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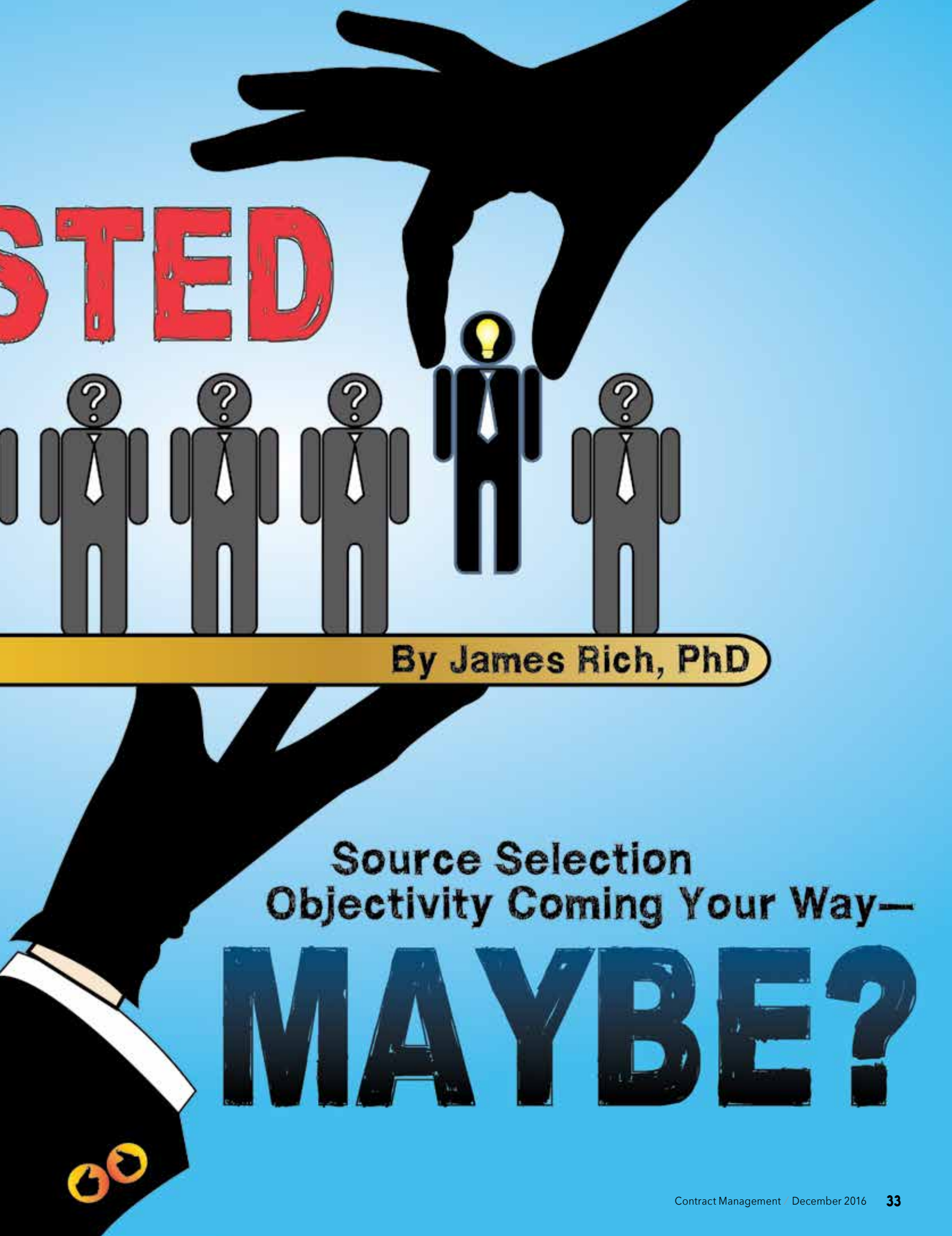


By James Rich, PhD

Source Selection Objectivity Coming Your Way—MAYBE?

Effective April 1, 2016, the Department of Defense (DOD) released new Source Selection Procedures (SSP).[1] The SSP rescinded the DOD SSP issued in 2011 and established DOD policy and guidance for conducting competitively negotiated source selections, including the use of a new source selection process—Value Adjusted Total Evaluated Price (VATEP).

