consolidation regulations.
- Must comply with bundling regulations.
- Must comply with substantial bundling regulations.

## Checklist 2: Consolidation Regulations

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*This checklist is used to determine if the proposed acquisition has complied with all appropriate consolidation regulations. It is used for an acquisition that is consolidated (but not bundled) and must comply with all consolidation regulations.*

**Acquisition:** \_\_\_\_\_



### Part A: Market Research

- Identified, from a review of acquisition history, the firms that previously performed or provided the requirements that are being consolidated.
- Identified potential sources for the proposed acquisition and documented the market research in the contract file.
- Identified and documented feasible alternative strategies that would involve a diminished degree of consolidation.



### Part B: Benefit Analysis

- Identified the anticipated benefits to be derived from consolidating the requirements.
- Identified the anticipated benefits to be derived from each feasible alternative strategy.
- Compared the anticipated benefits of the proposed and alternative strategies.
- Performed a benefit analysis.
- Documented that benefits of the proposed strategy “substantially exceed” the benefits of each of the alternative strategies.
- Documented in the acquisition strategy the rationale for not choosing each of the alternative strategies.



### Part C: Small Business Action Plan

- Acquisition structured, as much as practicable, to facilitate competition by and among small businesses.
- For acquisitions with an estimated value of \$7.5 million or more:* Acquisition strategy coordinated with the activity small business specialist.
- Recommended:* Developed a small business action plan with specific steps to encourage small business participation as prime contractors and subcontractors.



## **Part D: Determination and Documentation**

- Senior Procurement Executive (or designee in accordance with agency regulations) determined that the consolidation is necessary and justified (benefits “substantially exceed” benefits of alternative strategies).
  
- The following documents are in the contract file:
  - Market research
  - Identification of specific benefits expected to accrue as a result of the consolidation
  - Benefit analysis
  - Alternative strategies and rationale for not choosing them
  - Small business action plan
  - SPE determination.

## Checklist 3: Consolidation and Bundling Regulations

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*This checklist is used to determine if the proposed acquisition has complied with all appropriate consolidation and bundling regulations. It is used for acquisitions that are both consolidated and bundled and must comply with both sets of regulations.*

**Acquisition:** \_\_\_\_\_



### Part A: Market Research

- Identified, from a review of acquisition history, the firms that previously performed or provided the requirements that are being consolidated.
- Notified, *at least thirty days prior to the release of the solicitation*, small businesses that may be displaced by the acquisition of the government's intent to bundle these requirements. Included instructions on how to contact the SBA.
- Identified potential sources for the proposed acquisition.
- Consulted with the SBA and the activity small business specialist.
- Identified and documented feasible alternative strategies that would involve a diminished degree of consolidation.
- For acquisitions involving substantial bundling (\$7.5 million or more)*: Identified, with the assistance of the small business specialist, feasible alternative strategies that would reduce or minimize the scope of bundling



### Part B: Benefit Analysis

- Identified the anticipated benefits to be derived from consolidating the requirements.
- Identified the anticipated benefits to be derived from each feasible alternative strategy.
- Compared the anticipated benefits of the proposed and alternative strategies.
- Conducted benefit analysis or A-76 cost study cost comparison.
- Documented that benefits of the proposed strategy "substantially exceed" the benefits of each of the alternative strategies.
- Documented that benefits of the proposed strategy are "measurably substantial."
- Documented in the acquisition strategy the rationale for not choosing each of the alternative strategies that would involve a diminished degree of consolidation.
- For acquisitions involving substantial bundling (\$7.5 million or more)*: Documented the rationale for not choosing alternative strategies that would reduce or minimize the bundling.



## Part C: Small Business Action Plan

- Structured acquisition, as much as practicable, to facilitate competition by and among small businesses.
- For substantially bundled acquisitions (\$7.5 million or more):* Assessed the specific impediments to small business participation in the solicitation.
- For substantially bundled acquisitions:* Developed small business action plan to maximize small business participation as contractors, including efforts that encourage small business teaming.
- For substantially bundled acquisitions:* Outlined the specific steps to be taken to ensure participation by small businesses as subcontractors.
- If there is a significant opportunity for subcontracting:* Included the following in the acquisition:
  - A factor to evaluate past performance indicating the extent that the offeror attained prior small business participation goals under former contracts
  - A factor to evaluate the proposed small business subcontracting utilization
  - A provision ensuring that offers from small businesses receive the highest rating for the two preceding factors.
- For acquisitions with an estimated value of \$7.5 million or more:* Coordinated acquisition strategy with the activity small business specialist.



