

IT'S ALL ABOUT PERFORMANCE!

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The implementation of Performance-Based Service Contracting (PBSC) has been the most significant development in federal programs during the 21st century. This new paradigm aims to advance the industry through a revolutionary approach by not focusing on how to manage a program but instead on what results the program must achieve. This development is a major paradigm shift in Government contracting and is posing a major challenge for both Government and Industry.

WHAT IS THE HISTORY OF PBSC?

In 1991, the Office of Management and Budget's Office of Federal Procurement Policy (OFPP) released OFPP Policy Letter 91-2, which was the genesis of PBSC. One of the early attempts at defining PBSC was the use of contractor past performance as a major determining factor in proposal evaluation and contractor selection. In 2000 and 2001, the concept of PBSC as it applies to the services industry took hold and the Government recognized the need for a process to develop a PBSC program. This resulted in a very robust 7-step process for developing PBSC contracts.

While OFPP has been proactive in developing policy and the 7-Step Process, they have been "*hands-off*" in defining how Agencies should implement PBSC, and there is no Government-wide PBSC implementation strategy. This has caused considerable confusion both within the Public and Private Sectors.

HOW IS PBSC DIFFERENT?

Non-performance based RFPs provide the contractor with a Statement of Work (SOW) and generally tell the contractor which labor categories and skill mixes to use. They often provide the contractor with the number of hours, or Level of Effort (LOE), per labor category. The proposal instructions typically require the contractor to provide a technical approach to the SOW. This approach has been used for many decades and has placed a significant burden on the Government.

Performance-based RFP's, however, provide the contractor with either a Statement of Objectives (SOO) or Performance Work Statement (PWS) which is similar to the SOW, but does not provide the contractor with labor categories and skill mixes to use, or the number of hours/LOE per labor category. In addition, some RFP's even require the contractor to develop and propose their own metrics, incentives, and SOW. The operative phrase in PBSC is "*let the contractor solve the problem.*"

HOW DO YOU MANAGE A PBSC PROJECT?

PBSC projects also require a different approach to project development, project management, and contract administration. Contractually, PBSC is based on incentives and managing a PBSC contract requires managing to the performance objectives, using specified metrics. Non-

performance based contracts use cost/schedule as the control mechanisms, but in a performance-based environment, these are now just two of several metrics the contractor must meet. Obviously, managing projects in a performance-base, fixed priced environment requires a very different approach to project development and management, which will be covered in another article. Contractor's can no longer "estimate," they must know what they are doing and proposing in a firm fixed price (FFP) environment or face low win rates, and even lost revenues and profit.

WHAT IS THE STATUS OF PBSC?

Legislation passed by Congress requires DOD to award **50%** of its FY04 services contracts as Performance-Based Service Contracts (PBSC), and **35%** as firm fixed price (FFP) contracts. The legislation also mandates that DOD increase the number of FFP contracts to **50%** during FY05 and increase this to **70%** by FY11.

This does not just affect DOD contracts. In addition, the Federal Procurement Executives Council has agreed to use PBSC for not less than **50%** of the total eligible service contracting dollars during FY04 which affects all of the non-DOD government agencies as well.

As you can see, the entire Federal Government is changing the way they do business and the way they procure services by moving to a performance-based, firm fixed priced environment which. This is going to have a major impact on contractors who do not understand PBSC and how to bid and manage PBSC contracts. Just as the Government is changing the way they do business, contractors must also change the way they do business to survive in this new performance-based, firm fixed priced environment.

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