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EXECUTIVE SUMMARY:

THE IMPACT OF LPTA PROCUREMENT ON GOVERNMENT CONTRACTS AND SOLUTIONS

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IN PARTNERSHIP WITH:

Deltek | **CENTURION**
RESEARCH SOLUTIONS

PREPARED BY

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LPTA and the Government Contracting Industry

Lowest Price Technically Acceptable (LPTA) procurements have been a hot topic in the federal government contracting industry for the past two years. Contractors have lamented that LPTA, as it is commonly referred to, is stifling innovation, driving down prices and, at times, being used for the wrong types of federal procurements.

To gauge the impact of LPTA procurements on government agencies and the contractors who serve them, Market Connections, Inc. and Centurion Research Solutions, which was recently acquired by Deltek, have partnered to produce an in-depth study of government LPTA procurements, perceptions of LPTA among government and contractors and LPTA's effect on the development and delivery of solutions to government.

In July 2013, Market Connections, Inc. conducted an online survey of 360 federal government decision makers involved in selection of contractors and vendors in some way, and 375 government contractor employees regarding their perceptions of Lowest Price Technically Acceptable (LPTA) federal procurements.

This preview report, available only to Professional Services Council Annual Conference attendees, marries preliminary survey results with Deltek/Centurion Research Solutions' proprietary procurement tracking data on LPTA opportunities among federal civilian and military agencies.

IMPLICATIONS OF LPTA ON GOVERNMENT AND CONTRACTING

Contractors and federal employees are largely in agreement about the implications of LPTA procurements:

- LPTA contracts may be awarded to less qualified companies.
- LPTA may sacrifice long-term value for short-term cost savings and it could act to lower contractors' standard of performance.
- LPTA helps to control costs and provide an economical approach for product/commodity procurements.

Contractors' biggest concern about LPTA is whether the government will truly receive the best value and quality under LPTA contracts. Contractors feel that LPTA stifles their ability to innovate, propose and deliver the best solutions. Their top reason for *not* responding to LPTA solicitations is the lack of opportunity for value-added solutions.

LPTA is not going away in the near-term—it is serving to control costs during austere times and both contractors and government expect the use of LPTA to either increase or stay the same in the next three years.

Contractors are being forced to make changes to the way they do business in order to meet the requirements of the marketplace. The top actions contractors are taking to respond in an LPTA environment are:

“[T]here is a strong consensus that LPTA source selection strategies have essentially become the default source selection approach, almost regardless of the nature of the requirements involved. There is also broad agreement that when the technical requirements ... are evaluated at only minimal levels for complex requirements, the acquisition outcome is rarely beneficial to either the government or industry.”

STAN SOLOWAY
PRESIDENT
PROFESSIONAL SERVICES COUNCIL

*In a letter to Under Secretary of
Defense Frank Kendall,
September 2012*

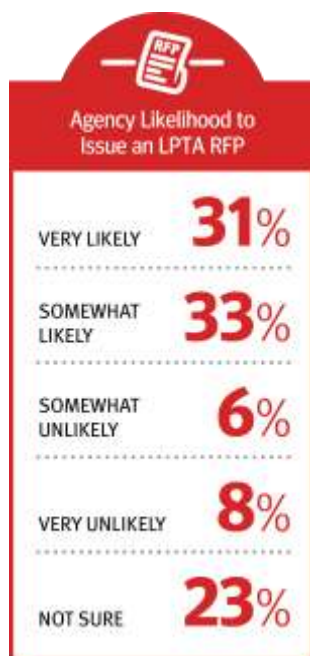
- Responding to the letter of the RFP rather than proposing innovative/out-of-the-box solutions (63 percent)
- Reducing indirect rates (53 percent)
- Greater reliance on junior staff (47 percent)
- Staff reductions (39 percent)
- Salary caps and freezes (33 percent)
- Reducing salaries (26 percent)

SNAPSHOT OF THE LPTA PROCUREMENT LANDSCAPE

Deltek/Centurion Research Solutions is tracking \$4.3 trillion in opportunity value and 27,500 actionable* federal contract opportunities in their Business Intelligence NOW™ database. Many of these pre-RFP opportunities do not yet have published evaluation criteria. Or, the evaluation criteria, while equivalent to LPTA, are not clearly defined as LPTA. However, Deltek/Centurion identified approximately two percent of the opportunities that are specifically defined by the government as LPTA. Even by itself, this represents a substantial dollar amount of \$27.7 billion.

- Among military agencies, the Army, the Navy and the Air Force held the most opportunities with projected LPTA evaluation; the Army alone holds more than one-quarter of all the LPTA opportunities. The majority of these military opportunities are in the construction field.
- Among civilian agencies, the Department of Veterans Affairs (VA) holds the most LPTA opportunities (6.1 percent), followed by the Department of Homeland Security (4.5 percent). Construction services as well as operations and maintenance requirements comprise the lion's share of civilian opportunities.
- While more competitive LPTA opportunities were set aside for small businesses and associated socioeconomic categories compared to those utilizing Full and Open competition, the estimated total value of \$7.7 billion was significantly less than competitive Full and Open opportunities, which totaled \$20.0 billion.
- More than half of LPTA opportunities (52 percent) are for construction; facilities operations and maintenance; and utilities and housekeeping procurements. Professional and IT services represent 24 percent of actionable LPTA opportunities, which range in value from less than \$300 thousand to more than \$3.5 billion. These include the \$3.5 billion NGEN contract recently awarded to Hewlett Packard and two fiscal year 2014 recompetes for the Department of Homeland Security's Transportation Security Administration—the \$100 million Professional Engineering and Logistics Support Services requirement and \$700 million Test Evaluation Support Services opportunity.