A key aim of the new SSP is improving the alignment of the DOD source selection process with the initiatives set forth in the several iterations of Better Buying Power (BBP) guidance issued by the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics).[2] A core principle of BBP is seeking improvement in the quality and utility of information the government shares with industry in the acquisition process. SSP directly addresses the goal of providing industry with information on the value, in monetary terms, of higher levels of performance/capability than minimally acceptable or at threshold levels with the establishment of the new VATEP source selection process.

This article examines the concept and mechanics of VATEP and the nexus between VATEP and BBP. Given that the guidance on VATEP is relatively new, there is very little operational field data on VATEP at this time. There is, however, a rich history of the challenges posed by the subjective nature of the source selection tradeoff process and attempts to impose on that process a disciplined, mathematical objectivity without disincentivizing innovation. VATEP works to achieve that balance by revealing in the request for proposals (RFP) what the government is willing to pay for enhanced performance on specific evaluation factors–thus sharing with industry the absolute value assigned to increments of enhanced performance.[3]

Presumably, knowing the exact value the government will place on higher-rated performance criteria allows offerors to develop proposals that more precisely align with the priorities of government and

incentivizes innovative solution sets. So how exactly does VATEP increase levels of objectivity and certainty in the source selection process?

The Pursuit of Objectivity

The pursuit of objectivity has been a consistent theme of VATEP antecedents, primarily BBP releases. Starting with BBP 2.0, DOD initiated a discussion of providing industry information in the RFP that provided insight on how proposed higher levels of performance would be evaluated, to include assigning monetized value to performance increments that exceeded a threshold minimum.[4] The discussion acknowledged that, absent more precise knowledge on what premium the government placed on quality, offerors are driven to propose quality levels that meet only threshold minimums. Conversely, offerors that were provided sufficient information on the government's valuation of performance levels would "know the competitive effect of offering higher levels of performance and bid accordingly."[5] The VATEP process incentivizes offerors to propose quality enhancements because they will know what enhancements are of value to the government and exactly how much value the government will place on them.[6]

When to Use VATEP

The use of VATEP is optional, but if it increases objectivity and incentivizes innovation, what is the process for deciding when to choose VATEP as a source selection strategy? The guidance in the SSP recommends that VATEP may be most appropriate when the requirements officer wishes to optimally balance price and performance/capability above minimum requirements (identified as "threshold" requirements in VATEP) to maximize the achievement of program objectives.[7]

The Role of the Requirements Officer

The role of the requirements officer is expanded in VATEP, where the requirements officer is responsible for:

Identifying whether specific, measurable, above-minimum performance parameters exist for the acquisition;

Determining a commensurate monetary value that can be assigned to parameters for evaluation purposes; and

Establishing threshold performance levels for all evaluation factors.

Threshold performance requirements will be clearly identified in the solicitation and must be met by all offerors or they face elimination from the competitive range.

Performance Requirements and Thresholds

VATEP establishes a ceiling performance level, identified as the "objective level," for those requirements that provide an offeror opportunity to earn evaluation credit—up to an amount specified in the solicitation—for meeting performance requirements between the threshold and the objective level. Factors that provide an opportunity to earn credit for above-threshold performance levels are referenced as "valued requirements." The full value (monetization) of meeting an objective-level requirement is determined by the requirements officer and explicitly revealed in the solicitation.

While there is no specific limitation on the number of valued requirements a solicitation can support, it is recommended that above-threshold requirements be limited to performance criteria factors of "high value" to DOD. As the decision to designate a valued requirement requires both documentation of the initial decision and a defense of the rationale for valuing the above-threshold requirement, the decision to limit valued requirements appears quite practical and will probably be closely adhered to by contracting offices. The pursuit of objectivity should not be accompanied by needless complexity (i.e., *lex parsimoniae*—or, the simpler the better).

Affordability Caps

An affordability cap may be established by the requirements officer with priced proposals exceeding the cap ineligible for award. (Agencies may make the imposition of affordability caps mandatory.) Thus, offerors are informed of:

The exact value the government will pay for meeting objective performance standards, and

The absolute budget of the buy.

