

Subcontractor Cost and Pricing Issues

Written by Nick Sanders
Monday, 23 October 2017 00:00

This past week we delivered our first class in our new training offering, “Subcontractor Cost and Pricing Issues.” The temptation here is to make this article an advertisement for the course, but we’ll try not to do that. Instead, we want to talk about what made it work so well for the client who hired us to bring it to his plant.

It could have been a disaster. More than 80 PowerPoint slides, a couple of discussion questions, one exercise. Over a 6 hour period. Nine people in a conference room, plus 4 more on the phone, sharing the slides via their computers. Some people brought their laptops and checked email. Others were texting on their cell phones. There was an internal audit going on at the same time, and individuals were called out during the class to respond to auditor questions.

That sounds like a recipe for the training class from hell, right?

But somehow it all worked. Afterwards, our sponsor sent an email that said “Everyone really enjoyed the training today. It was right on topic” It all worked and it all worked better than we could have expected. The reason it all worked so well is found in the rest of the sponsor’s email. He wrote: “It was right on topic *to get our team (Finance, Procurement and Contracts) fully understanding why the process works the way it does* and why documentation is so important to prevent unnecessary delays during a DCAA audit.”

See that part we italicized above?

Yeah, that part about “team” – that’s what made the training work so well.

Normally, when you talk about a one-day class in “subcontractor cost and pricing issues” you think only the purchasing department would be interested. You wouldn’t normally expect the folks dealing with prime contract issues to be in the room; and you *really* wouldn’t expect to have Finance folks there. What value would they find in those topics?

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But this defense contractor decided there were no silos when it came to knowledge and understanding. This defense contractor decided that, if it were going to bring in an outside trainer for a day, then it wanted to get maximum value, and so representative from many functions were invited to attend.

And that's what made the training so much more powerful than we could have hoped.

The thing about subcontractor cost and pricing issues is that they are also very relevant to prime contract cost and pricing issues—especially when the prime contract requires certified cost or pricing data and DCAA expects you to perform cost or price analysis on your subcontractors as part of the process. And if you don't do a good job supporting your determination that the subcontractor's price is "fair and reasonable" then you run the risk that DCAA is going to challenge you and, perhaps, question your subcontractor payments as being unreasonable and therefore unallowable. Which gets the Finance folks very concerned.

We did the exercise where people evaluated a subcontractor's proposed pricing. We identified missing data and we discussed how to better structure an RFP to instruct potential subcontractors on what information was necessary and how to provide it, to facilitate evaluations. Then we turned it around and discussed how the company could better provide its own cost or pricing data to government evaluators, so as to minimize questions and smooth the evaluation.

It was the dual nature of the issues that created the powerful learning experience.

Whatever issues you experience with subcontractor proposal evaluations and cost/price analysis, the chances are that your prime contract customers are also experiencing similar issues with respect to your own proposal. Their own cost/price analysis is suffering, not only from your "inadequate" cost/price analysis of your subcontractors—but also from your own estimating narrative and cost or pricing data. Many issues are intertwined and this particular class reinforced that concept in a big way.

- Purchasing and estimating are intertwined. It's hard to have an adequate system in one area if the other is inadequate.

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- Subcontractor and prime contract issues are intertwined. It's hard to do one area well if the other is not doing well.

So kudos to this defense contractor for ignoring internal silos and for bringing in disparate functions in a roundtable discussion that clearly demonstrated that the government contracting field is highly integrated, and that a micro-focus on subcontractor issues without discussing prime contract issues is suboptimal.

Going forward, we are going to encourage our clients to bring representative from as many functions as possible to our courses, because doing so creates a lot of unexpected value. We think that's called "synergy."