"EFCOG's Knowledge Portal Review"
2013 Waste Management Symposium
Strategic Sourcing;
Contract Incentives & Small Business

Presented by

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Business Management Working Group

Panel Session 53

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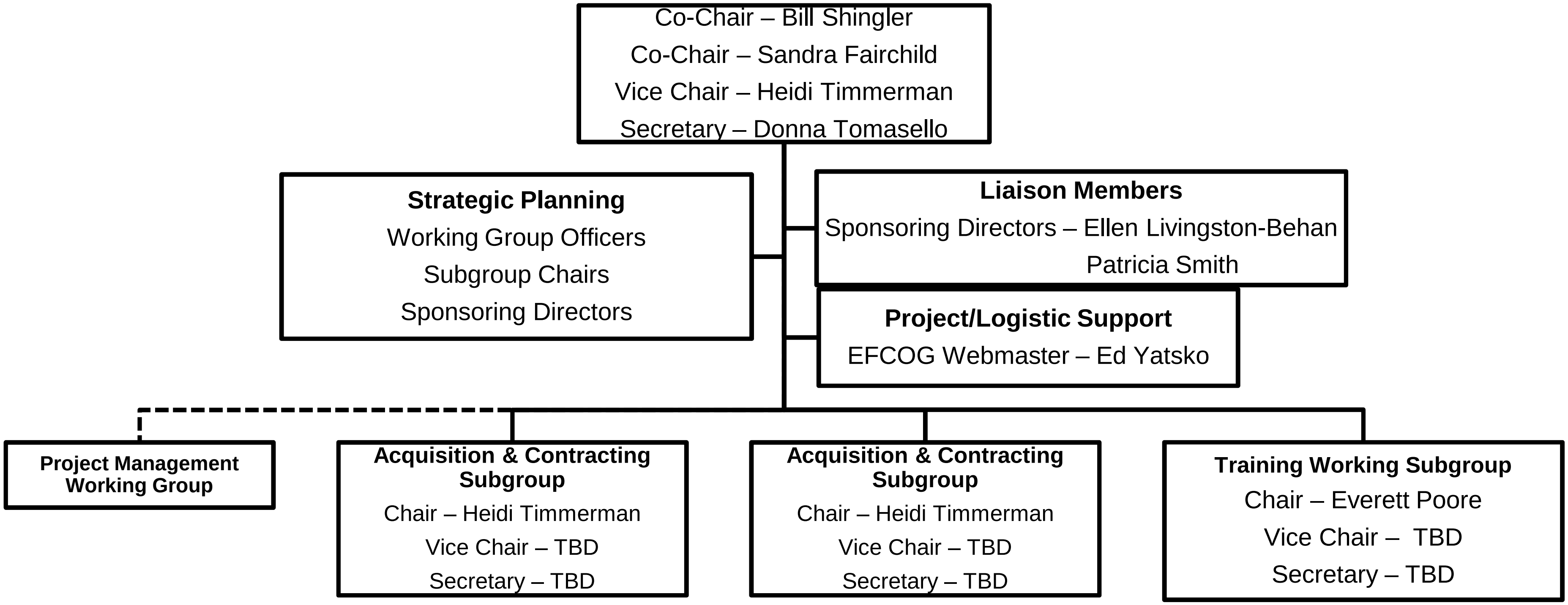
Business Management WG Organization Chart



DOE Working Group Sponsors
- April Stephenson

Aligning Contract Incentives

- *Analysis by the EFCOG Task Group*

James Krupnick, LBNL
Rob Nagel, CH2M Hill
Norm Sandlin, B&W
Bill Shingler, Fluor
John Longenecker, EFCOG

Ellen Livingston-Behan, URS
Ed Rogers, Bechtel
Frank Sheppard, Parsons
Cathy Snyder, Lockheed-Martin
Susan Stiger, EFCOG

Charter & Objectives

An EFCOG Task Group was chartered at the request of DOE to identify best practices, evaluate lessons learned and develop model approaches to:

- Improve the effectiveness of performance incentives for capital asset and other major DOE projects with tangible deliverables, including such projects conducted under Management and Operating contracts
- Support alignment of government and contractor interests, while also ensuring that the parties appropriately bear the benefits and accountability for their respective actions and performance
- Ensure that incentives are linked to and effectively support project outcomes
- Ensure that incentives earned are consistent with contractor performance

Executive Summary

- Challenging but achievable incentives to complete projects on time, on cost, with desired operability are in the best interest of the taxpayer and supported by contractors.
- Lessons Learned from the field provide opportunities to ensure incentives are aligned with successful project delivery.
  - Missions, contracts and projects are varied; one incentive approach will not be effective for all
  - Project definition and risk analysis *prior to* establishing incentives achieves better alignment
  - A phased approach to establishing incentives is more effective on major projects
  - Incentives are just one of several factors that support successful project delivery
- Effective Gain Share/Pain Share models provide incentives to deliver incremental *true value* and to achieve project end-state objectives.
  - Provisional fee and cost incentive models can be effective if applied appropriately and consistent with project definition, structure, risk profile and authorities/accountabilities
  - Need to revisit and revise as appropriate through the project lifecycle
- Project definition drives project risk and success
  - 7-Step Process to identify/evaluate project uncertainties and achieve incentive alignment
  - Existing contract improvements and new solicitation/contract models support more effective incentive strategies

Overview of Lessons Learned*

1. DOE/Contractor Partnering Enhances Project Success

   Most successful projects reflect strong partnerships between DOE and contractors across the IPT *and* support organizations. Incentives should align with that partnership.