In the words of the DOD guidance,

> VATEP is merely a structured technique for objectivizing how some (or all) of the requirements would be treated in the tradeoff process and then communicating that to offerors via the RFP.[8]

Monetization

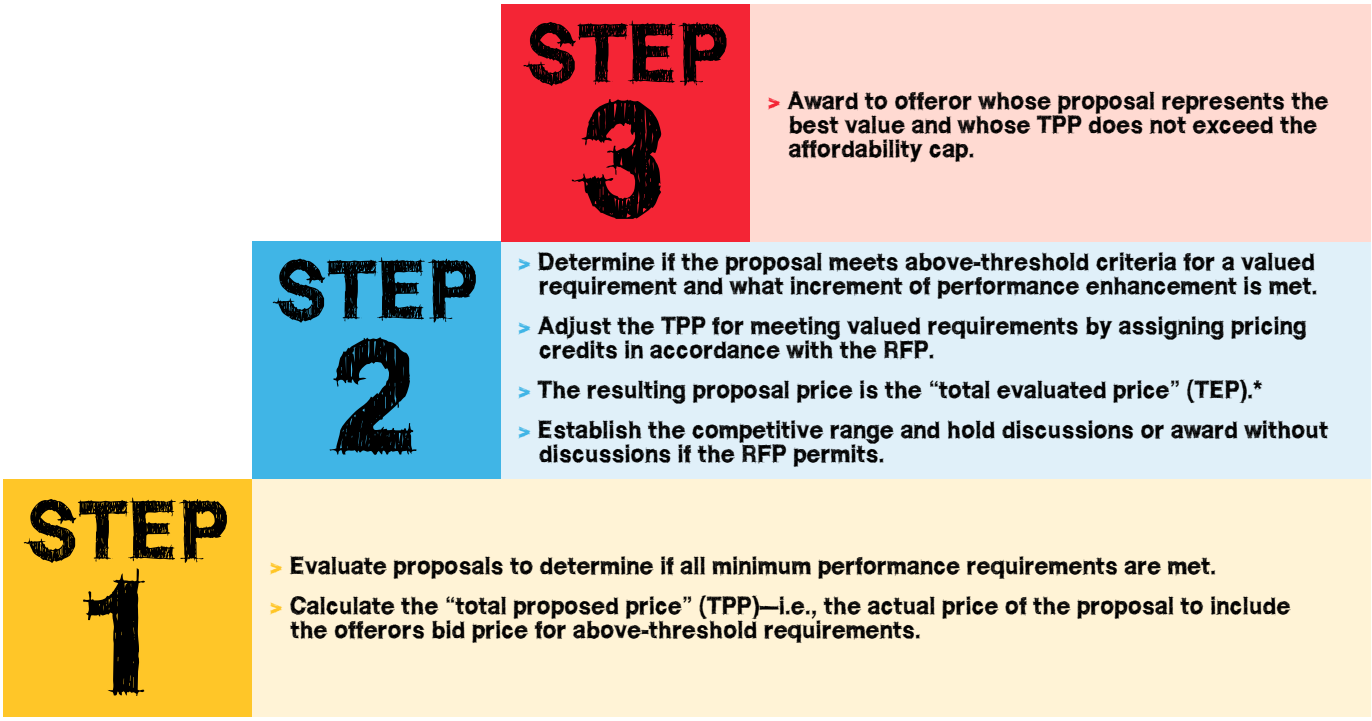
To *monetize* is to convert or express an asset or any object into a form of currency. In VATEP, monetization enables the linkage of cost and value. The monetization of performance increments enables offerors to determine if the cost of offering enhanced performance will improve their chances of success.

To assist offerors and constrain costs, VATEP provides that valued requirements will have a *structured cap*—a maximum performance level above which no credit is allowed. Offerors will have precise knowledge of when to stop pursuing performance increments.

Methodology

FIGURE 1 on page 36 illustrates the basic "step" concepts of the VATEP source selection methodology, while **FIGURE 2** on page 37—taken directly from Appendix B of the DOD SSP—provides a concise illustrative scenario of how VATEP would be applied in a simulated source selection. In the example presented in **FIGURE 2**, both initial and adjusted ratings for price and technical/risk are charted. The adjustments made using objective criteria to adjust TPP(x) to TEP(x1) are identified. (Note that an affordability cap is imposed, as well as an acceptability threshold for technical/risk criteria and other non-cost/price factors.)