Deltek/Centurion's findings lend credence to the concern that a significant dollar value of federal contracts are LPTA procurements.



* The analysis focused on "actionable" opportunities such as those in Pre-RFP phase, where solicitation release is expected in the future.

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SURVEY OF FEDERAL PROCUREMENT PROFESSIONALS AND GOVERNMENT CONTRACTORS

Because LPTA procurement has been such a burning topic in the contracting community in recent years, it may come as a surprise that Market Connections' online survey of government employees and contractors revealed much less familiarity with LPTA among federal employee respondents than government contractors. Nearly all contractors indicated they are either very familiar (77 percent) or somewhat familiar (19 percent) with LPTA. About two-thirds of government employee respondents, all of whom indicated they are involved in selection of contractors and vendors in some way, are either very familiar (32 percent) or somewhat familiar (33 percent) with LPTA.

However, the survey also showed many similarities between the two groups when it comes to perceptions of LPTA procurements:

- Both audiences believe that LPTA procurements will increase in the next three years.
- Both audiences see the same two main drawbacks of LPTA for the federal government: the potential for contracts to be awarded to less qualified companies and sacrificing long-term value for short-term cost savings.
- Both audiences see the top three main benefits of LPTA for the federal government as controlling costs; simple criteria to follow (lowest price) for award; and an economical approach for product/commodity procurements.



Yet contractors feel strongly about the negative impact on the level of quality and value they can deliver to the government under LPTA. The proportion of contractors that are very satisfied (12%) with the outcomes or deliverables from an LPTA award is less than half of the federal respondents (25%) that are very satisfied. Contractors would like to provide the government with better service and feel that LPTA stifles their ability to propose and deliver the best solutions.

- More than half of contractors (57 percent) cited decisions based on price, regardless of potential quality of work or ability to perform, as a main drawback to proposing and delivering under LPTA contracts.

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- Nearly half of contractors (49 percent) said they feel compelled to offer a lower price solution that may not be in the best interest of the government.
- More than 40 percent of contractors feel LPTA lessens their ability to be innovative.
- Nearly one-third (30 percent) said they have no opportunity to provide value-added solutions under LPTA procurements.

Responding to LPTA RFPs

Despite concerns about value, innovation and delivering the best solutions to government, 82 percent of contractors indicated that their firms were likely to respond to an LPTA RFP. Contractors cited three top reasons for responding to an LPTA RFP:

- Shrinking contracting dollars, fewer RFPs to bid on
- The contractor's in-depth knowledge of customer (agency) requirements
- To maintain a current relationship

Contractors cited three top actions their companies are taking to respond to RFPs in an LPTA environment:

- Responding to the letter of an RFP rather than proposing anything innovative
- Reducing indirect rates
- Greater reliance on junior staff

Increases in Contract Protests

Relative to other top drawbacks noted, only eight percent of government and three percent of contractors saw an increase in the likelihood of a protest as a main drawback to LPTA for the government. Only 19 percent of government said LPTA procurements shorten the procurement cycle and only 14 percent saw the potential for proposals under LPTA to be easier or less complex.



CONCLUSIONS

Contractors and federal employees are largely in agreement about the implications of LPTA procurements: Contracts may be awarded to less qualified companies, LPTA may sacrifice long-term value for short-term cost savings and it could act to lower the contractor's standard of performance. The biggest concern surrounding LPTA is whether the government will truly receive the best value and quality under LPTA contracts. LPTA is not going away in the near-term, and it does serve to control costs and provide an economical approach for product/commodity procurements. But LPTA is forcing contractors to make changes to the way they do business that could hurt profitability, staffing and the ability to provide innovative solutions to government.

ABOUT DELTEK/CENTURION RESEARCH SOLUTIONS

Centurion Research Solutions, founded in 2003, is a business intelligence and analytics company with a simple mission: offer innovative solutions that help federal contractors efficiently win more government business. To achieve this mission, Centurion has been providing online, subscription-based services, custom research and analysis, tools and methodologies, professional services and in-depth training. Industry leaders such as Alion, Northrop Grumman, SAIC, Lockheed Martin, BAE Systems, InDyne, CACI and Raytheon rely on Centurion solutions, thought-leadership and expertise to help them identify and analyze relevant opportunities to win more government contracts. Centurion was recently acquired by Deltek. For more information, please visit: www.centurionresearch.com.

ABOUT MARKET CONNECTIONS, INC.

Market Connections delivers actionable intelligence and insights that enable improved business performance and positioning for leading businesses, government agencies and trade associations. The custom market research firm is a sought-after authority on preferences, perceptions and trends among government executives and the contractors who serve them, offering deep domain expertise in information technology and telecommunications; healthcare; and education. Market Connections also provides the tools for organizations to expand thought leadership in their respective markets, and is known for the annual Federal Media and Marketing Study, the only comprehensive survey of the media habits of federal decision-makers, as well as the Government Contractor Study and ongoing PulsePolls™ of the government market. For more information, please visit: www.marketconnectionsinc.com.

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