2. Align Project Authority, Accountability, and Risk Allocation

   Contract types, DOE requirements, and incentive structures must apportion risk commensurate with project/contract responsibilities and authorities.

3. Simplify Incentives

   In some cases, incentive structures are overly complex, distribute fee ineffectively, and may not optimally motivate the contractor.

4. Phased Approach to Incentives on Complex Projects

   If project scope is not yet mature or funding/requirements uncertain, consider phased development of incentives as work *is defined* and negotiate objective incentives with incremental performance milestones aligned to achieve project end-state objectives.

5. Align Incentives with Degree of Project Definition and Risk

   Misalignment arises when lifecycle incentives are locked in <u>before</u> project scope, design, schedule, estimated cost and funding are adequately defined… *apply process to quantitatively identify and evaluate what is known and what is not known.*

****Detail and Recommendations included in Report***

Small Business Initiatives

- *EFCOG Task Group Recommendations May 2012*

- Frank Armijo, Hanford Mission Support Alliance/Lockheed Martin
- John Bukowski, North Wind (small business)
- John Longenecker, L&A (small business)
- Bob Miklos, Idaho National Laboratory/BEA
- Phil Ohl, Vista Engineering Technologies (small business)
- Ed Rogers, Bechtel
- Norm Sandlin, AMWTP/B&W
- Roy Schepens, Parsons
- Allen Schubert, ETTP/UCOR
- Bill Shingler, Fluor
- Susan Stiger, EFCOG Vice Chair

Background & Charter

- On April 11, 2012; DOE's small business goal increased from 6 to 10 percent of DOE's prime contracting dollars

- *Provide to DOE a list of principles and best practices to assist DOE in meeting its goal of increasing small business prime contracts to 10% of DOE prime contract funding.*

EFCOG Observations & Recommendations

- Long-term, sustainable framework that is focused on tangible results
- Focus on elements of scope that better position small businesses to expand their bases in growing commercial and public business sectors
- Optimize approach
  - the optimum size and complexity of teams of large and/or small businesses formed to support an acquisition and contract execution
  - evaluation and selection criteria on DOE contracts
  - Include past experience
  - Consider ability to weather funding cycles
  - Strong mentor-protégé relationships
  - avoid strategies that negatively impact strong prime contractor SB goal achievement
  - aggressively pursue DOE's ability to count small business subcontracting through DOE prime contractors..
- Consider impacts on DOE operations and efficiency

Near Term

- Maximize the funding and expand the use of existing small business contracts
- Accelerate ongoing and planned awards
- In the case of new scope or DOE projects, conduct thoughtful screening for small business set-aside
- Utilize contract vehicles already in place
- Recognize small business contracting by both DOE and its prime contractors
- Novate small business contracts under DOE's Strategic Sourcing initiatives to DOE prime contracts
- Novate certain other small business *subcontracts* to prime contracts
- Increase the use of the existing Nationwide IDIQ contracts to small businesses administered by DOE EM-CBC and GSA schedules
- Before moving to more challenging actions to enhance small business participation, enhance and strengthen mentor-protégé actions through existing DOE prime contractors, with focus on mentoring small businesses to take on broader or more challenging scope.
- Enhance the DOE mentor-protégé program so that it more closely emulates the SBA program wherein small and large businesses can form a Joint Venture and still represent and certify itself as "small".

Near Term continued

- Support the previous actions by soliciting information from small businesses who understand DOE missions for information on company capacity and qualifications. Consider restructuring small business conferences to be more effective “match-making” sessions.
- Ensure existing small business contracts are open for use by other DOE Programs and sites.
- Simple structure on task order contracts
- Enhance the DOE mentor-protégé program so that it more closely emulates the SBA program wherein small and large businesses can form a Joint Venture and still represent and certify itself as “small”.
- Support the previous actions by soliciting information from small businesses who understand DOE missions for information on company capacity and qualifications. Consider restructuring small business conferences to be more effective “match-making” sessions.

Long Term

- Identify services that could effectively and more efficiently be provided on a complex-wide or multi-site basis through DOE prime contracts to small businesses
- Identify scope that can readily be carved out from existing DOE prime contracts for award to small businesses
- Stand-alone SOW with limited interfaces
- Align incentive structures
- Focus on best value to DOE overall
- Use USACE procurement services
- Encourage multiple small businesses to team
- Perform a critical review of common NAICS size standards

Strategic Sourcing – FY12 Objectives

- Develop data collection method
- Baseline Strategic/Acquisition Savings
- Supply Chain Management Center (SCMC) Pilot
  - *Organization structure*
  - *Measurement standards/reporting*
  - *Sourcing tools*
  - *Resources*
- Advocate the benefits of Strategic Sourcing
- Realize $1.5M of Strategic Sourcing Savings

Path Forward

- Full Implementation of SCMC by FY13
- Moving from a Corporate Focus to Enterprise Focus
- Enhancing relationships within EM
- Demonstrating results
- Communicating at many levels
  - *DOE*
  - *SCMC*
  - *Prime to Prime*
  - *Subcontractors*
- Maintain focus on safety, quality, schedule, and public policy objectives while achieving cost savings goals