In this scenario, "Proposal 1" is rejected for failing to meet the non-cost/price requirement minimums and "offeror 5" is rejected for a price proposal exceeding the affordability threshold. Neither proposal is



**It is important to note that the TEP is for evaluation purposes only and does not change the offeror's TPP for purpose of award.*

FIGURE 1. THE THREE-STEP VATEP SOURCE SELECTION PROCESS

further considered. "Proposal 2" did not propose above-threshold performance criteria, so the TPP and TEP in this proposal are identical. The proposed performance in "Proposal 3" and "Proposal 4" were above the minimum threshold, and the TPPs were adjusted in accordance with the RFP. "Proposal (41)" proposed sufficient above-threshold performance to adjust its TEP to the lowest in the competitive range. As such, in this scenario, award would be made to "Proposal 4" *at TPP*.

When using a VATEP selection process, it is important to note the following:

The solicitation must explicitly identify how objective criteria will be evaluated relative to all other criteria;

For requirements that provide the opportunity to earn evaluation credit, the solicitation should specify the amount of credit associated with different performance levels (increments) between the threshold and objective maximum; and

While VATEP offers greater transparency than a full-on subjective trade-off process, this does not mean that all offerors will agree with the government's prioritization of capabilities or the amount of money it will pay for enhanced capabilities.

From Theory to Practice

Several offices have already made the transition from theory to practice. The following analysis of current solicitations that employ a VATEP source selection strategy provides insight on how that strategy can be applied.

U.S. Air Force Materiel Command

The first example concerns a planned purchase for enhanced combat helmets.[9] The solicitation includes a valued requirement that allows offerors to propose percentage weight reductions, which are then converted to monetized credits. The solicitation provides a maximum weight for helmets of different sizes and a matrix that expresses weight reduction criteria as a percentage of the maximum helmet weight. Offerors may propose weight reductions on some or all helmet sizes, but the product must be submitted to the agency during source selection for confirmation of the proposed weight reduction. Helmets of any size that exceed the agency-determined maximum weight are considered "unacceptable" and excluded from further competition.

FIGURE 3 on page 38 illustrates the confirmed weight of an offeror's helmet submission.[10] The solicitation provides that in the event that the offeror's claimed weight reduction for one helmet size is less than any of the other helmet sizes, the government will adjust the offeror's claimed weight reduction to the helmet size with the lowest percentage reduction. In this scenario, the proposer would receive a six-percent reduction credit for all helmet sizes. The offeror's TEP, for a single helmet of any size, would be "TPP-$30."