## Part D: Determination and Documentation

- Contracting officer determined that the bundling is necessary and justified because the government derives “measurably substantial benefits” from the bundled acquisition as compared to the benefits derived from contracting to meet the same needs without bundling.
- or**
- If there is a compelling need to issue the solicitation:* SAE or USD(AT&L) determined that the benefits to be derived from bundling are critical to mission success and the acquisition strategy provides for maximum practicable participation by small business concerns.
  - Senior Procurement Executive (or designee in accordance with agency regulations) determined that the consolidation is necessary and justified (benefits “substantially exceed” benefits of alternative strategies).
  - The following documents are in the contract file:
    - Market research
    - Identification of specific benefits expected to accrue as a result of the bundling
    - Benefit analysis or A-76 cost comparison
    - Alternative strategies and rationale for not choosing them
    - Assessment of specific roadblocks to small business participation
    - Small business action plan

- Contracting officer or SAE/USD(AT&L) determination
- SPE determination.

## Checklist 4: Bundling Regulations

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*This checklist is used to determine if the proposed acquisition has complied with all appropriate bundling regulations. It is used for acquisitions that are both consolidated and bundled but must comply with only the bundling regulations.*

**Acquisition:** \_\_\_\_\_



### Part A: Market Research

- Identified, from a review of acquisition history, the firms that previously performed or provided the requirements that are being consolidated.
- Notified, *at least 30 days prior to the release of the solicitation*, small businesses that may be displaced by the acquisition of the government's intent to bundle these requirements. Included instructions on how to contact the SBA.
- Identified potential sources for the proposed acquisition.
- Consulted with the SBA and the activity small business specialist.
- For acquisitions involving substantial bundling (\$7.5 million or more)*: Identified, with the assistance of the small business specialist, feasible alternative strategies that would reduce or minimize the scope of bundling.



### Part B: Benefit Analysis

- Determined the anticipated benefits to be derived from bundling the requirements.
- Determined the anticipated benefits to be derived from each feasible alternative strategy that has been identified.
- Compared the anticipated benefits of the proposed and alternative strategies.
- Conducted benefit analysis or A-76 cost comparison.
- Documented that benefits of the proposed strategy are "measurably substantial."
- For acquisitions involving substantial bundling (\$7.5 million or more)*: Documented the rationale for not choosing alternative strategies that would reduce or minimize the bundling.



### Part C: Small Business Action Plan

- Structured acquisition, as much as practicable, to facilitate competition by and among small businesses.
- For substantially bundled acquisitions (\$7.5 million or more)*: Assessed the specific impediments to small business participation in the solicitation.

- For substantially bundled acquisitions:* Developed small business action plan to maximize small business participation as contractors, including efforts that encourage small business teaming.
- For substantially bundled acquisitions:* Outlined the specific steps to be taken to ensure participation by small businesses as subcontractors.
- If there is a significant opportunity for subcontracting:* Included the following in the acquisition:
  - A factor to evaluate past performance indicating the extent that the offeror attained prior small business participation goals under former contracts
  - A factor to evaluate the proposed small business subcontracting utilization
  - A provision ensuring that offers from small businesses receive the highest rating for the two preceding factors.
- For acquisitions with an estimated value of \$7.5 million or more:* Coordinated acquisition strategy with the activity small business specialist.



## **Part D: Determination and Documentation**

- Contracting officer determined that the bundling is necessary and justified because the government derives “measurably substantial benefits” from the bundled acquisition as compared to the benefits derived from contracting to meet the same needs without bundling.
- or**
- If there is a compelling need to issue the solicitation:* SAE or USD(AT&L) determined that the benefits to be derived are critical to mission success and the acquisition strategy provides for maximum practicable participation by small business concerns.
  - The following documents are in the contract file:
    - Market research
    - Identification of specific benefits expected to accrue as a result of the bundling
    - Identification of alternative strategies, if appropriate, and rationale for not choosing them
    - Benefit analysis or A-76 cost comparison
    - Assessment of specific roadblocks to small business participation
    - Small business action plan
    - Contracting officer or SAE/USD(AT&L) determination.