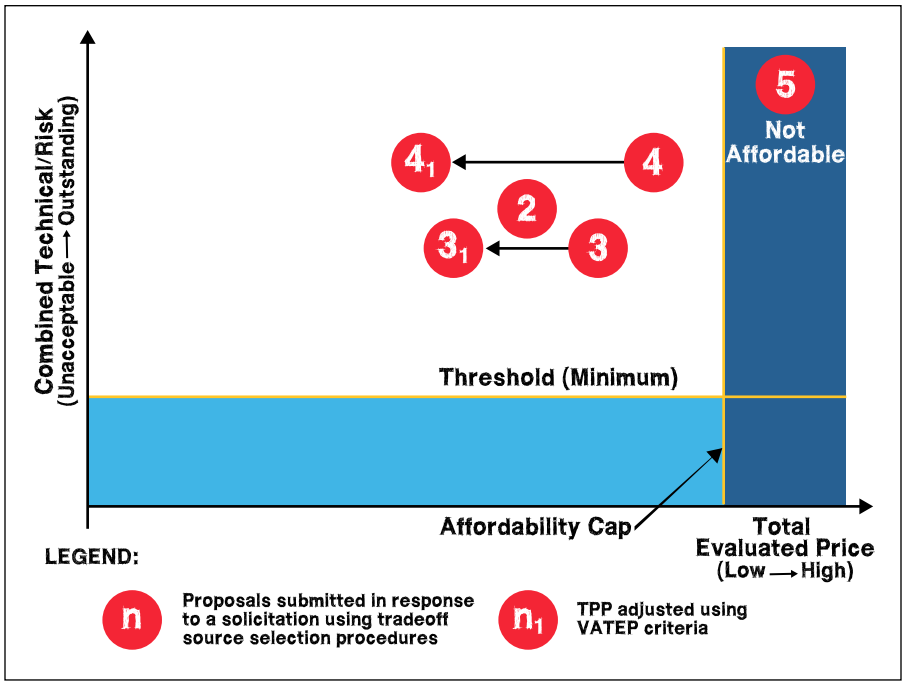


FIGURE 2. DEPARTMENT OF DEFENSE, SOURCE SELECTION PROCEDURES (APRIL 1, 2016), APPENDIX B

U.S. Marine Corps

The second solicitation is for personnel locator beacons.[11] The solicitation provides for above-threshold credits based on *trade space*—defined as the difference of the offeror's demonstrated system reliability and the agency's threshold reliability requirement, which is 90 percent. The solicitation provides the formula to be used to determine the TEP, as well as an example contract award evaluation based on the lowest TEP (as illustrated in **FIGURE 4** on page 38). While the formula is somewhat more complex than that of the helmet buy, the methodology of both evaluations is consistent with that outlined in the DOD SSP.

Analysis

While focus has so far been placed exclusively on the VATEP component of these solicitations, they serve as good examples of how the methodology can be engaged to incentivize innovation in pursuit of:

Size	TEP Adjustment	Small Weight (lbs)	Medium Weight (lbs)	Large Weight (lbs)	X-Large Weight (lbs)
Unacceptable	N/A	>2.94	>3.06	>3.31	>3.88
Max Acceptable	$0	2.94	3.06	3.31	3.88
1% Reduction	$5	2.91	3.03	3.28	3.84
2% Reduction	$10	2.88	3.00	3.24	3.80
3% Reduction	$15	2.85	2.97	3.21	3.76
4% Reduction	$20	2.82	2.94	3.18	3.72
5% Reduction	$25	2.79	2.91	3.14	3.69
6% Reduction	$30	2.76	2.88	3.11	3.65
7% Reduction	$35	2.73	2.85	3.08	3.61
8% Reduction	$40	2.70	2.82	3.05	3.57

FIGURE 3. SOLICITATION M67854-R-1122, SECTION M, TEP ADJUSTMENT TABLE

Specific, understandable quality outcomes;

Product weight reduction; and

System reliability.

The strategy in each case clearly defines where the government is seeking to increase quality or performance and provides offerors precise monetized criteria that should help them develop a proposal in full alignment with the government's priorities for that buy. Not surprisingly, the strategy of each solicitation limits above-threshold performance measurement to a single factor that lends itself to a straightforward mathematical application.

VATEP Coming Your Way—Maybe?

When will we see a broader application of VATEP? As a new procurement strategy, there will likely be a lag between the effective date of the DOD guidance and the issuance of supplemental guidance by DOD contracting offices.

Typically, many offices will not execute VATEP procurements until higher-level supplemental guidance is issued. Because the responsibility to set and price threshold and objective performance criteria rests with the requiring activity, the choice of VATEP as a preferred source selection method will depend largely on the customer's level of expertise in prioritizing and documenting requirements.

Formula		
TEP = TPP - VA = TPP x TSF = Offeror's Demonstrated System Reliability - 90%		KEY: TEP = Total Estimated Price TPP = Total Proposed Price VA = Value Adjustment TSF = Trade Space Factor
Example		
Offeror 1	> TPP = $1,000,000. > Achieves an updated demonstrated system reliability of 95.6%. > TSF = 5.6% (95.6% - 90%). > VA = $56,000 ($1,000,000 x 5.6%).	The resulting TEP is $944,000 ($1,000,000 - $56,000)
Offeror 2	> TPP = $970,000. > Achieves an updated demonstrated system reliability of 91%. > TSF = 1% (91% - 90%). > VA = $9,700 ($970,000 x 1%).	The resulting TEP is $960,300 ($970,000 - $9,700)
In this example, the contract would be awarded to the lowest TEP (Offeror 1) at the offeror's TPP.		

FIGURE 4.

DEFINITIONS

Affordability Caps: The approved cost constraints for major systems acquisitions determined by the resources a Department of Defense component can allocate, which provide a threshold for procurement and sustainment costs that cannot be exceeded. For other procurements, this is the approved funding allocated for a given acquisition.

Best Value: The expected outcome of an acquisition that, in the government's estimation, provides the greatest overall benefit in response to the requirement. (See FAR 2.101.)

Lowest Price Technically Acceptable (LPTA): A process used in competitive negotiated contracting where the best value is expected to result from selection of the technically acceptable proposal with the lowest evaluated price. (See FAR 15.101-2.)

Objective (or Objective (Maximum)): The value of an attribute that is applicable when a higher level of performance delivers significant increased operational effect, or decreased operational risk, if it can be delivered below the affordability cap. The objective value is the desired operational goal that is achievable, but may be at a higher risk in terms of cost, schedule, and/or technology.

Requirements Documents: All aspects of the request for proposals that convey the needs of the government to offerors, including the statement of objectives, the statement of work, the performance work statement, technical requirement documents, and system requirement documents.

Requirements Owner: The entity (e.g., a program management office or other organizational entity) responsible for providing requirements documents within the request for proposals that communicate those requirements to offerors.

Subjective Tradeoff: A source selection process used when it may be in the best interest of the government to consider award to other than the lowest-priced offeror or other than the highest-technically-rated offeror, but it is not possible to place a quantifiable value on proposed performance or capabilities above threshold (minimum) requirements.

Threshold (or Threshold (minimum)): The minimum acceptable value of an attribute that is considered achievable at low-to-moderate risk within the available cost, schedule, and/or technology. Performance below the threshold value is not operationally effective or suitable, or may not provide an improvement over current capabilities. (See also "mandatory minimums" at FAR 15.306(d)(4).)

Value Adjusted Total Evaluated Price (VATEP): A tradeoff source selection process where the offeror's total proposed price may be adjusted based on the "value" placed on better performance as identified in the solicitation. The source selection authority must then determine if a higher-rated technical offer is "worth" the additional cost to the government.

As with any new procedure, it will take time and probably a few challenges/protests to assess the absolute strengths and weaknesses of the concept. CM

ABOUT JAMES RICH, PHD

- Senior advisor at Dawson & Associates, specializing in federal contracting, permitting, and program management
- Served more than 35 years with the U.S. Army Corps of Engineers, serving as chief of contracting for the Baltimore, Kansas City, and Galveston districts
- www.DawsonAssociates.com

ENDNOTES

1. *See* Claire M. Grady, director, Defense Procurement and Acquisition Policy; memorandum; "Department of Defense Source Selection Procedures" (April 1, 2016); *available at* www.acq.osd.mil/dpap/policy/policyvault/USA004370-14-DPAP.pdf.
2. *See, generally*, http://bbp.dau.mil/ for more information on the BBP initiatives.
3. For the sake of simplicity, this article's use of the term performance may be interpreted to include the concept of "capability."
4. **See**, *generally*, Frank Kendall, Under Secretary of Defense (Acquisition, Technology, and Logistics); memorandum; "Better Buying Power 2.0: Continuing the Pursuit for Greater Efficiency and Productivity in Defense Spending" (November 13, 2012); *available at* www.acq.osd.mil/fo/docs/USD(ATL)%20Signed%20Memo%20to%20Workforce%20BBP%202%200%20(13%20Nov%2012)%20with%20attachments.pdf.
5. DOD SSP, *see* note 1, at B-3.
6. *See* Sharon Larkin, "VATEP: A Look at the DOD's New Type of Procurement," *Law 360* (June 27, 2016), *available at* www.law360.com/articles/811530vatep-a-look-at-the-dod-s-new-type-of-procurement.
7. DOD SSP, *see* note 1, at B-2.
8. *Ibid.*, at B-1.
9. Department of the Air Force, Air Force Materiel Command, "Solicitation, Personnel Locator Beacons," accessed September 30, 2016, at **https://** www.fbo.gov/index?s=opportunity&mode=form&id=b4a2a516958bcaa9485c727e6a47f8ab&tab=core&_cview=1.
10. *Ibid.*
11. Department of the Navy, U.S. Marine Corps, "Solicitation M67854-16-R-1122, Enhanced Combat Helmet," accessed September 29, 2016, at https://www.fbo.gov/index?s=opportunity&mode=form&id=2a4093e07f920701083f166d7db8166f&tab=core&_cview=1.